Prospectus dated 26 October 2021

THAMES WATER (KEMBLE) FINANCE PLC

(incorporated with limited liability in England and Wales with registered number 07516930)
(Legal Entity Identifier: 213800S7UU2MQXYJQO60)

£1,000,000,000

Guaranteed Secured Medium Term Note Programme

unconditionally and irrevocably guaranteed by Kemble Water Finance Limited

(incorporated with limited liability in England and Wales with registered number 05819317)

Under the Guaranteed Secured Medium Term Note Programme described in this Prospectus (the "**Programme**"), Thames Water (Kemble) Finance PLC (the "**Issuer**"), subject to compliance with all relevant laws, regulations and directives, may from time to time on or after the date of this Prospectus issue Guaranteed Secured Medium Term Notes guaranteed unconditionally and irrevocably by Kemble Water Finance Limited (the "**Guarantee**" and the "**Guarantor**", respectively) (the "**Notes**"). The aggregate nominal amount of Notes outstanding will not at any time exceed £1,000,000,000 (or the equivalent in other currencies).

The Issuer has been duly incorporated in England and Wales, is operating in conformity with its constitution and is duly authorised in relation to this Prospectus.

Application has been made to the Financial Conduct Authority (the "**FCA")** under Part VI of the Financial Services and Markets Act 2000, as amended ("**FSMA")** for Notes issued under the Programme during the period of twelve months after the date hereof, to be admitted to the official list of the FCA (the "**Official List**") and to the London Stock Exchange plc (the "**London Stock Exchange**") for such Notes to be admitted to trading on the London Stock Exchange's main market (the "**Market**"). Except where the context provides otherwise, references in this Prospectus to Notes being "**listed**" (and all related references) means that such Notes have been admitted to trading on the Market and have been admitted to the Official List. The Market is a regulated market for the purposes of Article 2(1)(13A) of Regulation (EU) No 600/2014 on markets in financial instruments as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018, as amended (the "**EUWA**") ("**UK MiFIR**"). The Programme provides that Notes will be listed on the London Stock Exchange. This Prospectus has been approved by the FCA in its capacity as competent authority under Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA (the "**UK Prospectus Regulation**"). The FCA only approves this Prospectus as meeting the standards of completeness, comprehensibility and consistency imposed by the UK Prospectus Regulation. Such approval should not be considered as an endorsement of either the Issuer, the Guarantor or the quality of the Notes that are the subject of this Prospectus and investors should make their own assessment as to the suitability of investing in the Notes.

Each Series (as defined in "*Overview of the Programme and Parties – Method of Issue*") of Notes in bearer form will be represented on issue by a temporary global note in bearer form (each a "**temporary Global Note**") or a permanent global note in bearer form (each a "**permanent Global Note**"). If the Global Notes are stated in the applicable Final Terms or Drawdown Prospectus (subject to approval from the FCA) to be issued in new global note ("**NGN**") form, the Global Notes will be delivered on or prior to the original issue date of the relevant Tranche to a common safekeeper (the "**Common Safekeeper**") for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Notes in registered form will be represented by registered certificates (each a "**Certificate**"), one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Registered Notes issued in global form will be represented by registered global certificates ("**Global Certificates**"). If a Global Certificate is held under the New Safekeeping Structure (the "**NSS**") the Global Certificate will be delivered on or prior to the original issue date of the relevant Tranche to a Common Safekeeper for Euroclear and Clearstream, Luxembourg.

Interests in a temporary Global Note will be exchangeable, in whole or in part, for interests in a Global Note on or after the date 40 days after the later of the commencement of the offering and the relevant issue date (the "**Exchange Date**"), upon certification as to non-U.S. beneficial ownership.

Global notes which are not issued in NGN form ("**Classic Global Notes**" or "**CGNs**") and Global Certificates which are not held under the NSS will be deposited on the issue date of the relevant Tranche with a common depositary on behalf of Euroclear and Clearstream, Luxembourg (the "**Common Depositary**").

The provisions governing the exchange of interests in Global Notes for other Global Notes and definitive Notes are described in "*Summary of Provisions Relating to the Notes while in Global Form*".

The maximum aggregate nominal amount of all Notes from time to time outstanding under the Programme will not exceed £1,000,000,000 (or the equivalent in other currencies at the date of issue).

The Notes may be issued on a continuing basis to one or more of the Dealers specified under the section entitled "*Overview of the Programme and Parties*" and any additional Dealers appointed under the Programme from time to time by the Issuer (each a "**Dealer**" and together the "**Dealers**"), which appointment may be for a specific issue or on an ongoing basis. References in this Prospectus to the relevant Dealer shall, in the case of an issue of Notes being (or intended to be) subscribed by more than one Dealer, be to all Dealers agreeing to purchase such Notes.

Notice of the aggregate nominal amount of Notes, interest (if any) payable in respect of Notes, the issue price of Notes and any other terms and conditions not contained herein which are applicable to each Tranche of Notes (as defined in "*Overview of the Programme and Parties – Method of Issue*") will be set out in the Final Terms or Drawdown Prospectus (subject to approval from the FCA) which will be delivered to the FCA and filed with London Stock Exchange on or before the date of issue of the Notes of such Tranche.

Each purchaser of a Note will be deemed, by its acceptance or purchase thereof, to have made certain acknowledgements, representations and agreements intended to restrict the resale or other transfer of such Note, as described in this Prospectus, and, in connection therewith, may be required to provide confirmation of its compliance with such resale or other transfer restrictions in certain cases (see "*Subscription and Sale*").

Tranches of Notes to be issued under the Programme will be rated or unrated. A security rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency.

Each Tranche of Notes is expected on issue to have the following credit ratings from the respective credit rating agencies below. The credit ratings will be specified in the applicable Final Terms or Drawdown Prospectus (subject to approval from the FCA).

Fitch Ratings Ltd ("**Fitch**")	Moody's Investors Service Limited ("**Moody's**")
B+ (negative)	B1 (stable)

Any rating assigned to a series of Notes will be specified in the applicable Final Terms. Moody's and Fitch ("**Rating Agencies")** are established in the United Kingdom ("**UK**") and are registered in accordance with Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**").

An investment in Notes under the Programme involves certain risks. Prospective investors should have regard to the factors described under the section headed "*Risk Factors*" in this Prospectus.

Arranger and Dealer

NatWest Markets

Dealers

BNP PARIBAS	**HSBC**	**Morgan Stanley**	**RBC Capital Markets**	**Santander Corporate & Investment Banking**

This Prospectus comprises a prospectus for the purposes of the UK Prospectus Regulation and for the purpose of giving information with regard to the Issuer, the Guarantor and the Notes which, according to the particular nature of the Issuer, the Guarantor and the Notes, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer and the Guarantor.

This Prospectus (as supplemented as at the relevant time, if applicable) is valid for 12 months from its date in relation to Notes which are to be admitted to trading on a regulated market in the UK and/or offered to the public in the UK other than in circumstances where any exemption is available under Article 1(4) and/or 3(2) of the UK Prospectus Regulation. The obligation to supplement this Prospectus in the event of a significant new factor, material mistake or material inaccuracy does not apply when this Prospectus is no longer valid.

The Issuer and the Guarantor (the "**Responsible Person(s)")** accept responsibility for the information contained in this Prospectus and each Final Terms or Drawdown Prospectus for each Tranche of Notes issued under the Programme. To the best of the knowledge of the Issuer and the Guarantor, the information contained in this Prospectus is in accordance with the facts and this Prospectus makes no omission likely to affect its import.

This Prospectus is to be read in conjunction with all documents which are incorporated herein by reference (see "*Documents Incorporated by Reference*" and the applicable Final Terms or Drawdown Prospectus).

Copies of the Final Terms or Drawdown Prospectus will be available from the registered office of the Issuer and the specified office set out below of the Paying Agents and (in the case of Notes listed on the Official List and admitted to trading on the Main Market) will be available on the website of the London Stock Exchange at: https://www.londonstockexchange.com/.

No person has been authorised to give any information or to make any representation other than those contained in this Prospectus in connection with the issue or sale of the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by the Issuer, the Guarantor or any of the Dealers or the Arranger (as defined in "*Overview of the Programme and Parties*"). Neither the delivery of this Prospectus nor any sale made in connection herewith shall, under any circumstances, create any implication that there has been no change in the affairs of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same.

MiFID II product governance / Target Market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is eligible counterparties and professional clients only, each as defined in MIFID II; and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to

MIFID II is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the Product Governance Rules under EU Delegated Directive 2017/593 (the "**MIFID Product Governance Rules**"), any dealer subscribing for any notes is a manufacturer in respect of such notes, but otherwise neither the arranger nor the dealers nor any of their respective affiliates will be a manufacturer for the purpose of the MIFID Product Governance Rules.

UK MIFIR Product Governance / Target Market – Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the notes has led to the conclusion that: (i) the target market for the notes is only eligible counterparties, as defined in the notes FCA handbook conduct of business sourcebook ("**COBS**"), and professional clients, as defined in regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA ("**UK MIFIR");** and (ii) all channels for distribution of the notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the notes (a "**distributor")** should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA handbook product intervention and product governance sourcebook (the "**UK MIFIR Product Governance Rules")** is responsible for undertaking its own target market assessment in respect of the notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels. A determination will be made in relation to each issue about whether, for the purpose of the UK MIFIR Product Governance Rules, any dealer subscribing for any notes is a manufacturer in respect of such notes, but otherwise neither the arranger nor the dealers nor any of their respective affiliates will be a manufacturer for the purpose of the UK MIFIR Product Governance Rules.

PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to, and should not be offered, sold or otherwise made available to, any retail investor in the European Economic Area (the "**EEA**"). For these purposes, a "retail investor" means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or (ii) a customer within the meaning of Directive (EU) 2016/97 (the "Insurance Distribution Directive"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**"). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared, and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the UK. For these purposes, a retail investor means a person who is one (or more) of: (I) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 As it forms part of domestic law of the United Kingdom by virtue of the EUWA; or (II) a customer within the meaning of the provisions of the FSMA and any Rules or Regulations made under the FSMA to implement the Insurance Distribution Directive where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) NO 600/2014 as it forms part of domestic law of the United Kingdom by virtue of the EUWA. Consequently no key information document required by the PRIIPs Regulation as it forms part of domestic law of the United Kingdom by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the notes or otherwise making them available to retail investors in the UK Has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

In the case of any Notes which require the publication of a prospectus under the Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes).

The distribution of this Prospectus and the offering or sale of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Issuer, the Guarantor, the Dealers and the Arranger to inform themselves about and to observe any such restriction.

The Notes and the Guarantees have not been and will not be registered under the Securities Act or with any Securities Regulatory Authority of any state or other jurisdiction of the United States, and the Notes may include Bearer Notes that are subject to U.S. tax law requirements. subject to certain exceptions, the Notes may not be offered or sold or, in the case of Bearer Notes, delivered within the united states or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act ("Regulation S")) in the case of Registered Notes, or as defined in the U.S. Internal Revenue Code of 1986, as amended, and regulations thereunder in the case of Bearer Notes).

The Notes are being offered and sold outside the United States to Non-U.S. persons in reliance on Regulation S. For a description of these and certain further restrictions on offers, sales and transfers of notes and distribution of this Prospectus see "*Subscription and Sale*".

The Notes and the Guarantees have not been approved or disapproved by the U.S. Securities and Exchange Commission, any State Securities Commission in the United States or any other U.S. Regulatory Authority, nor has any of the foregoing authorities passed upon or endorsed the merits of the offering of notes or the accuracy or the adequacy of this Prospectus. Any representation to the contrary is a criminal offence in the United States.

None of the Issuer, the Guarantor, the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor accept responsibility to investors for the regulatory treatment of their investment in the Notes (including (but not limited to) whether any transaction or transactions pursuant to which Notes are issued from time to time is or will be regarded as constituting a "securitisation" for the purpose of Regulation (EU) 2017/2404 of the European Parliament and of the Council of 12 December 2017 (the "**Securitisation Regulation**"); and (ii) Regulation (EU) 2017/2042 as it forms part of domestic law of the UK by virtue of EUWA) (the "**UK Securitisation Regulation**") by any regulatory authority in any jurisdiction. If the regulatory treatment of an investment in the Notes is relevant to any investor's decision whether or not to invest, the investor should make its own determination as to such treatment and for this purpose seek professional advice and consult its regulator. Prospective investors are referred to the "*Risk Factors – Legal, Regulatory and Competition Considerations*" section of this Prospectus for further information.

This Prospectus does not constitute an offer of, or an invitation by or on behalf of the Issuer, the Guarantor, the Dealers or the Arranger to subscribe for, or purchase, any Notes.

No representation, warranty or undertaking, express or implied, is made and, to the fullest extent permitted by law, none of the Dealers, the Arranger, the Security Trustee, the Note Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor accepts any responsibility for the contents of this Prospectus or for any other statement made or purported to be made by the Dealers, the Arranger, the Security Trustee, the Note Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor or on its behalf in connection with the Issuer, the Guarantor, or the issue and offering of the Notes. Each of the Dealers, the Arranger, the Security Trustee, the Note Trustee, or the auditors of the Issuer and Guarantor and the Issuing and Paying Agent accordingly disclaims all and any liability whether arising in tort or contract or otherwise (save as referred to above) which it might otherwise have in respect of this Prospectus or any such statement.

No person is or has been authorised by any of the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor to give any information or to make any representation not contained in or not consistent with this Prospectus or any other information supplied in connection with the Programme or the Notes and, if given or made, such information or representation must not be relied upon as having been authorised by any of the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor.

Neither this Prospectus nor any other financial statements are intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of the Issuer, the Guarantor, the Dealers, the Arranger, the Security Trustee, the Note Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor that any recipient of this Prospectus or any other financial statements should purchase the Notes. Each potential purchaser of Notes should determine for itself the relevance of the information contained in this Prospectus and its purchase of Notes should be based upon such investigation as it deems necessary. None of the Dealers, the Arranger, the Security Trustee, the Note Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor undertakes to review the financial condition or affairs of the Issuer or the Guarantor during the life of the arrangements contemplated by this Prospectus nor to advise any investor or potential investor in the Notes of any information coming to the attention of any of the Dealers, the Arranger, the Security Trustee, the Note Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Notes shall in any circumstances imply that the information contained herein concerning the Issuer and the Guarantor is correct at any time subsequent to the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that there has been no adverse change in the financial position of the Issuer or the Guarantor since the date hereof or the date upon which this Prospectus has been most recently amended or supplemented or that any other information supplied in connection with the Programme is correct at any time subsequent to the date on which it is supplied or, if different, the date indicated in the document containing the same. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor expressly undertakes to review the financial condition or affairs of any of the Issuer or the Guarantor during the life of the Programme or to advise any investor in the Notes of any information coming to their attention. Investors should review the most recently published documents incorporated by reference into this Prospectus when deciding whether or not to purchase any Notes.

This Prospectus does not constitute an offer to sell or the solicitation of an offer to buy any Notes in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this Prospectus and the offer or sale of Notes may be restricted by law in certain jurisdictions. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor represents that this Prospectus may be lawfully distributed, nor that any Notes may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor which would permit a public offering of any Notes or distribution of this Prospectus in any jurisdiction where action for that purpose is required. Accordingly, no Notes may be offered or sold, directly or indirectly, and neither this Prospectus nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus or any Notes may come must inform themselves about, and observe, any such restrictions on the distribution of this Prospectus and the offering and sale of Notes. In particular, there are restrictions on the distribution of this Prospectus and the offer or sale of Notes in the United States, the European Economic Area and the United Kingdom. See the section entitled "*Subscription and Sale*".

In making an investment decision, investors must rely on their own examination of the Issuer and the Guarantor and the terms of the Notes being offered, including the merits and risks involved. None of the Dealers, the Arranger, the Note Trustee, the Security Trustee, the Issuing and Paying Agent or the auditors of the Issuer and Guarantor makes any representation to any investor in the Notes regarding the legality of its investment under any applicable laws. Any investor in the Notes should be able to bear the economic risk of an investment in the Notes for an indefinite period of time.

In connection with the issue of any Tranche (as defined in "*Overview of the Programme and Parties – Method of Issue*"), the Dealer or Dealers (if any) named as the stabilising manager(s) (the "**Stabilising Manager(s)")** (or any person acting on behalf of any Stabilising Manager(s)) in the applicable Final Terms or Drawdown Prospectus may over-allot Notes or effect transactions with a view to supporting the market price of the Notes at a level higher than that which might otherwise prevail. However, there is no assurance that the Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager) will undertake stabilisation action. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the relevant Tranche is made and, if begun, may be ended at any time, but it must end no later than the earlier of 30 days after the issue date of the relevant Tranche and 60 days after the date of the allotment of the relevant Tranche. Any stabilisation action or over-allotment must be conducted by the relevant Stabilising Manager(s) (or any person acting on behalf of any Stabilising Manager(s)) in accordance with all applicable laws and rules.

In this Prospectus, unless otherwise specified or the context otherwise requires, references to "**£**", "**Pounds**", "**pounds**", "**Sterling**", "**sterling**" or "**GBP**" are to the lawful currency of the United Kingdom, references to "**$**", "**U.S. Dollars**" or "**U.S.$**" are to the lawful currency of the United States and to "**€**", "**euro**", "**Euro**" or "**EUR**" are to the currency introduced at the third stage of European economic and monetary union pursuant to the Treaty establishing the European Community, as amended.

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OVERVIEW OF THE PROGRAMME AND PARTIES

The following overview is qualified in its entirety by the remainder of this Prospectus.

Issuer	Thames Water (Kemble) Finance PLC (LEI: 213800S7UU2MQXYJQO60)
Guarantor	Kemble Water Finance Limited (LEI: 2138003A8GC5KL85UR35)
Description	Guaranteed Secured Medium Term Note Programme pursuant to which the Issuer may issue Notes.
Size	Up to £1,000,000,000 (or the equivalent in other currencies at the date of issue) aggregate nominal amount of Notes outstanding at any one time. From time to time the Issuer and the Guarantor may increase the Programme Limit in accordance with the Dealership Agreement.
Source of Funds for Required Payments by the Issuer and the Guarantor	The payment by the Guarantor of interest, principal and other amounts to the Issuer under the Issuer/Guarantor Loan Agreement and payments under the guarantee by the Guarantor will be the principal sources of funds for the Issuer to make its required payments in respect of the Notes outstanding from time to time. The Guarantor will be reliant upon the payment by its subsidiaries (including TWUL) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/Guarantor Loan Agreement. The Guarantor (and, in turn, the Issuer) will therefore be substantially reliant on the cashflow of TWUL in fulfilling their respective obligations under the Notes.
Arranger	NatWest Markets Plc
Dealers	Banco Santander, S.A BNP Paribas HSBC Bank plc Morgan Stanley & Co. International plc NatWest Markets Plc RBC Europe Limited The Issuer may from time to time terminate the appointment of any dealer under the Programme or appoint additional dealers either in respect of one or more Tranches or in respect of the whole Programme. References in this Prospectus to "**Permanent Dealers**" are to persons listed above as Dealers and to such additional persons that are appointed as dealers in respect of the whole Programme (and whose appointment has not been terminated) and references to "**Dealers**" are to all Permanent Dealers and all persons appointed as a dealer in respect of one or more Tranches.

Note Trustee	Deutsche Trustee Company Limited will act as note trustee (the "**Note Trustee**") for and on behalf of the holders of the Notes (each a "**Noteholder**").
Security Trustee	Deutsche Trustee Company Limited will act as security trustee (the "**Security Trustee**"), for itself and on behalf of the Secured Creditors, and will hold, and will be entitled to enforce the Transaction Security (as described below) on behalf of the Secured Creditors subject to the terms of the Intercreditor Agreement and the Security Agreement.
Secured Creditors	The Secured Creditors will comprise any person who from time to time is a party to, or has acceded to, the Intercreditor Agreement as a Secured Creditor, and includes, as at the date of this Prospectus, the Security Trustee, the Note Trustee (for itself and on behalf of the Noteholders) and the Noteholders, the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar and the Working Capital Finance Parties. Other parties may become Secured Creditors from time to time by acceding to the Intercreditor Agreement.
Lenders	The Working Capital Lenders and any other lenders which accede to the Intercreditor Agreement and become Secured Creditors in respect of any bank facilities entered into by the Guarantor or the Issuer.
Issuing and Paying Agent and Calculation Agent	Deutsche Bank AG, London Branch
Transfer Agent and Registrar	Deutsche Bank Luxembourg, S.A.
Method of Issue	The Notes will be issued on a syndicated or non-syndicated basis and, in each case, by way of private or public placement. The Notes will be issued in series (each a "**Series**") having one or more issue dates and on terms otherwise identical (or identical other than in respect of the first payment of interest or their issue price), the Notes of each Series being intended to be interchangeable with all other Notes of that Series. Each Series may be issued in tranches (each a "**Tranche**") on the same or different issue dates. The specific terms of each Tranche (which will be completed, where necessary, with the relevant terms and conditions and, save in respect of the issue date, issue price, first payment of interest and nominal amount of the Tranche, will be identical to the terms of other Tranches of the same Series) will be completed in the final terms (the "**Final Terms**") or a drawdown prospectus (the "**Drawdown Prospectus**").
Issue Price	Notes may be issued at their nominal amount or at a discount or premium to their nominal amount.
Notes with a maturity of less than one year	Notes issued on terms that they must be redeemed before their first anniversary will constitute deposits for the purposes of the prohibition on accepting deposits contained in section 19 of the

	FSMA, unless they are issued to a limited class of professional investors and have a denomination of at least £100,000 or its equivalent. See "*Subscription and Sale*".
Certain Restrictions	Each issue of Notes denominated in a currency in respect of which particular laws, guidelines, regulations, restrictions or reporting requirements apply will only be issued in circumstances which comply with such laws, guidelines, regulations, restrictions or reporting requirements from time to time including the following restrictions applicable at the date of this Prospectus. See "*Subscription and Sale*".
Form of Notes	The Notes may be issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") only. Each Tranche of Bearer Notes will be represented on issue by a temporary Global Note if: (i) definitive Notes are to be made available to Noteholders following the expiry of 40 days after their issue date; or (ii) such Notes have an initial maturity of more than one year and are being issued in compliance with TEFRA D (as defined in "*Selling Restrictions*" below), otherwise such Tranche will be represented by a permanent Global Note. Registered Notes will be represented by Certificates, one Certificate being issued in respect of each Noteholder's entire holding of Registered Notes of one Series. Certificates representing Registered Notes that are registered in the name of a nominee for one or more clearing systems are referred to as "**Global Certificates**".
Clearing Systems	Clearstream, Luxembourg, Euroclear and, in relation to any Tranche, such other clearing system as may be agreed between the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer.
Initial Delivery of Notes	On or before the issue date for each Tranche, if the relevant Global Note is an NGN or the relevant Global Certificate is held under the NSS, the Global Note or Global Certificate will be delivered to a Common Safekeeper for Euroclear and Clearstream, Luxembourg. On or before the issue date for each Tranche, if the relevant Global Note is a CGN or the relevant Global Certificate is not held under the NSS, the Global Note representing Bearer Notes or the Global Certificate representing Registered Notes may be deposited with a Common Depositary. Global Notes or Global Certificates may also be deposited with any other clearing system or may be delivered outside any clearing system provided that the method of such delivery has been agreed in advance by the Issuer, the Issuing and Paying Agent, the Note Trustee and the relevant Dealer. Registered Notes that are to be credited to one or more clearing systems on issue will be registered in the name of nominees or a common nominee for such clearing systems.

Currencies	Subject to compliance with all relevant laws, regulations and directives, Notes may be issued in any currency agreed between the Issuer, the Guarantor and the relevant Dealer.
Maturities	Subject to compliance with all relevant laws, regulations and directives, any maturity as may be agreed between the Issuer, the Guarantor and the relevant Dealer.
Specified Denomination	Definitive Notes will be in such denominations as may be specified in the relevant Final Terms or Drawdown Prospectus save that: (i) in the case of any Notes which are to be admitted to trading on a regulated market within the UK or offered to the public in the UK in circumstances which require the publication of a prospectus under the UK Prospectus Regulation, the minimum specified denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the Notes); and (ii) unless otherwise permitted by then current laws and regulations, Notes which have a maturity of less than one year will have a minimum denomination of £100,000 (or its equivalent in other currencies).
Fixed Rate Notes	Fixed interest will be payable in arrear on the date or dates in each year specified in the relevant Final Terms or Drawdown Prospectus.
Floating Rate Notes	Floating Rate Notes will bear interest determined separately for each Series as follows: (i) on the same basis as the floating rate under a notional interest rate swap transaction in the relevant Specified Currency governed by an agreement incorporating the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc; or (ii) amounts payable under the Notes may be calculated by reference to: (i) SONIA, which is provided by the Bank of England; or (ii) EURIBOR, which is provided by the European Money Markets Institute (the "**EMMI**"); Interest periods will be specified in the relevant Final Terms or Drawdown Prospectus.
Zero Coupon Notes	Zero Coupon Notes (as defined in "*Terms and Conditions of the Notes*") may be issued at their nominal amount or at a discount to it and will not bear interest.
Interest Periods and Interest Rates	The length of the interest periods for the Notes and the applicable interest rate or its method of calculation may differ from time to time or be constant for any Series. Notes may have a maximum interest rate, a minimum interest rate, or both. The use of interest accrual periods permits the Notes to bear interest at different rates in the same interest period. All such information will be set out in the relevant Final Terms or Drawdown Prospectus.

Redemption	The relevant Final Terms or Drawdown Prospectus will specify the basis for calculating the redemption amounts payable. Unless permitted by then current laws and regulations, Notes which have a maturity of less than one year must have a minimum redemption amount of £100,000 (or its equivalent in other currencies).
Optional Redemption	The Final Terms or Drawdown Prospectus issued in respect of each issue of Notes will state whether such Notes may be redeemed prior to their stated maturity at the option of the Issuer (either in whole or in part) and/or the holders, and if so the terms applicable to such redemption. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Early Redemption	Except as provided in "*Optional Redemption*" above, Notes will be redeemable at the option of the Issuer prior to maturity only for tax reasons. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Put Option	If the Initial Investors and/or any Initial Investor Affiliates cease to control directly or indirectly the Guarantor, the Notes may be redeemed in full. See "*Terms and Conditions of the Notes – Redemption, Purchase and Options*".
Other Notes	Terms applicable to high interest Notes, low interest Notes, step-up Notes, step-down Notes and any other type of Note that the Issuer, the Note Trustee and any Dealer or Dealers may agree to issue under the Programme may only be issued following publication of a Drawdown Prospectus.
Status of Notes	The Notes will be secured obligations of the Issuer and at all times shall rank *pari passu* and without any preference among themselves. The Notes are guaranteed by the Guarantor. Any Notes (including those previously issued and any further issuance) will be backed by the same assets being the payment of principal and interest received from the Guarantor under the Issuer/Guarantor Loan Agreement. The Notes will be freely transferable. The Notes represent the rights of the holders of such Notes to receive interest and principal from the Issuer pursuant to the Terms and Conditions of the Notes and the Trust Deed.
Status of Guarantee	The Guarantee by the Guarantor is an unconditional, irrevocable and unsubordinated secured obligation of the Guarantor.
Negative Pledge	See "*Terms and Conditions of the Notes – Negative Pledge and Covenants*".
Cross Acceleration	See "*Terms and Conditions of the Notes – Events of Default*".
Financial Covenants	See "*Terms and Conditions of the Notes – Events of Default*".
Lock-Up	See "*Overview of the Key Documents – Trust Deed – Lock-Up*".

No Acquisitions	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Merger	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Disposal of TWUL	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Loans or Credit	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
No Guarantees	See "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".
Ratings	Tranches of Notes will be rated or unrated. Where a Tranche of Notes is to be rated, such rating will be specified in the relevant Final Terms or Drawdown Prospectus. As defined by Moody's, a B1 rating means that the obligations of the Issuer are considered speculative and are subject to high credit risk. The modifier 1 indicates a ranking in the higher end of the 'B' generic category. As defined by Fitch, a B+ rating means that the obligations of the Issuer are considered highly speculative and indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however capacity for continued payment is vulnerable to deterioration in the business and economic environment. The modifier '+' indicates a ranking at the upper end of the 'B' generic category. A rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. In general, United Kingdom regulated investors are restricted from using a rating for regulatory purposes if such rating is not issued by a credit rating agency established in the United Kingdom and registered under the Regulation (EC) No. 1060/2009 as it forms part of domestic law by virtue of the EUWA (the "**UK CRA Regulation**"). Each of Fitch and Moody's is a credit rating agency established and operating in the United Kingdom and is registered under the UK CRA Regulation.
Withholding Tax	All payments of principal and interest in respect of the Notes will be made free and clear of withholding taxes of the United Kingdom unless the withholding is required by law. In such event, the Issuer or the Guarantor shall, subject to customary exceptions, pay such additional amounts as shall result in receipt by the Noteholder of such amounts as would have been received by it had no such withholding been required, all as described in "*Terms and Conditions of the Notes – Taxation*".

Transaction Security

The security granted to the Security Trustee pursuant to the Security Agreement and any other Transaction Security Document.

Security

The Issuer and the Guarantor have entered into the Security Agreement pursuant to which:

(a) the Guarantor has granted, as security for the Guarantee: (i) fixed security over all its shares in the Issuer and Thames Water Limited and all its real property, book debts and bank accounts, present and future; (ii) an assignment of its rights in respect of the Transaction Documents; and (iii) a floating charge over all of its property, undertaking and assets; and

(b) the Issuer has granted, as security for the Notes: (i) an assignment of its rights in respect of the Transaction Documents; (ii) a fixed charge over all its book debts, bank accounts and investments, present and future; and (iii) a floating charge over all of its property, undertaking and assets.

Note Documents

The Notes, the Trust Deed, the Agency Agreement, the Dealership Agreement and the Issuer/Guarantor Loan Agreement.

Finance Documents

The Working Capital Facility Agreement, the Hedging Agreements entered into with Hedge Counterparties and any other Finance Documents as may be entered into from time to time pursuant to the Intercreditor Agreement.

Issuer/Guarantor Loan Agreement

A loan agreement which will be entered into between the Issuer and the Guarantor (the "**Issuer/Guarantor Loan Agreement**"), pursuant to which the Issuer will grant intra-group loans to the Guarantor in amounts equal to the proceeds of the Notes issued by the Issuer (each an "**Issuer/Guarantor Loan**"). Funds received under the Issuer/Guarantor Loans from the Guarantor to the Issuer will enable the Issuer to make payments on the Notes and fund its costs and expenses.

The assets backing any issue have characteristics that demonstrate the capacity to produce funds to service any payments due and payable on the Notes issued.

Intercreditor Agreement

The intercreditor agreement which was entered into between the Secured Creditors (and, in the case of the Noteholders, the Note Trustee on behalf of the Noteholders), the Issuer and the Guarantor to regulate the claims of the Secured Creditors and the rights of the Issuer and the Guarantor (the "**Intercreditor Agreement**"). See "*Intercreditor, Enforcement and the Working Capital Facility Agreement*".

Transaction Security Documents

The Security Agreement and any other documents entered into at any time by the Issuer and the Guarantor which grants any Security in favour of the Security Trustee (to be held on trust for

	the Secured Creditors). The claims of the Secured Creditors in respect of the Transaction Security will be regulated by the Intercreditor Agreement.
Governing Law of the Notes	The Notes in issue are, and new Notes will be and all non-contractual obligations arising from or in connection with any such Notes are or will be (as the case may be), governed by, and construed in accordance with, English law.
Listing and Admission to Trading	Application has also been made to London Stock Exchange for the Notes issued under this Programme to be admitted to the Official List and to be admitted to trading on Main Market of the London Stock Exchange.
Redenomination, Renominalisation and/or Consolidation	Notes denominated in a currency of a country that subsequently participates in the third stage of European Economic and Monetary Union may be subject to redenomination, renominalisation and/or consolidation with other Notes then denominated in euro. The provisions applicable to any such redenomination, renominalisation and/or consolidation will be as specified in the relevant Drawdown Prospectus.
Selling Restrictions	The United States, the European Economic Area and the United Kingdom. See "*Subscription and Sale*".
Risk Factors	There are certain factors that may affect the Issuer's and/or the Guarantor's ability to fulfil its obligations under Notes issued under the Programme. These are set out under "*Risk Factors*". Certain risk factors set out herein have been incorporated by reference from the TWUL Prospectus (as supplemented by the TWUL Supplemental Prospectus and from time to time).

RISK FACTORS

The Issuer and the Guarantor believe that the following factors may affect their ability to fulfil their obligations under the Notes issued under the Programme. All of these factors are contingencies which may or may not occur. Certain risk factors (as noted below) are incorporated by reference from the TWUL Prospectus.

Factors which the Issuer and the Guarantor believe may be material for the purpose of assessing the market risks associated with Notes issued under the Programme are also described below.

The Issuer and the Guarantor believe that the factors described below represent the material risks inherent in investing in Notes issued under the Programme, but the Issuer or the Guarantor may be unable to pay interest, principal or other amounts on or in connection with any Notes for other reasons that cannot reasonably be considered to be significant, are currently unknown, or the Issuer and Guarantor are unable to anticipate and, accordingly, neither the Issuer nor the Guarantor represents that the statements below regarding the risks of holding any Notes are exhaustive. Prospective investors should also read the detailed information set out elsewhere in this Prospectus (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision.

Certain risk factors (as noted below) are incorporated by reference from the TWUL Prospectus. TWUL is neither the Issuer, Guarantor or Obligor under this Programme. However, the Guarantor will be reliant upon the payment by its subsidiaries (including TWUL) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/Guarantor Loan Agreement. The Guarantor (and, in turn, the Issuer) will be substantially reliant on the cashflow of TWUL in fulfilling their respective obligations under the Notes. Therefore, certain risk factors from the TWUL Prospectus have been incorporated by reference. Noteholders should note that they will not have any recourse against TWUL, given that TWUL is neither the Issuer, Guarantor, or an Obligor under the Programme.

*The risk factors incorporated by reference from the TWUL Prospectus also contain certain references to Thames Water Utilities Finance plc ("**TWUF**") and Thames Water Utilities Holdings Limited ("**TWUH**"). Information in respect of TWUL, TWUF and TWUH is included in this Prospectus in order to inform prospective investors of the terms of TWUL's financing arrangements, which, from time to time may impact the payment of amounts to the Guarantor and therefore the ability of the Issuer to meet its obligations under the Notes. Notwithstanding the inclusion of the information in relation to TWUL, TWUF and TWUH, the Noteholders will not have any recourse against TWUL, TWUF or TWUH as they are neither an Issuer, Guarantor or Obligor under this Programme and have no formal, legal or contractual role under this Programme or the Notes issued pursuant to its terms.*

In addition, while the various structural elements described in this document are intended to lessen some of these risks for holders of the Notes, there can be no assurance that these measures will ensure that the holders of the Notes receive payment of interest or repayment of principal from the Issuer in respect of such Notes, on a timely basis or at all. Investors may lose all or part of their investment.

This Risk Factors chapter is presented to cover the following risk categories and is accordingly divided into the following sections:

- *Financial Risks;*
- *Risks Associated with TWUL and its business;*
- *Structural Risks;*
- *Political Risks; and*

- *Risks relating to the Notes.*

Financial Risks

The Issuer is a special purpose financing entity

The Issuer is a special purpose financing entity with no business operations other than raising external funding for the Guarantor through the issuance of the Notes and other debt finance. The Issuer's only source of funds will be the repayment of amounts by the Guarantor to it pursuant to the related Issuer/Guarantor Loans made by the Issuer to the Guarantor under the Issuer/Guarantor Loan Agreement. Therefore, the Issuer is subject to all the risks relating to revenues and expenses to which the Guarantor is subject as set out or incorporated by reference herein. Any impact on the Guarantor's ability to meet its obligations under the Issuer/Guarantor Loan Agreement could consequently have an adverse impact on the Issuer's ability to meet its obligations under the Notes.

The Guarantor is a holding company with no operations and relies on its operating subsidiaries to provide it with funds necessary to meet its financial obligations

The Guarantor is a holding company with no material, direct business operations. The principal assets of the Guarantor are the equity interests it directly or indirectly holds in its operating subsidiaries (primarily Thames Water Utilities Limited ("**TWUL**")). As a result, the Guarantor is dependent on loans, interest, dividends and other payments from its Subsidiaries to generate the funds necessary to meet its financial obligations, including the repayment of any Issuer/Guarantor Loans and the repayment of the Guarantor Notes. The Guarantor's Subsidiaries are separate and distinct legal entities and, except for the Issuer, they will have no obligation, contingent or otherwise, to pay amounts due under the Notes or to make any funds available to pay those amounts, whether by dividends, distributions, advances, loans or other payments. Accordingly, risks that have an impact on the Subsidiaries of the Guarantor (as set out in more detail in the following six paragraphs) and incorporated herein (see further "*Risks associated with TWUL and its business*" below) could affect the amount of funds available to the Guarantor to enable the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement, the Guarantor Notes and the Guarantee. In addition, TWUL is, in certain circumstances, restricted from declaring or paying dividends as part of the Securitisation as defined and further described below, such restrictions being dependent on the financial performance of TWUL. See further "*Risks associated with TWUL and its business*" below. Any impact on the Guarantor's ability to meet its obligations under the Issuer/Guarantor Loan Agreement could consequently have an adverse impact on the Issuer's ability to meet its obligations under the Notes.

Further, notwithstanding the inclusion of risk factors in relation to TWUL in this Prospectus, Noteholders will not have any recourse against TWUL given that they are neither an Issuer, Guarantor, or an Obligor under the Programme.

High Leverage of TWUL

TWUL's indebtedness is substantial in relation to its RCV. As at 31 March 2021, Senior RAR was 83.2 per cent. TWUL is entitled to increase its leverage, however, a Senior RAR of greater than 85 per cent. will result in a restriction on certain payments, such as dividends. The ability of TWUL to improve its operating performance and financial results will depend upon economic, financial, regulatory and other factors, including fluctuations in interest rates and general economic conditions in the United Kingdom, beyond its control. Accordingly, there can be no assurance of TWUL's ability to meet its financing requirements and no assurance that TWUL's high degree of leverage will not have a material adverse impact on its ability to pay distributions to its shareholders, and ultimately the Guarantor, to enable the Issuer or the Guarantor to pay amounts due and owing in respect of the Notes. For relevant definitions see Section 1.7 (*Glossary of Defined Terms*) of the TWUL Disclosure.

Future Financing

The Issuer or the Guarantor may need to raise further debt from time to time in order to, among other things:

(a) on each date on which principal is required to be repaid and on the maturity date of the relevant Tranche of Notes, refinance the Notes; and

(b) refinance any other debt (including any Loan Facilities) the terms of which have become inefficient or which have a scheduled partial or final maturity prior to the final maturity of the Notes.

While the Intercreditor Agreement contemplates the circumstances under which such further debt can be raised, there can be no assurance that the Issuer or the Guarantor will be able to raise sufficient funds, or funds at a suitable interest rate, or on suitable terms, at the requisite time such that the purposes for which such financing is being raised are fulfilled, and in particular such that all amounts then due and payable on the Notes or any other maturing indebtedness will be capable of being so paid when due.

Hedge Counterparty risk

If the Issuer or, if applicable, the Guarantor enters into any hedging agreements in connection with any issue of Notes (for example, in relation to interest rate or currency exposures), it faces the possibility that a Hedge Counterparty will become unable to honour its contractual obligations. Hedge Counterparties may default on their obligations due to insolvency, bankruptcy, lack of liquidity, operational failure or other reasons. This risk may arise, for example, from entering into swap or other derivative contracts under which counterparties have obligations to make payments to the Issuer or the Guarantor or from executing trades that fail to settle at the required time due to non-delivery by the counterparty or systems failure by clearing agents, exchanges, clearing houses or other financial intermediaries. Any such failure on part of the hedge counterparties could consequently have an adverse impact on the Issuer's ability to meet its obligations under the Notes.

Noteholders' rights subject to the Intercreditor Agreement

The Noteholders' rights against the Issuer and the Guarantor are subject to the Intercreditor Agreement, which is described in detail in the section entitled "*Intercreditor, Enforcement and the Working Capital Facility Agreement*". Whilst the Note Trustee's rights to take any action to enforce its rights against the Issuer and/or the Guarantor following an Event of Default are partially restricted under the Intercreditor Agreement, the taking of Permitted Enforcement Action by the Note Trustee is not restricted. The taking of Permitted Enforcement Action by the Note Trustee shall trigger an automatic acceleration of the Secured Liabilities. Following such automatic acceleration, the Security Trustee shall enforce the Transaction Security in accordance with the instructions of the Majority Secured Creditors (which might not include the Noteholders) and the proceeds of such enforcement shall be distributed in accordance with the order of payments set out in the Intercreditor Agreement. As a result, Noteholders can be bound by the process of enforcement that is determined by the Majority Secured Creditors, which may differ from the interests of Noteholders. Noteholders can therefore be bound by the result of a particular matter that they voted against, including, for the avoidance of doubt, in relation to the enforcement of the Transaction Security.

Risks associated with TWUL and its business

The risks to which TWUL and its business are subject are set out in the risk factors, extracted from the TWUL Prospectus, which is incorporated by reference in this Prospectus:

Chapter 1 – Risk Factors:

(i) Strategic Risks (pages 27-30 of the TWUL Prospectus);

(ii) Operational Risks (pages 30-37 of the TWUL Prospectus);

(iii) Compliance Risks (page 37–41 of the TWUL Prospectus);

(iv) Financing Risks (pages 42-49 of the TWUL Prospectus).

The risk factors incorporated by reference from the TWUL Prospectus also contain certain references to TWUF and TWUH. TWUF and TWUH are both parties to the multicurrency note issuance programme outlined in the TWUL Prospectus. Information in respect of TWUL, TWUF and TWUH is included in this Prospectus in order to inform prospective investors of the terms of TWUL's financing arrangements, which, from time to time may impact the payment of amounts to the Guarantor and therefore the ability of the Issuer to meet its obligations under the Notes. Notwithstanding the inclusion of the information in relation to TWUL, TWUF and TWUH, the Noteholders will not have any recourse against TWUL, TWUF or TWUH as they are neither an Issuer, Guarantor or Obligor under this Programme and have no formal, legal or contractual role under this Programme or the Notes issued pursuant to its terms.

Structural Risks

TWUL is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing, which may limit the amount of funds available to the Guarantor

In 2007, the Thames Water Group implemented a significant corporate restructuring and financing (the "**Securitisation**") and created a new "ring-fenced" financing group (being the "**Securitisation Group**"). The Securitisation Group consists of Thames Water Utilities Holdings Limited, TWUL, the Securitisation Issuer and such other subsidiaries as constitute Permitted Subsidiaries under the Securitisation Programme from time to time (see diagram, "*Thames Water Group Structure*" above). A key aspect of this covenant-based ring-fencing is that TWUL is only entitled to pay any dividends (albeit indirectly) or make any other payments ("**distributions**") if certain conditions are satisfied, including that no potential or actual event of default or trigger event under the Securitisation is continuing or would result from such payment and that certain gearing ratio tests are satisfied. In addition, there are restrictions on the amounts of distributions permitted under the Securitisation. See Section 1.5 (*Chapter 7 – Overview of the Financing Agreements*) of the TWUL Disclosure for further details. There is a risk that these restrictions on the amounts of permitted distributions could affect the ability of the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement and the Guarantee.

TWUL is subject to certain restrictions in paying dividends as part of its regulatory ring-fencing, which may limit the amount of funds available to the Guarantor

As part of its obligations as a regulated company, TWUL is subject to certain ring-fencing restrictions under its current Licence. In addition to the covenant restrictions applicable to distributions under the Securitisation, TWUL is required pursuant to its Licence to declare or pay dividends only in accordance with a dividend policy which has been approved by the board of directors of TWUL and which complies with the principles: (i) that dividends will not impair the ability of TWUL to finance its Regulated Business; and (ii) that under a system of incentive regulation, dividends would be expected to reward efficiency and the management of economic risk. Under TWUL's Licence, the TWU Financing Group is required to maintain certain credit ratings above prescribed thresholds in order to be able to make distributions. The policy of the TWU Financing Group is to monitor and maintain headroom against these thresholds, and no restrictions on distributions arise based on current credit ratings. There is a risk that these restrictions on the amounts of permitted distributions could affect the ability of the Guarantor to satisfy in full and on a timely basis its obligations under the Issuer/Guarantor Loan Agreement and the Guarantee. See Section 1.3 (*Chapter 5 – Description of the TWU Financing Group*) of the TWUL Disclosure for further details.

Noteholders are structurally subordinated to claims of creditors of the Guarantor's subsidiaries, including the secured creditors of TWUL under the Securitisation

The ability of the Guarantor's Subsidiaries to make such distributions and other payments depends on their earnings and may be subject to statutory or contractual restrictions. As an equity investor in its Subsidiaries, the Guarantor's right to receive assets upon their liquidation or reorganisation will be effectively subordinated to the claims of creditors of its Subsidiaries. To the extent that the Guarantor is recognised as a creditor of such Subsidiaries, the Guarantor's claims may still be subordinated to any security interest in or other lien on the assets of such subsidiaries and to any of their debt or other obligations. Therefore Noteholders are structurally subordinated to claims of creditors of the Guarantor's Subsidiaries, including secured creditors of TWUL under the Securitisation.

If share security under the Securitisation is enforced, the Guarantor may no longer be an indirect shareholder of TWUL

Thames Water Utilities Holdings Limited has granted share security as part of the Securitisation over shares in its direct subsidiary, TWUL. If the secured creditors in respect of the Securitisation elect to enforce their rights thereunder, then such security over the shares in TWUL may be enforced and such enforcement may result in a sale of TWUL and, subsequently, the Guarantor no longer being an indirect shareholder of TWUL. As a result, the Guarantor would not be entitled to receive any dividends from TWUL, which may impact its ability to generate the funds necessary to meet its financial obligations. This could have an impact on the Guarantor's ability to meet its obligations under the Issuer/Guarantor Loan Agreement and could consequently have an adverse impact on the Issuer's ability to meet its obligations under the Notes.

English law security and insolvency considerations

The Issuer has entered into the Security Agreement and other Transaction Security Documents pursuant to which it has granted the Transaction Security in respect of certain of its obligations, including its obligations under the Notes. If certain insolvency proceedings are commenced in respect of the Issuer, the ability to realise the Transaction Security may be delayed and/or the value of the Transaction Security impaired.

The Insolvency Act allows for the appointment of an administrative receiver in relation to certain transactions in the capital markets. Although there is as yet no case law on how these provisions will be interpreted, it should be applicable to the floating charge created by the Issuer and granted by way of security to the Security Trustee. However, as this is partly a question of fact, were it not to be possible to appoint an administrative receiver in respect of the Issuer, the Issuer would be subject to administration if it became insolvent which may lead to the ability to realise the security being delayed and/or the value of the security being impaired.

Further, where the Issuer encounters, or is likely to encounter, financial difficulties that are affecting, or will or may affect, its ability to carry on business as a going concern, it may propose a restructuring plan (a "Plan") with its creditors under Part 26A of the Companies Act 2006 (introduced by the Corporate Insolvency and Governance Act 2020) to eliminate, reduce, prevent or mitigate the effect of any of those financial difficulties. Should this happen, creditors whose rights are affected are organised into creditor classes and can vote on any such Plan (subject to being excluded from the vote by the English courts for having no genuine economic interest in the Issuer). Providing that one class of creditors (who would receive a payment, or have a genuine economic interest in the Issuer) has approved the Plan, and in the view of the English courts any dissenting class(es) who did not approve the Plan are no worse off under the Plan than they would be in the event of the "relevant alternative" (such as, broadly, liquidation or administration), then the English court can sanction the Plan where it would be a proper exercise of its discretion. A sanctioned Plan is binding on all creditors and members, regardless of whether they approved it. Any such sanctioned Plan in relation to the Issuer may, therefore, adversely affect the rights of Noteholders and the price or value of their investment in the Notes, as it may have the effect of modifying or disapplying certain terms of the Notes (by, for example, writing down the principal amount of the Notes, modifying the interest payable on the Notes, the maturity date or dates on which any payments are due or substituting the Issuer).

In addition, it should be noted that, to the extent that the assets of the Issuer are subject only to a floating charge (including any fixed charge re-characterised by the courts as a floating charge), in certain circumstances under the Insolvency Act, certain floating charge realisations which would otherwise be available to satisfy the claims of Secured Creditors under the Security Agreement or other Transaction Security Document may be used to satisfy any claims of unsecured creditors. While certain of the covenants given by the Issuer in the Finance Documents are intended to ensure that it has no significant creditors other than the Secured Creditors under the Security Agreement or the documents relating to the Existing Security, it will be a matter of fact as to whether the Issuer has any other such creditors at any time. There can be no assurance that the Noteholders will not be adversely affected by any such reduction in floating charge realisations upon the enforcement of the Transaction Security.

While the transaction structure is designed to minimise the likelihood of the Issuer becoming insolvent, there can be no assurance that the Issuer will not become insolvent and/or the subject of insolvency proceedings and/or that the Noteholders would not be adversely affected by the applications of insolvency laws (including English insolvency laws).

Fixed charges may take effect under English law as floating charges

The law in England and Wales relating to the characterisation of fixed charges is unsettled. The fixed charges purported to be granted by the Issuer (other than by way of assignment in security) may take effect under English law as floating charges only if, for example, it is determined that the Security Trustee does not exert sufficient control over the assets subject to such charge. If the charges take effect as floating charges instead of fixed charges, then, as a matter of law, certain claims would have priority over the claims of the Security Trustee in respect of the floating charge assets.

The interests of the Secured Creditors in property and assets over which there is a floating charge will rank behind the expenses of any administration or liquidator and the claims of certain preferential creditors on enforcement of the Transaction Security. Section 250 of the Enterprise Act 2002 abolishes Crown Preference in relation to all insolvencies and thus reduces the categories of preferential debts that are to be paid in "prescribed part" (up to a maximum amount of £600,000) of the floating charge realisations available for distribution to be set aside to satisfy the claims of unsecured creditors. This means that the expenses of any administration, the claims of preferential creditors and the beneficiaries of the prescribed part will be paid out of the proceeds of enforcement of the floating charge ahead of amounts due to Noteholders, which could have an impact on the Issuer's ability to meet its obligations under the Notes. Further, there could be an adverse effect on the ability of the Security Trustee to realise the charged assets and make payments to the Noteholders, which could result in losses on the Notes for the Noteholders. The prescribed part will not be relevant to property subject to a valid fixed security interest or to a situation in which there are no unsecured creditors.

Political Risks

Political intervention in the water sector

TWUL and the UK water industry generally continue to see a high level of scrutiny by regulators and key stakeholders, including the UK Government and other political parties. The UK's Official Opposition, the UK Labour Party, had pledged to nationalise the UK water industry in the run up to the 2019 General Election, and their current party leader, Keir Starmer, has stated that he believes in common ownership of utilities. However, the substantial majority held by the Conservative Party since the 2019 General Election, has seen the prospect of renationalisation diminish in the medium-term. The next UK General Election is scheduled to be held in May 2024.

Future intervention by the UK Government in the water markets, or changes in governmental policy, may affect the Issuer's and the Guarantor's ability to meet their obligations under the Notes.

Brexit

Current uncertainties around the full terms of the United Kingdom's withdrawal from the European Union as a consequence of Brexit have impacted, and continue to impact, the market. These uncertainties have the potential to adversely affect the geopolitical landscape, macroeconomic conditions, stability of the financial market and companies' businesses, including the Issuer and the Guarantor, more directly. There is also a risk of possible downgrades to the United Kingdom's sovereign rating, which could in turn have a negative impact on the credit rating of the Issuer or of the Guarantor.

In addition, historically TWUL has accessed funding from Europe-based investors and institutions, including, by way of example, the EIB. In light of Brexit, TWUL may find it more difficult to access funding from such investors and institutions in the future, which could have a negative impact on TWUL's ability to fund its activities and on the cost of that funding.

From a commercial perspective, post Brexit the biggest risk TWUL currently faces is around raw material and product shortages which are being further impacted by a shortage of HGV drivers across supply chains which could impact future price points. Initial issues at borders due to increased checks have subsided and TWUL has been working with its supply chain partners to review UK stock positions to avoid operational risks arising from TWUL's inability to obtain critical items as and when required. Since Brexit sterling has steadily climbed against the euro and therefore the cost impact on imported goods has been marginal.

Risks relating to the Notes

A range of Notes may be issued under the Programme (as may be specified in the relevant Final Terms or Drawdown Prospectus). A number of these Notes may have features which contain particular risks for potential investors. Set out below is a description of certain such features:

Notes subject to optional redemption by the Issuer

An optional redemption feature is likely to limit the market value of Notes. During any period when the Issuer may elect to redeem Notes, the market value of those Notes generally will not rise substantially above the price at which they can be redeemed. This also may be true prior to any redemption period.

The Issuer may be expected to redeem Notes when its cost of borrowing is lower than the interest rate on the Notes. At those times, an investor generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Notes being redeemed and may only be able to do so at a significantly lower rate. Potential investors should consider reinvestment risk in light of other investments available at that time.

Fixed/Floating Rate Notes

Fixed/Floating Rate Notes may bear interest at a rate that the Issuer may elect to convert from a fixed rate to a floating rate, or from a floating rate to a fixed rate. The Issuer's ability to convert the interest rate will affect the secondary market and the market value of such Notes since the Issuer may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If the Issuer converts from a fixed rate to a floating rate, the spread on the Fixed/Floating Rate Notes may be less favourable than then prevailing spreads on comparable Floating Rate Notes tied to the same reference rate. In addition, the new floating rate at any time may be lower than the rates on other Notes. If the Issuer converts from a floating rate to a fixed rate, the fixed rate may be lower than then prevailing rates on its Notes.

Notes issued at a substantial discount or premium

The market values of securities issued at a substantial discount or premium to their nominal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities.

Potential disenfranchisement of Noteholders

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the "**decision**") to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative (including the Note Trustee) of the matter in question and shall also inform each Secured Creditor Representative (including the Note Trustee) of the date by which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the "**Decision Date**"). If the Note Trustee has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the Majority Secured Creditors, the Commitments in respect of the Notes shall be excluded from:

(i) the Total Commitments to be considered as voting in favour of the relevant decision (the numerator); and

(ii) the Total Commitments to be used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right of the Noteholders is affected. Noteholders can therefore be bound by the result of a particular decision (as defined in this risk factor) in respect of which they have not voted, including, for the avoidance of doubt, a decision (as defined in this risk factor) in relation to the enforcement of the Transaction Security, even where the Note Trustee, representing the Noteholders, would (but for the requirement to provide a vote by the Decision Date as described above), whether by itself or with one or more other Secured Creditor Representatives, constitute the Majority Secured Creditors.

Modification, waivers and substitution

The Terms and Conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally. These provisions permit defined majorities to bind all Noteholders, including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. As a result, Noteholders can be bound by the result of a particular matter that they voted against.

The Terms and Conditions of the Notes also provide that the Note Trustee may, without the consent of Noteholders, agree to: (i) any modification (except as mentioned in the Trust Deed) of, or to the waiver or authorisation of any breach or proposed breach of, any of the provisions of the Trust Deed, the Conditions or any other Transaction Document; or (ii) determine without the consent of the Noteholders that any Event of Default or potential Event of Default shall not be treated as such; or (iii) the substitution of another company as principal debtor or guarantor under any Notes in place of the Issuer or the Guarantor respectively, in the circumstances described in Condition 11 (*Meetings of Noteholders, Modification, Waiver and Substitution*) of the Terms and Conditions of the Notes.

Integral multiples of less than €100,000

In relation to any issue of Notes which have a denomination consisting of the minimum Specified Denomination of €100,000 plus a higher integral multiple of another smaller amount, it is possible that the Notes may be traded in amounts in excess of €100,000 (or its equivalent) that are not integral multiples of €100,000 (or its equivalent). In such a case, a Noteholder who, as a result of trading such amounts, holds a principal amount of less than the minimum Specified Denomination will not receive a definitive Note in respect of such holding (should definitive Notes be printed) and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations. If definitive Notes are issued, Noteholders should be aware that definitive Notes which have a denomination that is not an integral multiple of the minimum authorised denomination may be illiquid and difficult to trade.

Notes not in physical form

Unless the Global Notes are exchanged for Definitive Notes, which exchange will only occur in the limited circumstances set out under the section entitled "*Summary of Provisions relating to the Notes while in Global Form*" below, the beneficial ownership of the Notes will be recorded in book-entry form only with Euroclear and Clearstream, Luxembourg. The fact that the Notes are not represented in physical form could, among other things:

(a) result in payment delays on the Notes because distributions on the Notes will be sent by or on behalf of the Issuer to Euroclear or Clearstream, Luxembourg directly to Noteholders;

(b) make it difficult for Noteholders to pledge the Notes as security if Notes in physical form are required or necessary for such purposes; and

(c) hinder the ability of Noteholders to resell the Notes because some investors may be unwilling to buy Notes that are not in physical form.

Regulation and Reform of EURIBOR and other "benchmarks" could adversely affect any Notes linked to such "benchmarks"

Reference rates and indices, including interest rate benchmarks, such as EURIBOR which are used to determine the amounts payable under financial instruments or the value of such financial instruments ("Benchmarks"), have, in recent years, been the subject of political and regulatory scrutiny as to how they are created and operated. This has resulted in regulatory reform and changes to existing Benchmarks, with further changes anticipated. These reforms and changes may cause a Benchmark to perform differently than it has done in the past or to be discontinued. Any change in the performance of a Benchmark or its discontinuation, could have a significant adverse effect on any Notes referencing or linked to such Benchmark. More broadly, any of the international, national or other proposals of reform, or the general increased regulatory scrutiny of the benchmarks, could increase the costs and risks of administering or otherwise participating in the setting of a benchmark and complying with any such regulations or requirements. Such factors may have the effect of discouraging market participants from continuing to administer or contribute to certain "benchmarks" trigger changes in the rules or the methodologies used in certain "benchmarks" or lead to the discontinuance or unavailability of quotes on certain "benchmarks".

On 21 September 2017, the European Central Bank announced that it would be part of a new working group tasked with the identification and adoption of a "risk free overnight rate" which can serve as a basis for an alternative to current benchmarks used in a variety of financial instruments and contracts in the euro area. On 13 September 2018, the working group on Euro risk-free rates recommended the new Euro short-term rate ("**€STR**") as the new risk-free rate for the euro area. The €STR was published for the first time on 2 October 2019. Although EURIBOR has been reformed in order to comply with the terms of the Benchmarks Regulation, it remains uncertain as to how long it will continue in its current form, or whether it will be further reformed or replaced with €STR or an alternative benchmark.

At this time, it is not possible to predict the effect of any establishment of alternative reference rates or any other reforms to EURIBOR that may be enacted. Uncertainty as to the nature of such alternative reference rates or other reforms may adversely affect the trading market for EURIBOR-linked securities. The potential elimination of benchmarks such as EURIBOR, the establishment of alternative reference rates or changes in the manner of administration of such a benchmark could also require adjustments to the terms of the benchmark-linked securities and may result in other consequences such as interest payments that are lower than, or that do not otherwise correlate over time with, the payments that would have been made on those securities if the relevant benchmark was available in its current form. Each potential investor should consult its legal advisers (or any other relevant independent advisers) to make their own assessment about the potential risks relating to the effect of any establishment of alternative reference rates or any other reforms to EURIBOR that may be enacted.

The EU Benchmarks Regulation and the UK Benchmarks Regulation could adversely affect any Notes linked to a "benchmark"

Regulation (EU) 2016/1011 (the "**EU Benchmark Regulation**") was published in the official journal on 29 June 2016 and has applied from 1 January 2018 (with the exception of provisions specified in Article 59 (mainly on critical benchmarks) that apply from 30 June 2016).

EU Benchmarks Regulation applies to the provision of benchmarks, the contribution of input data to a benchmark and the use of a benchmark within the EU. Among other things it: (i) requires benchmark administrators to be authorised or registered (or, if non-EU-based, to be subject to an equivalent regime or otherwise recognised or endorsed); and (ii) prevents certain uses by EU supervised entities of benchmarks of administrators that are not authorised or registered (or, if non-EU based, not deemed equivalent or recognised or endorsed). The UK Benchmarks Regulation (Regulation (EU) No.2016/1011 as it forms part of domestic law by virtue of the EUWA) (the "**UK Benchmarks Regulation**"), among other things, applies to the provision of benchmarks and the use of a benchmark in the UK. Similarly, it prohibits the use in the UK by UK supervised entities of benchmarks of administrators that are not authorised by the FCA or registered on the FCA register (or, if non-UK based, not deemed equivalent or recognised or endorsed). Both the EU Benchmarks Regulation and UK Benchmarks Regulation could have a material impact on any Notes linked to EURIBOR or another benchmark rate or index, including in any of the following circumstances:

(i) a "benchmark" ceases to be published, calculated or administered;

(ii) an index which is a "benchmark" could not be used by a supervised entity in certain ways if its administrator does not obtain authorisation or register, or if based outside of the UK or in a non- EU jurisdiction, the administrator is not otherwise recognised as equivalent; and

(iii) the methodology or other terms of the "benchmark" could be changed in order to comply with the terms of the EU Benchmarks Regulation and/or UK Benchmarks Regulation (as applicable),

and such changes could (amongst other things) have the effect of reducing or increasing the rate or level, or affecting the volatility of, the published rate or level, of the benchmark. Either of the above could potentially lead to the Notes being de-listed or redeemed early or otherwise affected depending on the particular "benchmark" and applicable terms of the Notes.

Fallback arrangements could adversely affect Floating Rate Notes

In addition, the potential elimination of a benchmark, or changes in the manner of administration of any benchmark, could require or result in an adjustment to the interest provisions of the Terms and Conditions, or result in other consequences, in respect of any Notes linked to such benchmark. Furthermore, even prior to the implementation of any changes, uncertainty as to the nature of the alternative reference rates and as to potential changes to such benchmark may adversely affect such benchmark during the terms of the relevant Notes, the return on the relevant Notes and the trading market for securities (including the Notes) based on the same benchmark.

Where Relevant Screen Rate Determination is specified as the manner in which the Interest Rate in respect of Floating Rate Notes is to be determined, the Conditions provide that the Interest Rate shall be determined by reference to the Page (or its successor or replacement).

Where the Relevant Screen Page is not available, and no successor or replacement for the Relevant Screen Page is available, where the Floating Rate option specified is "EURIBOR", the Conditions provide for the Interest Rate to be determined by the Calculation Agent by reference to quotations from banks communicated to it.

Where such quotations are not available (as may be the case if the relevant banks are not submitting rates for the determination of such Reference Rate), the Interest Rate may ultimately revert to the Interest Rate applicable as at the last preceding Interest Determination Date before the Reference Rate was discontinued. Uncertainty as to the continuation of the Reference Rate, the availability of quotes from reference banks, and the rate that would be applicable if the Reference Rate is discontinued may adversely affect the value of, and return on, the Floating Rate Notes.

Where the Page is not available, and no successor or replacement for the Page is available, where the Floating Rate option specified is "SONIA", the Conditions provide for the Interest Rate to be determined by the Calculation Agent by reference to the Bank of England's base rate plus the five-day mean of the spread of the SONIA Reference Rate to the Bank of England's base rate. Where the Bank of England Base rate is not available, the Interest Rate may ultimately revert to the Interest Rate applicable as at the last preceding Interest Determination Date before the Original Reference Rate was discontinued.

Benchmark Events include (amongst other events) permanent discontinuation of an Original Reference Rate. If the Issuer determines a Benchmark Event occurs, the Issuer shall use its reasonable endeavours to appoint, at the Issuer's expense, an Independent Adviser. The Independent Adviser shall endeavour to determine a Successor Rate or Alternative Rate to be used in place of the Original Reference Rate. The use of any such Successor Rate or Alternative Rate to determine the Interest Rate is likely to result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

Furthermore, if a Successor Rate or Alternative Rate for the Original Reference Rate is determined by the Independent Adviser, the Conditions provide that the Issuer may vary the Conditions and/or the Note Trust Deed, as necessary to ensure the proper operation of such Successor Rate or Alternative Rate, without any requirement for consent or approval of the Noteholders.

If a Successor Rate or Alternative Rate is determined by the Independent Adviser, the Conditions also provide that an Adjustment Spread will be determined by the Independent Adviser and applied to such Successor Rate or Alternative Rate. The aim of the Adjustment Spread is to reduce or eliminate, to the extent reasonably practicable, any economic prejudice or benefit (as the case may be) to Noteholders as a result of the replacement of the Original Reference Rate with the Successor Rate or the Alternative Rate. However, it may not be possible to determine or apply and even if an Adjustment Spread is applied, such Adjustment Spread may not be effective to reduce or eliminate economic prejudice to Noteholders. If no Adjustment Spread can be determined, a Successor Rate or Alternative Rate may nonetheless be used to determine the Interest Rate. The use of any Successor Rate or Alternative Rate (including with the application of an Adjustment Spread) will still result in Notes linked to or referencing the Original Reference Rate performing differently (which may include payment of a lower Interest Rate) than they would do if the Original Reference Rate were to continue to apply in its current form.

The Issuer may be unable to appoint an Independent Adviser or the Independent Adviser may not be able to determine a Successor Rate or Alternative Rate in accordance with the terms and conditions of the Notes.

Where the Issuer is unable to appoint an Independent Adviser in a timely manner, or the Independent Adviser is unable, to determine a Successor Rate or Alternative Rate before the next Interest Determination Date, the Interest Rate for the next succeeding Interest Period will be the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, or, where the Benchmark Event occurs before the first Interest Determination Date, the Interest Rate will be the initial Interest Rate.

Where the Issuer has been unable to appoint an Independent Adviser or, the Independent Adviser has failed, to determine a Successor Rate or Alternative Rate in respect of any given Interest Period, it will continue to attempt to appoint an Independent Adviser in a timely manner before the next succeeding Interest Determination Date and/or to determine a Successor Rate or Alternative Rate to apply the next succeeding and any subsequent Interest Periods, as necessary.

Applying the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event is likely to result in Notes linked to or referencing the relevant benchmark performing differently (which may include payment of a lower Interest Rate) than they would do if the relevant benchmark were to continue to apply, or if a Successor Rate or Alternative Rate could be determined.

If the Issuer is unable to appoint an Independent Adviser or, the Independent Adviser fails to determine a Successor Rate or Alternative Rate for the life of the relevant Notes, the initial Interest Rate, or the Interest Rate applicable as at the last preceding Interest Determination Date before the occurrence of the Benchmark Event, will continue to apply to maturity. This will result in the Floating Rate Notes, in effect, becoming Fixed Rate Notes. In addition, due to the uncertainty concerning the availability of successor rates and alternative reference rates and the involvement of an Independent Adviser, the relevant fallback provisions may not operate as intended at the relevant time. Any such consequences could have a material adverse effect on the value of and return on any such Notes.

Where ISDA Determination is specified as the manner in which the Interest Rate in respect of Floating Rate Notes is to be determined, the Conditions provide that the Interest Rate in respect of the Notes shall be determined by reference to the relevant Floating Rate Option in the 2006 ISDA Definitions and the ISDA Benchmark Supplement. Where the Floating Rate Option specified is an “EURIBOR” Floating Rate Option, the Interest Rate may be determined by reference to the relevant screen rate or the rate determined on the basis of quotations from certain banks. If the relevant EURIBOR is permanently discontinued and the relevant screen rate or quotations from banks (as applicable) are not available, the operation of these provisions may lead to uncertainty as to the Interest Rate that would be applicable, and may, adversely affect the value of, and return on, the Floating Rate Notes.

The impact of these conditions could be detrimental to the Issuer and/or the Guarantor and, in each case, could adversely affect: its business, operations and profitability; its solvency and the solvency of its counterparties, custodians, customers and service providers; the value and liquidity of its assets and liabilities and the credit rating of the Notes. Such impact could consequently have an adverse impact on the Issuer's ability to meet its obligations under the Notes.

The market continues to develop in relation to SONIA as a reference rate

The Issuer may issue Floating Rate Notes referencing SONIA. On 29 November 2017 and in a series of subsequent announcements, the Bank of England and the FCA announced that the Bank of England's Working Group on Sterling-Risk Free Rates had been mandated with implementing a broad based transition to SONIA over the following four years across sterling bond, loan and derivatives markets, so that SONIA is established as the primary sterling interest rate benchmark by the end of 2021. Investors should be aware that the market continues to develop in relation to the Sterling Overnight Index Average ("**SONIA**") as a reference rate in the capital markets and its adoption as an alternative to LIBOR. In addition, market participants and relevant working groups are exploring alternative reference rates based so called on risk free rates, including a term SONIA reference rate (which seek to measure the market's forward expectation of an average SONIA rate over a designated term) and the Bank of England started publishing the SONIA Compounded Index from 3 August 2020. The use of Compounded Daily SONIA as a reference rate for Eurobonds is nascent, and is subject to change and development, both terms of the substance of the calculation and in the development and adoption of market infrastructure for the issuance and trading of notes referencing Compounded Daily SONIA. Accordingly, Noteholders should be aware that the market continues to develop in relation to SONIA as a reference rate in capital markets and its adoption as an alternative to Sterling LIBOR. For example, in the context of backwards-looking SONIA rates, market participants and relevant working groups are currently assessing the difference between compounded rates and weighted average rates, and such groups are also exploring forward-looking 'term' SONIA reference rates which seek to measure the markets forward expectation of an average SONIA rate over a designated term. The adoption of SONIA may also see component inputs into swap rates or other composite rates transferring from Sterling LIBOR or another reference rate to SONIA.

The market or a significant part thereof may adopt an application of SONIA that differs significantly from that set out in the Conditions and used in relation to Notes that reference SONIA issued under this Prospectus. The Issuer may in the future also issue Notes referencing SONIA that differ materially in terms of interest determination when compared with any previous SONIA referenced Notes issued by it under the Programme (including SONIA Notes which reference the SONIA Compounded Index published by the Bank of England). The development of Compounded Daily SONIA as an interest reference rate for the Eurobond markets, as well as continued development of SONIA- based rates for such markets and the market infrastructure for adopting such rates, could result in reduced liquidity or increased volatility or could otherwise affect the market price of any SONIA referenced Notes issued under the Programme from time to time.

In addition, the manner of adoption or application of SONIA reference rates in the Eurobond markets may differ materially compared with the application and adoption of SONIA in other markets, such as the derivatives and loan markets. Investors should carefully consider how any mismatch between the adoption of SONIA reference rates across these markets may impact any hedging or other financial arrangements which they may put in place in connection with any acquisition, holding or disposal of instruments referencing SONIA. Since SONIA is a relatively new market index, Notes linked to SONIA may have no established trading market when issued, and an established trading market may never develop or may not be very liquid. Market terms for debt securities indexed to SONIA such as the spread over the index reflected in interest rate provisions, may evolve over time, and trading prices of such Notes may be lower than those of later-issued indexed debt securities as a result. Further, if SONIA does not prove to be widely used in securities like the instruments, the trading price of such Notes linked to SONIA may be lower than those of Notes linked to indices that are more widely used. Investors in such Notes may not be able to sell such Notes at all or may not be able to sell such Notes at prices that will provide them with a yield comparable to similar investments that have a developed secondary market and may consequently suffer from increased pricing volatility and market risk.

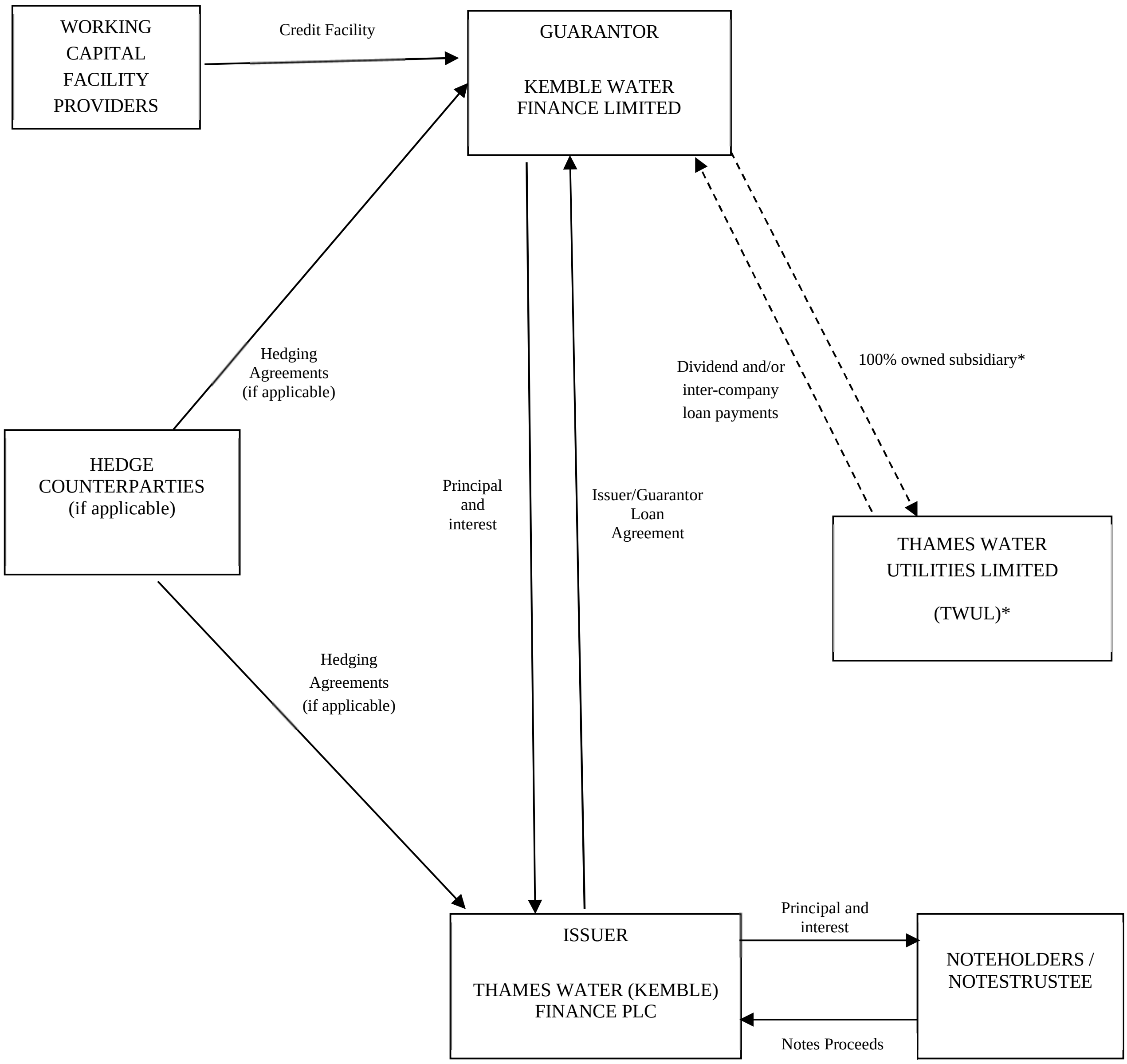
SONIA differs from other benchmarks in a number of material respects and has a limited history

Publication of SONIA has a limited history. The future performance of SONIA may therefore be difficult to predict based on the limited historical performance. The level of SONIA during the term of Notes issued under the Programme may bear little or no relation to the historical level of SONIA. Prior observed patterns, if any, in the behaviour of market variables and their relation to SONIA such as correlations, may change in the future. Furthermore, interest on Notes which reference Compounded Daily SONIA is only capable of being determined immediately prior to the relevant Interest Payment Date. It may be difficult for investors in Notes which reference such risk free rates to reliably estimate the amount of interest which will be payable on such Notes and some investors may be unable or unwilling to trade such Notes without changes to their IT systems, both of which could adversely impact the liquidity of such Notes. If the Notes referencing Compounded Daily SONIA become due and payable as result of an event of default under Condition 10 (*Events of Default*), or are redeemed early on a date which is not an Interest Payment Date, the rate of interest payable for the Final Interest Period in respect of such Notes shall only be determined immediately prior to the date on which the Notes become due and payable.

The administrator of SONIA may make changes that could change the value of SONIA or discontinue SONIA

The Bank of England (or a successor), as administrator of SONIA, may make methodological or other changes that could change the value of SONIA, including changes related to the method by which SONIA is calculated, eligibility criteria applicable to the transactions used to calculate SONIA, or timing related to the publication of SONIA. If the manner in which SONIA is calculated is changed, that change may result in a reduction of the amount of interest payable on such Notes and the trading prices of such Notes. In addition, the administrator may alter, discontinue or suspend calculation or dissemination of SONIA (in which case a fallback method of determining the interest rate on the Notes will apply). The administrator has no obligation to consider the interests of Noteholders when calculating, adjusting, converting, revising or discontinuing SONIA.

OVERVIEW OF THE FINANCING STRUCTURE



* Please note that the Guarantor's subsidiary TWUL has been depicted as part of a simplified structure in this chart to demonstrate cash flows. Please see section "*Thames Water Group Structure*" below for full group structure.

- The Issuer and the Guarantor have entered into a loan agreement (the "**Issuer/Guarantor Loan Agreement**") pursuant to which the Issuer will grant intra-group loans to the Guarantor in amounts equal to the proceeds of the Notes issued by the Issuer (each an "**Issuer/Guarantor Loan**").
- The Issuer has on-lent and will on-lend to the Guarantor the proceeds of each Series of Notes, pursuant to an Issuer/Guarantor Loan.
- The Issuer's obligations to repay principal and pay interest on the Notes (both those issued previously and any future issuance) are intended to be met primarily from the payments of principal and interest received from the Guarantor under the Issuer/Guarantor Loan Agreement and where such payment has been hedged under a Hedging Agreement, under the relevant Hedging Agreement.
- Each Issuer/Guarantor Loan Agreement will provide for payments to become due from the Guarantor to the Issuer on dates and in amounts that match the obligations of the Issuer to the Noteholders plus a certain profit margin.
- The Guarantor predominantly relies on the receipt of dividend and/or interest income (ultimately from TWUL) to make payments due on the Issuer/Guarantor Loan Agreement.
- The payments of principal and interest received from the Guarantor under the Issuer/Guarantor Loan Agreement have characteristics that demonstrate capacity to produce funds to service any payments due and payable on the Notes.

DOCUMENTS INCORPORATED BY REFERENCE

This Prospectus should be read and construed in conjunction with the following sections of the prospectus in respect of the Thames Water Utilities Finance plc £10,000,000,000 Multicurrency programme for the issuance of Guaranteed Bonds prospectus dated 26 October 2021 (the "**TWUL Prospectus**") (available at www.thameswater.co.uk) which shall be incorporated in and form part of this Prospectus:

Section	Title/Reference	Page(s)
1.1	Chapter 2 – Risk Factors	
	(i) Strategic Risks	27-30
	(ii) Operational Risks	30-37
	(iii) Compliance Risks	37–41
	(iv) Financial Risks	42-49
1.2	Chapter 3 – The Parties	61-63
1.3	Chapter 5 – Description of the TWU Financing Group	67-109
1.4	Chapter 6 – Regulation of the Water and Wastewater Industry in England and Wales	110-134
1.5	Chapter 7 – Overview of the Financing Agreements	135-177
1.6	Chapter 13 – General Information (in particular the section entitled "*Significant or Material Change*")	258
1.7	Glossary of Defined Terms	261-321

Such incorporated sections are referred to herein as the "TWUL Disclosure".

The TWUL Prospectus was published and approved by the Financial Conduct Authority on 26 October 2021.

The TWUL Disclosure is being incorporated by reference into this Prospectus since the Guarantor will be reliant upon the payment by its subsidiaries (including TWUL) of dividends and certain other distributions to meet its payment obligations in respect of interest and principal due to the Issuer under the Issuer/Guarantor Loan Agreement. The Guarantor (and, in turn, the Issuer) will therefore be substantially reliant on the cashflow of TWUL in fulfilling their respective obligations under the Notes. Notwithstanding the TWUL Disclosure, Noteholders will not have any recourse against TWUL, given that TWUL is neither the Issuer, Guarantor, or an Obligor under the Programme.

The TWUL Disclosure also contains certain references to Thames Water Utilities Finance plc ("**TWUF**") and Thames Water Utilities Holdings Limited ("**TWUH**"). Information in respect of TWUL, TWUF and TWUH is included in this Prospectus in order to inform prospective investors of the terms of TWUL's financing arrangements, which, from time to time may impact the payment of amounts to the Guarantor and therefore the ability of the Issuer to meet its obligations under the Notes. Notwithstanding the inclusion of the information in relation to TWUL, TWUF and TWUH, the Noteholders will not have any recourse against TWUL, TWUF or TWUH as they are neither an Issuer, Guarantor or Obligor under this Programme and have no formal, legal or contractual role under this Programme or the Notes issued pursuant to its terms.

This Prospectus should also be read and construed in conjunction with the following, which shall be incorporated in and form part of this Prospectus:

(a) the Terms and Conditions of the Notes as contained at pages 34 – 70 (inclusive) of the prospectus dated 25 March 2011 in connection with the Programme (https://www.rns-pdf.londonstockexchange.com/rns/6664D_-2011-3-25.pdf);

(b) the Terms and Conditions of the Notes as contained at pages 36 – 68 (inclusive) of the prospectus dated 26 June 2015 in connection with the Programme (https://www.ise.ie/debt_documents/Base%20Prospectus_0ac40228-9971-495e-9926-c7f4b01bfed4.PDF);

(c) the Terms and Conditions of the Notes as contained at pages 37 – 72 (inclusive) of the prospectus dated 2 April 2020 in connection with the Programme (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/prospectuses/prospectus-2020.pdf); and

(d) for each of the financial years ended 31 March 2020 (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/reports/annual-report-2019-20.pdf) and 31 March 2021 (https://www.thameswater.co.uk/media-library/home/about-us/investors/debt-investors/kemble/thames-water-kemble-finance-plc/reports/annual-report-2020-21.pdf) the audited financial statements of the Issuer,

together in each case with the audit report thereon, which have been filed with the Financial Conduct Authority.

The TWUL Disclosure and the documents, or sections of documents, referred to above shall be incorporated in and form part of this Prospectus, save that any statement contained in such documents, or sections of a document, which are incorporated by reference herein shall be modified or superseded for the purpose of this Prospectus to the extent that a statement contained herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus. Any documents which are themselves incorporated by reference in the documents incorporated by reference in this Prospectus, shall not form part of this Prospectus. Where only certain parts of a document are incorporated by reference in this Prospectus, the non-incorporated parts are either not relevant to the investor or are covered elsewhere in this Prospectus. Further, any defined term used in the TWUL Disclosure shall only be a defined term for the purposes of such TWUL Disclosure and any defined terms used in this Prospectus (other than in such TWUL Disclosure) shall not be a defined term for the purposes of such TWUL Disclosure.

Copies of documents incorporated by reference in this Prospectus may be obtained (without charge) from the registered office of the Issuer.

SUPPLEMENTARY PROSPECTUS

Each of the Issuer and the Guarantor has given an undertaking to the Dealers that if at any time during the duration of the Programme there is a significant new factor, material mistake or inaccuracy relating to information contained in this Prospectus which is capable of affecting the assessment of any Notes and whose inclusion in or removal from this Prospectus is necessary for the purpose of allowing an investor to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and the Guarantor, and the rights attaching to the Notes, the Issuer shall prepare an amendment or supplement to this Prospectus or publish a replacement Prospectus for use in connection with any subsequent offering of the Notes and shall supply to each Dealer such number of copies of such supplement hereto as such Dealer may reasonably request.

If at any time the Issuer shall be required to prepare a supplement to the Prospectus pursuant to Article 23 of the UK Prospectus Regulation, the Issuer will prepare and make available an appropriate amendment or supplement to this Prospectus or a further prospectus which, in respect of any subsequent issue of Notes to be listed on the Official List and admitted to trading on the Main Market of London Stock Exchange, shall constitute a supplemental prospectus as required by Article 23 of the UK Prospectus Regulation. Statements contained in any such supplement (or contained in any document incorporated by reference therein) shall, to the extent applicable (whether expressly, by implication or otherwise), be deemed to modify or supersede statements contained in this Prospectus. Any statement so modified or superseded shall not, except as so modified or superseded, constitute a part of this Prospectus.

FINAL TERMS AND DRAWDOWN PROSPECTUS

In the following paragraphs, the expression “necessary information” means, in relation to any Class of Notes, the information necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Issuer and of the rights attaching to the Notes. In relation to the different types of Notes which may be issued under the Programme, the Issuer has endeavoured to include in this Prospectus all of the necessary information except for information relating to the Notes which is not known at the date of this Prospectus and which can only be determined at the time of an individual issue of a Class of Notes.

Any information relating to the Notes which is not included in this Prospectus and which is required in order to complete the necessary information in relation to a Class of Notes will be contained in the relevant Final Terms or Drawdown Prospectus. Such information will be contained in the relevant Final Terms unless any such information constitutes a significant new factor relating to the information contained in this Prospectus in which case such information, together with all of the necessary information in relation to the Notes, may be contained in a Drawdown Prospectus or, in connection with the admission of Notes to the Official List and admitted to trading on the Market, supplementary listing particulars. In addition, the Obligors may agree with any Dealer and the Note Trustee that the Notes may be issued in a form not contemplated by the Conditions (as defined below), in which event (in the case of the Notes admitted to the Official List only) a Drawdown Prospectus will be made available which will describe the effect of the agreement reached in relation to such Notes.

The terms and conditions applicable to any particular Tranche of Notes which is the subject of a Drawdown Prospectus will be the Conditions as supplemented, amended and/or replaced to the extent described in the relevant Drawdown Prospectus. In the case of a Tranche of Notes which is the subject of a Drawdown Prospectus, each reference in this Prospectus to information being specified, completed or identified in the relevant Final Terms shall be read and construed as a reference to such information being specified or identified in the relevant Drawdown Prospectus unless the context requires otherwise. Each Drawdown Prospectus will be constituted by a single document containing the necessary information relating to the relevant Issuer and the relevant Notes.

For a Class of Notes which is the subject of Final Terms, those Final Terms must be read in conjunction with this Prospectus. The terms and conditions applicable to any particular Class of Notes which is the subject of Final Terms are the Conditions as completed to the extent described in the relevant Final Terms.

NOTES MAY NOT BE A SUITABLE INVESTMENT FOR ALL INVESTORS

Each potential investor in any Notes must determine the suitability of that investment in light of its own circumstances. In particular, each potential investor should:

(a) have sufficient knowledge and experience to make a meaningful evaluation of the relevant Notes, the merits and risks of investing in the relevant Notes and the information contained or incorporated by reference in this Prospectus or any applicable supplement;

(b) have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the relevant Notes and the impact such investment will have on its overall investment portfolio;

(c) have sufficient financial resources and liquidity to bear all of the risks of an investment in the relevant Notes, including where principal or interest is payable in one or more currencies, or where the currency for principal or interest payments is different from the potential investor's currency;

(d) understand thoroughly the terms of the relevant Notes and be familiar with the behaviour of any relevant indices and financial markets; and

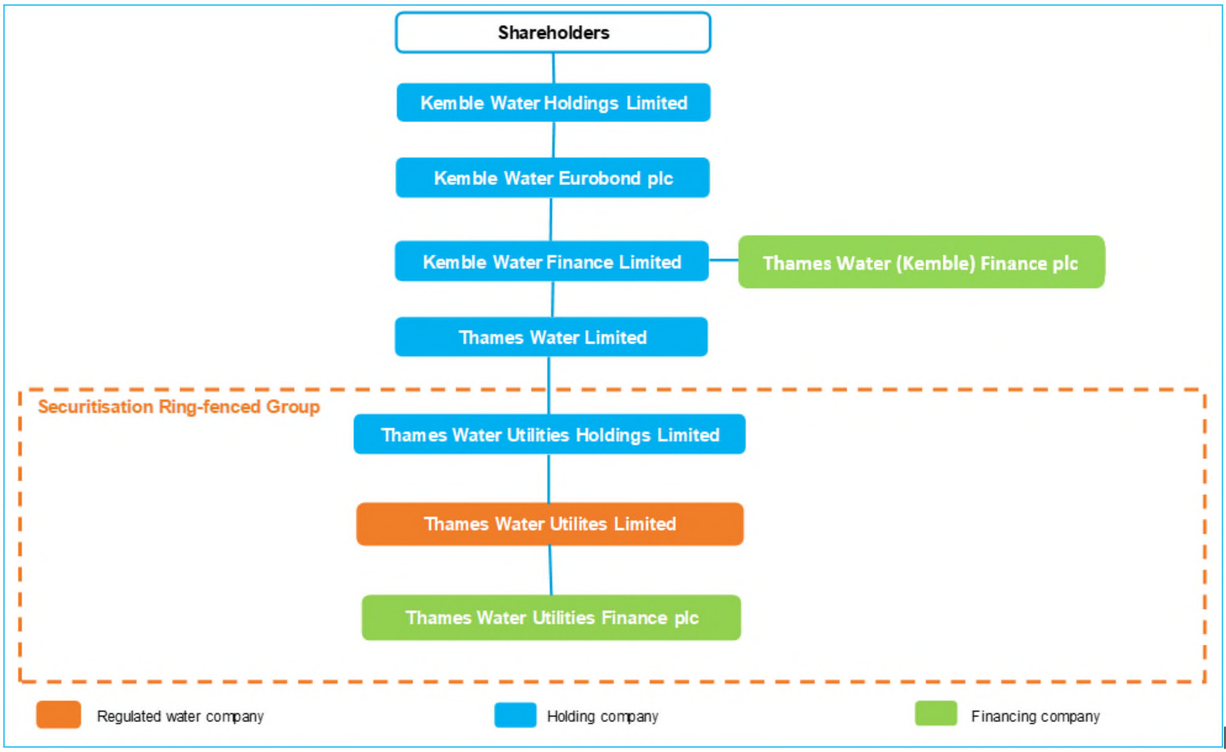
(e) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

In addition, an investment in Notes linked to other bases of reference may entail significant risks not associated with investments in conventional securities such as debt or equity securities, including, but not limited to, the risks set out below in "*Risks related to the structure of a particular issue of Notes*".

Some Notes are complex financial instruments and such instruments may be purchased as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. A potential investor should not invest in Notes which are complex financial instruments unless it has the expertise (either alone or with the help of a financial adviser) to evaluate how the Notes will perform under changing conditions, the resulting effects on the value of such Notes and the impact this investment will have on the potential investor's overall investment portfolio.

THAMES WATER GROUP STRUCTURE

Group Structure Chart



TERMS AND CONDITIONS OF THE NOTES

The following is the text of the terms and conditions which, subject to completion in accordance with the provisions of Part A of the relevant Final Terms or completion, supplement or amendment in accordance with the provisions of the relevant Drawdown Prospectus, shall be applicable to the Notes in definitive form (if any) issued in exchange for the Global Note(s) representing each Series. The applicable Final Terms or Drawdown Prospectus in relation to any Tranche of Notes will complete the following terms and conditions for the purpose of such Notes. The relevant Final Terms or Drawdown Prospectus will be endorsed upon, or attached to, such Bearer Notes or on the Certificates relating to such Registered Notes.

The Notes are constituted by a Trust Deed (as amended or supplemented as at the date of issue of the Notes (the "**Issue Date**"), the "**Trust Deed**") dated on or around 25 March 2011 between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "**Note Trustee**", which expression shall include all persons for the time being the note trustee or note trustees under the Trust Deed) as trustee for the Noteholders (as defined below). These terms and conditions (the "**Conditions**") include summaries of, and are subject to, the detailed provisions of:

(i) the Trust Deed, which includes the form of the Bearer Notes, Certificates, Receipts, Coupons and Talons referred to below;

(ii) the Agency Agreement (as amended or supplemented as at the Issue Date, the "**Agency Agreement**") dated on or around 25 March 2011, which has been entered into in relation to the Notes between the Issuer, the Guarantor, the Note Trustee, Deutsche Bank AG, London Branch as initial issuing and paying agent and the other agents named in it. The issuing and paying agent, the other paying agents, the registrar, the transfer agents and the calculation agent(s) for the time being (if any) are referred to below respectively as the "**Issuing and Paying Agent**", the "**Paying Agents**" (which expression shall include the Issuing and Paying Agent), the "**Registrar**", the "**Transfer Agents**" (which expression shall include the Registrar) and the "**Calculation Agent(s)**";

(iii) the Security Agreement (the "**Security Agreement**") dated on or around 7 April 2011 between the Issuer, the Guarantor and Deutsche Trustee Company Limited (the "Security Trustee") and as supplemented on 26 March 2015; and

(iv) the Intercreditor Agreement dated on or around 25 March 2011 between, amongst others, the Issuer, the Guarantor, the Note Trustee, the Security Trustee and certain banks as lenders to the Guarantor as amended and restated on 26 March 2015 (the "**Intercreditor Agreement**").

Copies of the Trust Deed, the Agency Agreement, the Security Agreement and the Intercreditor Agreement are available during usual business hours from the registered office of the Note Trustee and the specified offices of the Paying Agents and the Transfer Agents and, in the case of item (i) only, at the Issuer's website at www.thameswater.com.

The payments of all amounts in respect of the Notes have been secured by the Issuer and the Guarantor pursuant to the Security Agreement and guaranteed by the Guarantor in the Trust Deed.

The Noteholders, the holders of the interest coupons (the "**Coupons**") relating to interest bearing Notes in bearer form and, where applicable in the case of such Notes, talons for further Coupons (the "**Talons**") (the "**Couponholders**") and the holders of the receipts for the payment of principal (the "**Receipts**") relating to Notes in bearer form of which the principal is payable are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Deed and are deemed to have notice of those provisions applicable to them of the Agency Agreement.

As used in these Conditions, "**Tranche**" means Notes which are identical in all respects.

Terms used but not defined in these Conditions have the meanings given to them in the Trust Deed.

1 Form, Denomination and Title

The Notes are issued in bearer form ("**Bearer Notes**") or in registered form ("**Registered Notes**") in each case in the Specified Denomination(s) specified in the applicable Final Terms or Drawdown Prospectus provided that in the case of any Notes which require the publication of a Prospectus under the Prospectus Regulation, the minimum Specified Denomination shall be €100,000 (or its equivalent in any other currency as at the date of issue of the relevant Notes).

All Registered Notes will have the same Specified Denomination

This Note is a Fixed Rate Note, a Floating Rate Note, a Zero Coupon Note or a combination of any of the foregoing, depending upon the Interest and Redemption/Payment Basis specified in the relevant Final Terms or Drawdown Prospectus.

Bearer Notes are serially numbered and are issued with Coupons (and, where appropriate, a Talon) attached, save in the case of Zero Coupon Notes in which case references to interest (other than in relation to interest due after the Maturity Date), Coupons and Talons in these Conditions are not applicable.

Registered Notes are represented by registered certificates ("**Certificates**") and, save as provided in Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*), each Certificate shall represent the entire holding of Registered Notes by the same holder.

Title to the Bearer Notes and the Receipts, Coupons and Talons shall pass by delivery. Title to the Registered Notes shall pass by registration in the register that the Issuer shall procure to be kept by the Registrar in accordance with the provisions of the Agency Agreement (the "**Register**"). Except as ordered by a court of competent jurisdiction or as required by law, the holder (as defined below) of any Note, Receipt, Coupon or Talon shall be deemed to be, and may be treated as, its absolute owner for all purposes whether or not it is overdue and regardless of any notice of ownership, trust or an interest in it, any writing on it (or on the Certificate representing it) or its theft or loss (or that of the related Certificate) and no person shall be liable for so treating the holder.

In these Conditions, "**Noteholder**" means the bearer of any Bearer Note and the Receipts relating to it or the person in whose name a Registered Note is registered (as the case may be), "**holder**" (in relation to a Note, Receipt, Coupon or Talon) means the bearer of any Bearer Note, Receipt, Coupon or Talon or the person in whose name a Registered Note is registered (as the case may be) and capitalised terms have the meanings given to them in the applicable Final Terms or Drawdown Prospectus, the absence of any such meaning indicating that such term is not applicable to the Notes.

2 No Exchange of Notes and Transfers of Registered Notes

(a) No Exchange of Notes

Registered Notes may not be exchanged for Bearer Notes. Bearer Notes of one Specified Denomination may not be exchanged for Bearer Notes of another Specified Denomination. Bearer Notes may not be exchanged for Registered Notes.

(b) Transfer of Registered Notes

One or more Registered Notes may be transferred upon the surrender (at the specified office of the Registrar or any Transfer Agent) of the Certificate representing such Registered Notes to be transferred, together with the form of transfer endorsed on such Certificate (or another form of transfer substantially in the same form and containing the same representations and certifications (if any), unless otherwise agreed by the Issuer), duly completed and executed and any other evidence as the Registrar or Transfer Agent may reasonably require. In the case of a transfer of part only of a holding of Registered Notes represented by one Certificate, a new Certificate shall be issued to the transferee in respect of the part transferred and a further new Certificate in respect of the balance of the holding not transferred shall be issued to the transferor. All transfers of Notes and entries on the Register will be made subject to the detailed regulations concerning transfers of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer, with the prior written approval of the Registrar and the Note Trustee. A copy of the current regulations will be made available by the Registrar to any Noteholder upon request.

(c) Exercise of Options or Partial Redemption in Respect of Registered Notes

In the case of an exercise of an Issuer’s or Noteholders’ option in respect of, or a partial redemption of, a holding of Registered Notes represented by a single Certificate, a new Certificate shall be issued to the holder to reflect the exercise of such option or in respect of the balance of the holding not redeemed. In the case of a partial exercise of an option resulting in Registered Notes of the same holding having different terms, separate Certificates shall be issued in respect of those Notes of that holding that have the same terms. New Certificates shall only be issued against surrender of the existing Certificates to the Registrar or any Transfer Agent. In the case of a transfer of Registered Notes to a person who is already a holder of Registered Notes, a new Certificate representing the enlarged holding shall only be issued against surrender of the Certificate representing the existing holding.

(d) Delivery of New Certificates

Each new Certificate to be issued pursuant to Condition 2(b) (*Transfer of Registered Notes*) or Condition 2(c) (*Exercise of Options or Partial Redemption in Respect of Registered Notes*) shall be available for delivery within three business days of receipt of the form of transfer or Put Exercise Notice (as defined in Condition 6(e) (*Guarantor Change of Control Put*)) and surrender of the Certificate for exchange. Delivery of the new Certificate(s) shall be made at the specified office of the Transfer Agent or of the Registrar (as the case may be) to whom delivery or surrender of such form of transfer, Exercise Notice or Certificate was made or, at the option of the holder making such delivery or surrender as aforesaid and as specified in the relevant form of transfer, Exercise Notice or otherwise in writing, be mailed by uninsured post at the risk of the holder entitled to the new Certificate to such address as may be so specified, unless such holder requests otherwise and pays in advance to the relevant Transfer Agent the costs of such other method of delivery and/or such insurance as it may specify. In this Condition 2(d), “business day” means a day, other than a Saturday or Sunday, on which banks are open for business in the place of the specified office of the relevant Transfer Agent or the Registrar (as the case may be).

(e) Transfers Free of Charge

Transfers of Notes and Certificates on registration, transfer, exercise of an option or partial redemption shall be effected without charge by or on behalf of the Issuer, the Registrar or the Transfer Agents, but upon payment of any tax or other governmental charges that may be imposed in relation to it (or the giving of such indemnity as the Registrar or the relevant Transfer Agent may require).

(f) Closed Periods

No Noteholder may require the transfer of a Registered Note to be registered: (i) during the period of 15 days ending on the due date for redemption of that Note; (ii) during the period of 15 days prior to any date on which Notes may be called for redemption by the Issuer at its option pursuant to Condition 6(d) (*Redemption at the Option of the Issuer*); (iii) after any such Note has been called for redemption or (iv) during the period of seven days ending on (and including) any Record Date. In this Condition 2(f), "**Record Date**" has the meaning given to it in Condition 7(b)(ii).

3 Guarantee and Status

(a) Status of Notes

The Notes and the Receipts and Coupons are secured, direct and unconditional obligations of the Issuer, secured pursuant to the Security Agreement, and shall at all times rank *pari passu* and without any preference among themselves.

(b) Guarantee

The Guarantor has unconditionally and irrevocably guaranteed the due payment of all sums expressed to be payable by the Issuer under the Trust Deed, the Notes, the Receipts and the Coupons. Its obligation in that respect (the "**Guarantee**") is contained in the Trust Deed and is secured pursuant to the Security Agreement.

4 Negative Pledge and Covenants

(a) **Issuer and Guarantor Negative Pledge: So long as any Note or Coupon remains outstanding (as defined in the Trust Deed), neither the Issuer nor the Guarantor will:**

(A) other than for Permitted Security or a Permitted Transaction, create or have outstanding any mortgage, charge, lien, pledge or other security interest, upon the whole or any part of its present or future undertaking, assets or revenues (including any uncalled capital), to secure any Financial Indebtedness, or any guarantee or indemnity in respect of any Financial Indebtedness, without at the same time, or prior thereto according to the Issuer's obligations under the Notes and the Coupons or, as the case may be, the Guarantor's obligations under the Guarantee; (a) the same security as is created or subsisting to secure any such Financial Indebtedness, guarantee or indemnity; or (b) such other security as either: (i) the Note Trustee shall deem not materially less beneficial to the interests of the Noteholders; or (ii) shall be approved by an Extraordinary Resolution (as defined in the Trust Deed) of the Noteholders; or

(B) incur any additional Financial Indebtedness unless:

(a) the net proceeds of such additional Financial Indebtedness is either:

(i) applied to repay outstanding Financial Indebtedness on a pound for pound basis; or

(ii) deposited into a Defeasance Account and applied at the relevant time to repay outstanding Financial Indebtedness;

(b) such additional Financial Indebtedness does not rank senior to the Notes;

(c) if such additional Financial Indebtedness is secured (but not otherwise), the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantor; and

(d) no Lock-Up or Default would occur as a result of the incurrence of such Financial Indebtedness.

(b) **No Financial Indebtedness in respect of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantor will procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall incur or allow to remain outstanding any Financial Indebtedness, other than in respect of any Permitted Financial Indebtedness or a Permitted Transaction;

(c) **Negative Pledge of Intermediate Subsidiaries:** So long as any Note or Coupon remains outstanding, the Guarantor shall procure that, except for Permitted Security or a Permitted Transaction, no Intermediate Subsidiary shall create or permit to subsist any Security over any of its respective assets;

(d) **No Security:** So long as any Note or Coupon remains outstanding, the Issuer and the Guarantor shall not (and the Guarantor shall procure that no Intermediate Subsidiary shall):

(i) sell, transfer or otherwise dispose of any of its assets on terms whereby they are or may be leased to or re-acquired by the Issuer, the Guarantor or any Intermediate Subsidiary;

(ii) sell, transfer or otherwise dispose of any of its receivables on recourse terms;

(iii) enter into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(iv) enter into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset, except for any Permitted Security or a Permitted Transaction.

(e) **Covenants of the Issuer and Guarantor:** The Issuer and Guarantor have provided certain additional covenants pursuant to clauses 7 and 8 of the Trust Deed in relation to, without limitation, the financial position, assets, liabilities and business operations of each of them and, in certain cases, made procuring covenants in respect of the Intermediate Subsidiaries. A summary of these covenants is available to Noteholders in the prospectus prepared by the Issuer in respect of the Notes under the section "*Overview of the Key Documents – Trust Deed – Covenants of the Issuer and the Guarantor*".

5 Interest and Other Calculations

(a) Interest on Fixed Rate Notes

Each Fixed Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g) (*Calculations*).

(b) Interest on Floating Rate Notes

(i) Interest Payment Dates

Each Floating Rate Note bears interest on its outstanding nominal amount from the Interest Commencement Date at the rate per annum (expressed as a percentage) equal to the Rate of Interest, such interest being payable in arrear on each Interest Payment Date. The amount of interest payable shall be determined in accordance with Condition 5(g) (*Calculations*). Such Interest Payment Date(s) is/are either specified in the applicable Final Terms (for Floating Rate Notes only) or Drawdown Prospectus as Specified Interest Payment Dates or, if no Specified Interest Payment Date(s) is/are shown in the applicable Final Terms (for Floating Rate Notes Only) or Drawdown Prospectus, Interest Payment Date means each date which falls the number of months or other period shown in the applicable Final Terms (for Floating Rate Notes only) or Drawdown Prospectus as the Interest Period after the preceding Interest Payment Date or, in the case of the first Interest Payment Date, after the Interest Commencement Date. The end date of such Specified Period will be a date when banks are open in the Business Centre(s) specified in the relevant final terms, if applicable.

(ii) Business Day Convention

If any date referred to in these Conditions that is specified to be subject to adjustment in accordance with a Business Day Convention would otherwise fall on a day that is not a Business Day, then, if the Business Day Convention specified is: (A) the Floating Rate Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event: (x) such date shall be brought forward to the immediately preceding Business Day; and (y) each subsequent such date shall be the last Business Day of the month in which such date would have fallen had it not been subject to adjustment; (B) the Following Business Day Convention, such date shall be postponed to the next day that is a Business Day; (C) the Modified Following Business Day Convention, such date shall be postponed to the next day that is a Business Day unless it would thereby fall into the next calendar month, in which event such date shall be brought forward to the immediately preceding Business Day; or (D) the Preceding Business Day Convention, such date shall be brought forward to the immediately preceding Business Day.

(iii) Rate of Interest for Floating Rate Notes

The Rate of Interest in respect of Floating Rate Notes for each Interest Accrual Period shall be determined in the manner specified in the applicable Final Terms or Drawdown Prospectus and the provisions below relating to either ISDA Determination or Screen Rate Determination shall apply, depending upon which is specified in the applicable Final Terms or Drawdown Prospectus.

(iv) ISDA Determination for Floating Rate Notes

Where ISDA Determination is specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period shall be determined by the Calculation Agent as a rate equal to the relevant ISDA Rate. For the purposes of this sub-paragraph (iv), "**ISDA Rate**" for an Interest Accrual Period means a rate equal to the Floating Rate that would be determined by the Calculation Agent under a Swap Transaction under the terms of an agreement incorporating the ISDA Definitions and under which:

(A) the Floating Rate Option is as specified in the applicable Final Terms or Drawdown Prospectus;

(B) the Designated Maturity is a period specified in the applicable Final Terms or Drawdown Prospectus; and

(C) the relevant Reset Date is the first day of that Interest Accrual Period unless otherwise specified in the applicable Final Terms or Drawdown Prospectus.

For the purposes of this sub-paragraph (iv), "**Floating Rate**", "**Calculation Agent**", "**Floating Rate Option**", "**Designated Maturity**", "**Reset Date**" and "**Swap Transaction**" have the meanings given to those terms in the ISDA Definitions.

(v) Screen Rate Determination for Floating Rate Notes

(A) Save where the Reference Rate specified in the applicable Final Terms is SONIA, the Screen Rate Determination specified in the relevant Final Terms or Drawdown Prospectus as the manner in which the Rate of Interest is to be determined, the Rate of Interest for each Interest Accrual Period will, subject as provided below, be either:

(1) the offered quotation; or

(2) the arithmetic mean (rounded if necessary to the fifth decimal place, with 0.000005 being rounded upwards) of the offered quotations,

(expressed as a percentage rate per annum) for the Reference Rate (being EURIBOR, as specified in the applicable Final Terms or Drawdown Prospectus) which appears or appear, as the case may be, on the Relevant Screen Page (or such replacement page on that service which displays the information) as at 11.00 a.m. (Brussels time) on the Interest Determination Date in question as determined by the Calculation Agent. If five or more of such offered quotations are available on the Relevant Screen Page, the highest (or, if there is more than one such highest quotation, one only of such quotations) and the lowest (or, if there is more than one such lowest quotation, one only of such quotations) shall be disregarded by the Calculation Agent for the purpose of determining the arithmetic mean of such offered quotations.

(B) Subject to Condition 5(b)(vi) below, if the Relevant Screen Page is not available or if, sub-paragraph (A)(1) above applies and no such offered quotation appears on the Relevant Screen Page or if sub-paragraph (A)(2) above applies and fewer than three such offered quotations appear on the Relevant Screen Page in each case as at the time specified above, subject as provided below, the Reference Rate being EURIBOR, the principal Euro-zone office of each of the Reference Banks, to provide the Calculation Agent with its offered quotation (expressed as a percentage rate per annum) for the Reference Rate, at approximately 11.00 a.m. (Brussels time) on the Interest Determination Date in question. If two or more of the Reference Banks provide the Calculation Agent with such offered quotations, the Rate of Interest for such Interest Accrual Period shall be the arithmetic mean of such offered quotations as determined by the Calculation Agent.

(C) Subject to Condition 5(b)(vi) below, if paragraph (B) above applies and the Calculation Agent determines that fewer than two Reference Banks are providing offered quotations, subject as provided below, the Rate of Interest shall be the arithmetic mean of the rates per annum (expressed as a percentage) as communicated to (and at the request of) the Calculation Agent by the Reference Banks, or any two or more of them, at which such banks were offered, the Reference Rate being EURIBOR, at approximately 11.00 a.m. (Brussels time) on the relevant Interest Determination Date, deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate by leading banks in, the Euro-zone inter-bank market, or, if fewer than two of the Reference Banks provide the Calculation Agent with such offered rates, the offered rate for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, or the arithmetic mean of the offered rates for deposits in the Specified Currency for a period equal to that which would have been used for the Reference Rate, at which, the Reference Rate being EURIBOR, at approximately 11.00 a.m. (Brussels time), on the relevant Interest Determination Date, any one or more banks (which bank or banks is or are in the opinion of the Issuer suitable for such purpose) informs the Calculation Agent it is quoting to leading banks in, the Euro-zone inter-bank market, provided that, if the Rate of Interest cannot be determined in accordance with the foregoing provisions of this paragraph, the Rate of Interest shall be determined as at the last preceding Interest Determination Date (though substituting, where a different Margin or Maximum or Minimum Rate of Interest is to be applied to the relevant Interest Accrual Period from that which applied to the last preceding Interest Accrual Period, the Margin or Maximum or Minimum Rate of Interest relating to the relevant Interest Accrual Period, in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Accrual Period).

(D) If Screen Rate Determination is specified in the relevant Final Terms as the manner in which the Rate(s) of Interest is/are to be determined, and the Reference Rate specified in the applicable Final Terms is SONIA, the Rate of Interest applicable to the Notes for each Interest Period will be the Compounded Daily SONIA as determined by the Calculation Agent plus or minus the Margin (as specified in the applicable Final Terms).

"**Compounded Daily SONIA**", with respect to each Interest Period, will be calculated by the Calculation Agent on the relevant Interest Determination Date, as follows, and the resulting percentage will be rounded if necessary to the fourth decimal place, with 0.00005 being rounded upwards:

$$\left[\prod_{i=1}^{d_o}\left(1+\frac{SONIA_{i-pLBD}\times n_i}{365}\right)-1\right]\times\frac{365}{d}$$

where:

"**d**" is the number of calendar days in the relevant Interest Period;

"$\mathbf{d_o}$" is the number of London Banking Days in the relevant Interest Period;

"***i***" is a series of whole numbers from one to $\mathbf{d_o}$, each representing the relevant London Banking Day in chronological order from, and including, the first London Banking Day in the relevant Interest Period to, and including, the last London Banking Day in the relevant Interest Period;

"**London Banking Day**" or "**LBD**" means any day on which commercial banks are open for general business (including dealing in foreign exchange and foreign currency deposits) in London;

"$\mathbf{n_i}$" for any London Banking Day "***i***", means the number of calendar days from and including such London Banking Day "***i***" up to but excluding the following London Banking Day;

"**p**" is the number of London Banking Days included in the Reference Look-Back Period, as specified in the applicable Final Terms provided that "**p**" shall not be less than three London Banking Days at any time and shall not be less than five London Banking Days without prior written approval of the Calculation Agent;

"**Reference Look-Back Period**" is as specified in the applicable Final Terms;

"**Reference Period**" means, in respect of an Interest Period, the period from and including the date falling "**p**" London Banking Days prior to the first day of such Interest Period and ending on, but excluding, the date falling "**p**" London Banking Days prior to the Interest

Payment Date for such Interest Period (or the date falling "**p**" London Banking Days prior to such earlier date, if any, on which the Notes become due and payable);

the "**SONIA Reference Rate**", in respect of any London Banking Day, is a reference rate equal to the daily Sterling Overnight Index Average ("**SONIA**") rate for such London Banking Day as provided by the administrator of SONIA to authorised distributors and as then published on the Page or, if the Page is unavailable, as otherwise published by such authorised distributors (on the London Banking Day immediately following such London Banking Day); and

"$\mathbf{SONIA_{i\text{-}pLBD}}$" means, in respect of any London Banking Day, falling in the relevant Interest Period, the SONIA Reference Rate for the London Banking Day which is "**p**" London Banking Days prior to the relevant London Banking Day "***i***".

(E) If, subject to Condition 5(b)(vi) (*Benchmark discontinuation*), in respect of any London Banking Day in the relevant Reference Period, the SONIA Reference Rate is not available on the Relevant Screen Page or has not otherwise been published by the relevant authorised distributors, such SONIA Reference Rate shall be:

(1) (i) the Bank of England's Bank Rate (the "**Bank Rate**") prevailing at close of business on the relevant London Banking Day; plus (ii) the mean of the spread of the SONIA Reference Rate to the Bank Rate over the previous five days on which a SONIA Reference Rate has been published, excluding the highest spread (or, if there is more than one highest spread, one only of those highest spreads) and lowest spread (or, if there is more than one lowest spread, one only of those lowest spreads) to the Bank Rate; or

(2) if the Bank Rate is not published by the Bank of England at close of business on the relevant London Banking Day, the SONIA Reference Rate published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors) for the first preceding London Banking Day on which the SONIA Reference Rate was published on the Relevant Screen Page (or otherwise published by the relevant authorised distributors).

(F) Notwithstanding the paragraphs above, but subject to Condition 5(b)(vi) (*Benchmark discontinuation*), if the Bank of England publishes guidance as to: (i) how the SONIA Reference Rate is to be determined; or (ii) any rate that is to replace the SONIA Reference Rate, the Calculation Agent shall, subject to receiving written instructions from the Issuer and to the extent reasonably practicable, follow such guidance in order to determine SONIA for the purpose of the Notes for so long as the SONIA Reference Rate is not available or has not been published by the authorised distributors.

(vi) Benchmark discontinuation

(A) Independent Adviser

If the Issuer determines that a Benchmark Event occurs in relation to an Original Reference Rate when any Rate of Interest (or any component part thereof) remains to be determined by reference to such Original Reference Rate the Issuer shall use its reasonable endeavours to appoint an Independent Adviser, as soon as reasonably practicable, to determine a Successor Rate, failing which an Alternative Rate (in accordance with Condition 5(b)(vi)(B)) and, in either case, an Adjustment Spread and any Benchmark Amendments (in accordance with Condition 5(b)(vi)(D)). In making such determination, the Independent Adviser appointed pursuant to this Condition 5(b)(vi) shall act in good faith as an expert. In the absence of bad faith or fraud, the Independent Adviser shall have no liability whatsoever to the Issuer, the Note Trustee, the Paying Agents, the Noteholders, the Receiptholders or the Couponholders for any determination made by it, pursuant to this Condition 5(b)(vi).

If: (i) the Issuer is unable to appoint an Independent Adviser; or (ii) the Independent Adviser appointed by it fails to determine a Successor Rate or, failing which, an Alternative Rate in accordance with this Condition 5(b)(vi)(A) by no later than 5 Business Days prior to the relevant Interest Determination Date, the Rate of Interest applicable to the next succeeding Interest Period shall be equal to the Rate of Interest last determined in relation to the Notes in respect of the immediately preceding Interest Period. If there has not been a first Interest Payment Date, the Rate of Interest shall be the initial Rate of Interest. Where a different Margin or Maximum Rate of Interest or Minimum Rate of Interest is to be applied to the relevant Interest Period from that which applied to the last preceding Interest Period, the Margin or Maximum Rate of Interest or Minimum Rate of Interest relating to the relevant Interest Period shall be substituted in place of the Margin or Maximum or Minimum Rate of Interest relating to that last preceding Interest Period. For the avoidance of doubt, this paragraph shall apply to the relevant next succeeding Interest Period only and any subsequent Interest Periods are subject to the subsequent operation of, and to adjustment as provided in, the first paragraph of this Condition 5(b)(vi)(A).

(B) Successor Rate or Alternative Rate

If the Independent Adviser, determines that:

(1) there is a Successor Rate, then such Successor Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Interest rate (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(vi)); or

(2) there is no Successor Rate but that there is an Alternative Rate, then such Alternative Rate and the applicable Adjustment Spread shall subsequently be used in place of the Original Reference Rate to determine the Rate of Interest (or the relevant component part thereof) for all future payments of interest on the Notes (subject to the operation of this Condition 5(b)(vi)).

(C) Adjustment Spread

The Adjustment Spread (or the formula or methodology for determining the Adjustment Spread) shall be applied to the Successor Rate or the Alternative Rate (as the case may be). If the Independent Adviser is unable to determine the quantum of, or a formula or methodology for determining, such Adjustment Spread, then the Successor Rate or Alternative Rate (as applicable) will apply without an Adjustment Spread.

(D) Benchmark Amendments

If any Successor Rate or Alternative Rate and, in either case, the applicable Adjustment Spread is determined in accordance with this Condition 5(b)(vi) and the Independent Adviser, determines: (i) that amendments to these Conditions and/or the Note Trust Deed are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and/or (in either case) the applicable Adjustment Spread (such amendments, the "**Benchmark Amendments**"); and (ii) the terms of the Benchmark Amendments, then the Issuer shall, subject to giving notice thereof in accordance with Condition 5(b)(vi)(E), without any requirement for the consent or approval of Noteholders or Couponholders, vary these Conditions and/or the Note Trust Deed to give effect to such Benchmark Amendments with effect from the date specified in such notice.

At the request of the Issuer, but subject to receipt by the Note Trustee and the Calculation Agent of a certificate signed by two authorised signatories of the Issuer pursuant to Condition 5(b)(vi)(E), the Note Trustee shall (at the expense of the Issuer), without any requirement for the consent or approval of the Noteholders or the Couponholders, be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments (including, inter alia, by the execution of a deed supplemental to or amending the Note Trust Deed) and the Note Trustee shall not be liable to any party for any consequence thereof; notwithstanding the above, the Note Trustee shall not be obliged so to concur if in the opinion of the Note Trustee doing so would impose more onerous obligations upon it or expose it to any additional duties, responsibilities or liabilities or reduce or amend the rights and/or protective provisions afforded to the Note Trustee in these Conditions or the Note Trust Deed (including, for the avoidance of doubt, any supplemental trust deed) or any other documents in which it is party in any way and provided further that the Benchmark Amendments do not, without the prior agreement (such agreement not to be unreasonably withheld, conditioned or delayed) of each Paying Agent or the Calculation Agent, as applicable, have the effect of increasing the obligations, duties, responsibilities or liabilities or decreasing the rights or protections, of each Paying Agent or the Calculation Agent under these Conditions and/or the Agency Agreement.

In connection with any such variation in accordance with this Condition 5(b)(vi)(D), the Issuer shall comply with the rules of any stock exchange on which the Notes are for the time being listed or admitted to trading.

(E) Notices, etc.

Any Successor Rate, Alternative Rate, Adjustment Spread and the specific terms of any Benchmark Amendments determined under this Condition 5(b)(vi) will be notified by no later than five Business Days prior to the relevant Interest Determination Date by the Issuer to the Note Trustee, the Calculation Agent, the Paying Agents and, in accordance with Condition 16, the Noteholders. Such notice shall be irrevocable and shall specify the effective date of the Benchmark Amendments, if any.

No later than notifying the Note Trustee of the same, the Issuer shall deliver to the Note Trustee and the Calculation Agent a certificate signed by two authorised signatories of the Issuer:

(3) confirming: (i) that a Benchmark Event has occurred; (ii) the Successor Rate or, as the case may be, the Alternative Rate; (iii) the applicable Adjustment Spread; and (iv) the specific terms of the Benchmark Amendments (if any), in each case as determined in accordance with the provisions of this Condition 5(b)(vi); and

(4) certifying that the Benchmark Amendments (if any) are necessary to ensure the proper operation of such Successor Rate or Alternative Rate and (in either case) the applicable Adjustment Spread.

Each of the Note Trustee, the Calculation Agent and the Paying Agents shall be entitled to rely on such certificate (without enquiry or liability to any person) as sufficient evidence thereof. The Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) specified in such certificate will (in the absence of manifest error in the determination of the Successor Rate or Alternative Rate and the Adjustment Spread and the Benchmark Amendments (if any) and without prejudice to the Note Trustee's or the Calculation Agent's or the Paying Agents' ability to rely on such certificate (without enquiry or liability to any person) as aforesaid) be binding on the Issuer, the Note Trustee, the Calculation Agent, the Paying Agents and the Noteholders.

(F) Survival of Original Reference Rate

Without prejudice to the obligations of the Issuer under Condition 5(b)(vi)(A), (B), (C) and (D), the Original Reference Rate and the fallback provisions provided for in Condition 5(b)(v)(B), 5(b)(v)(C), 5(b)(v)(E) and 5(b)(v)(F) will continue to apply unless and until the Issuer determines that a Benchmark Event has occurred.

(G) Uncertainty

Notwithstanding any other provision of this Condition 5(b)(vi), if in the Calculation Agent's opinion there is any uncertainty between two or more alternative courses of action in making any determination or calculation under this Condition 5(b)(vi), the Calculation Agent shall promptly notify the Issuer thereof and the Issuer shall direct the Calculation Agent in writing as to which alternative course of action to adopt. If the Calculation Agent is not promptly provided with such direction, or is otherwise unable to make such calculation or determination for any reason, it shall notify the Issuer thereof and the Calculation Agent shall be under no obligation to make such calculation or determination and shall not incur any liability for not doing so.

(H) Definitions

As used in this Condition 5(b)(vi):

"**Adjustment Spread**" means either: (a) a spread (which may be positive, negative or zero); or (b) a formula or methodology for calculating a spread, in each case to be applied to the Successor Rate or the Alternative Rate (as the case may be) and is the spread, formula or methodology which:

(1) in the case of a Successor Rate, is formally recommended in relation to the replacement of the Original Reference Rate with the Successor Rate by any Relevant Nominating Body; or (if no such recommendation has been made, or in the case of an Alternative Rate);

(2) the Independent Adviser determines, is customarily applied to the relevant Successor Rate or the Alternative Rate (as the case may be) in international debt capital markets transactions to produce an industry-accepted replacement rate for the Original Reference Rate; or (if the Independent Adviser determines that no such spread is customarily applied);

(3) the Independent Adviser determines is recognised or acknowledged as being the industry standard for over-the-counter derivative transactions which reference the Original Reference Rate, where such rate has been replaced by the Successor Rate or the Alternative Rate (as the case may be);

"**Alternative Rate**" means an alternative benchmark or screen rate which the Independent Adviser determines in accordance with Condition 5(b)(vi)(B) is customarily applied in international debt capital markets transactions for the purposes of determining rates of interest (or the relevant component part thereof) in the same Specified Currency as the Notes;

"**Benchmark Amendments**" has the meaning given to it in Condition 5(b)(vi)(D);

"**Benchmark Event**" means:

(1) the Original Reference Rate ceasing to be published for a period of at least 5 Business Days or ceasing to exist; or

(2) a public statement by the administrator of the Original Reference Rate that it has ceased or that it will cease publishing the Original Reference Rate permanently or indefinitely (in circumstances where no successor administrator has been appointed that will continue publication of the Original Reference Rate); or

(3) a public statement by the supervisor of the administrator of the Original Reference Rate, that the Original Reference Rate has been or will be permanently or indefinitely discontinued; or

(4) a public statement by the supervisor of the administrator of the Original Reference Rate as a consequence of which the Original Reference Rate will be prohibited from being used either generally, or in respect of the Notes; or

(5) it has become unlawful for any Paying Agent, the Calculation Agent, the Issuer or to calculate any payments due to be made to any Noteholder using the Original Reference Rate;

(6) a public statement by the regulatory supervisor for the administrator of the Benchmark announcing that the Benchmark is no longer representative of its relevant underlying market,

provided that in the case of sub-paragraphs (2), (3) and (4), the Benchmark Event shall occur on the date of the cessation of publication of the Original Reference Rate, the discontinuation of the Original Reference Rate, or the prohibition of use of the Original Reference Rate, as the case may be, and not the date of the relevant public statement;

"**Independent Adviser**" means an independent financial institution of international repute or an independent financial adviser with appropriate expertise appointed by, and at the expense of, the Issuer under Condition 5(b)(vi)(A);

"**Original Reference Rate**" means the originally-specified benchmark or screen rate (as applicable) used to determine the Interest Rate (or any component part thereof) on the Notes;

"**Relevant Nominating Body**" means, in respect of a benchmark or screen rate (as applicable):

(1) the central bank for the currency to which the benchmark or screen rate (as applicable) relates, or any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); or

(2) any working group or committee sponsored by, chaired or co-chaired by or constituted at the request of: (a) the central bank for the currency to which the benchmark or screen rate (as applicable) relates; (b) any central bank or other supervisory authority which is responsible for supervising the administrator of the benchmark or screen rate (as applicable); (c) a group of the aforementioned central banks or other supervisory authorities; or (d) the Financial Stability Board or any part thereof;

"**Successor Rate**" means a successor to or replacement of the Original Reference Rate which is formally recommended by any Relevant Nominating Body.

(c) Linear Interpolation

Where Linear Interpolation is specified in the applicable Final Terms or Drawdown Prospectus as applicable in respect of an Interest Accrual Period, the Rate of Interest for such Interest Accrual Period shall be calculated by the Calculation Agent by straight line linear interpolation of two rates based on the relevant Reference Rate (where Screen Rate Determination is specified in the applicable Final Terms or Drawdown Prospectus as applicable) or the relevant Floating Rate Option (where ISDA Determination is specified in the applicable Final Terms or Drawdown Prospectus as applicable), one of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next shorter than the length of the relevant Interest Accrual Period and the other of which shall be determined as if the Applicable Maturity were the period of time for which rates are available next longer than the length of the relevant Interest Accrual Period provided however that if there is no rate available for the period of time next shorter or, as the case may be, next longer, then the Calculation Agent shall determine such rate at such time and by reference to such sources as it determines appropriate.

"**Applicable Maturity**" means: (a) in relation to Screen Rate Determination, the period of time designated in the Reference Rate; and (b) in relation to ISDA Determination, the Designated Maturity.

(d) Zero Coupon Notes

Where a Note the Interest Basis of which is specified to be Zero Coupon (a "**Zero Coupon Note**") is repayable prior to the Maturity Date and is not paid when due, the amount due and payable prior to the Maturity Date shall be the Early Redemption Amount of such Note. As from the Maturity Date, the Rate of Interest for any overdue principal of such a Note shall be a rate per annum (expressed as a percentage) equal to the Amortisation Yield (as described in Condition 6(b)(i) (*Zero Coupon Notes*)).

(e) Accrual of Interest

Interest shall cease to accrue on each Note on the due date for redemption unless, upon due presentation, payment is improperly withheld or refused, in which event interest shall continue to accrue (both before and after judgment) at the Rate of Interest in the manner provided in this Condition 5 to the Relevant Date (as defined in Condition 8 (*Taxation*)).

(f) Margin, Maximum/Minimum Rates of Interest and Redemption Amounts and Rounding

(i) If any Margin is specified in the applicable Final Terms or Drawdown Prospectus (either: (x) generally; or (y) in relation to one or more Interest Accrual Periods), an adjustment shall be made to all Rates of Interest, in the case of (x), or the Rates of Interest for the specified Interest Accrual Periods, in the case of (y), calculated in accordance with Condition 5(b) (*Interest on Floating Rate Notes*) above by adding (if a positive number) or subtracting the absolute value (if a negative number) of such Margin, subject always to (ii) below.

(ii) If any Maximum or Minimum Rate of Interest or Redemption Amount is specified in the applicable Final Terms or Drawdown Prospectus, then any Rate of Interest or Redemption Amount shall be subject to such maximum or minimum, as the case may be.

(iii) For the purposes of any calculations required pursuant to these Conditions (unless otherwise specified), all: (x) percentages resulting from such calculations shall be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point (with halves being rounded up); (y) figures shall be rounded to seven significant figures (with halves being rounded up); and (z) currency amounts that fall due and payable shall be rounded to the nearest unit of such currency (with halves being rounded up), save in the case of yen, which shall be rounded down to the nearest yen. For these purposes, "unit" means the lowest amount of such currency that is available as legal tender in the country(ies) of such currency.

(g) Calculations

The amount of interest payable per Calculation Amount in respect of any Note for any Interest Accrual Period shall be equal to the product of the Rate of Interest, the Calculation Amount specified in the applicable Final Terms or Drawdown Prospectus, and the Day Count Fraction for such Interest Accrual Period, unless an Interest Amount (or a formula for its calculation) is applicable to such Interest Accrual Period, in which case the amount of interest payable per Calculation Amount in respect of such Note for such Interest Accrual Period shall equal such Interest Amount (or be calculated in accordance with such formula). Where any Interest Period comprises two or more Interest Accrual Periods, the amount of interest payable per Calculation Amount in respect of such Interest Period shall be the sum of the Interest Amounts payable in respect of each of those Interest Accrual Periods. In respect of any other period for which interest is required to be calculated, the provisions above shall apply save that the Day Count Fraction shall be for the period for which interest is required to be calculated.

(h) Determination and Publication of Rates of Interest, Interest Amounts, Final Redemption Amounts, Early Redemption Amounts and Optional Redemption Amounts

The Calculation Agent shall, as soon as practicable on each Interest Determination Date, or such other time on such date as the Calculation Agent may be required to calculate any rate or amount, obtain any quotation or make any determination or calculation, determine such rate and calculate the Interest Amounts for the relevant Interest Accrual Period, calculate the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, obtain such quotation or make such determination or calculation, as the case may be, and cause the Rate of Interest and the Interest Amounts for each Interest Accrual Period and the relevant Interest Payment Date and, if required to be calculated, the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount to be notified to the Note Trustee, the Issuer, each of the Paying Agents, the Noteholders, any other Calculation Agent appointed in respect of the Notes that is to make a further calculation upon receipt of such information and, if the Notes are listed on a stock exchange and the rules of such exchange or other relevant authority so require, such exchange or other relevant authority as soon as possible after their determination, but in no event later than: (i) the commencement of the relevant Interest Period, if determined prior to such time, in the case of notification to such exchange of a Rate of Interest and Interest Amount; or (ii) in all other cases, the fourth Business Day after such determination. Where any Interest Payment Date or Interest Period Date is subject to adjustment pursuant to Condition 5(b)(ii) (*Business Day Convention*), the Interest Amounts and the Interest Payment Date so published may subsequently be amended (or appropriate alternative arrangements made by way of adjustment) without notice in the event of an extension or shortening of the Interest Period. If the Notes become due and payable under Condition 10 (*Events of Default*), the accrued interest and the Rate of Interest payable in respect of the Notes shall nevertheless continue to be calculated as previously in accordance with this Condition but no publication of the Rate of Interest or the Interest Amount so calculated need be made unless the Note Trustee otherwise requires. The determination of any rate or amount, the obtaining of each quotation and the making of each determination or calculation by the Calculation Agent(s) shall (in the absence of manifest error) be final and binding upon all parties.

(i) Definitions

In these Conditions, unless the context otherwise requires, the following defined terms have the meanings set out below:

"**Business Day**" means in relation to any sum payable in:

(i) euro, a TARGET Settlement Day and a day on which commercial banks and foreign exchange markets settle payments generally in London and each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus as an "Additional Business Day Centre"; and

(ii) a currency other than euro, a day on which commercial banks and foreign exchange markets settle payments generally in London, in the principal financial centre of the Relevant Currency (which in the case of a payment in US dollars shall be New York) and in each (if any) additional city or cities specified in the relevant Final Terms or Drawdown Prospectus as an "Additional Business Day Centre".

"**Day Count Fraction**" means in respect of the calculation of an amount of interest on any Note for any period of time (from and including the first day of such period to but excluding the last) (whether or not constituting an Interest Period or an Interest Accrual Period, the "**Calculation Period**"):

(i) if "**Actual/Actual**" or "**Actual/Actual – ISDA**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 365 (or, if any portion of that Calculation Period falls in a leap year, the sum of: (A) the actual number of days in that portion of the Calculation Period falling in a leap year divided by 366; and (B) the actual number of days in that portion of the Calculation Period falling in a non-leap year divided by 365);

(ii) if "**Actual/365 (Fixed)**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 365;

(iii) if "**Actual/360**" is specified in the applicable Final Terms or Drawdown Prospectus, the actual number of days in the Calculation Period divided by 360;

(iv) if "**30/360**", "**360/360**" or "**Bond Basis**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31 and D1 is greater than 29, in which case D2 will be 30.

(v) if "**30E/360**" or "**Eurobond Basis**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless such number would be 31, in which case D1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless such number would be 31, in which case D2 will be 30;

(vi) if "**30E/360 (ISDA)**" is specified in the applicable Final Terms or Drawdown Prospectus, the number of days in the Calculation Period divided by 360, calculated on a formula basis as follows:

$$Day\ Count\ Fraction = \frac{[360\ x\ (Y_2 - Y_1)]\ +\ [30\ x\ (M_2 - M_1)]\ +\ (D_2 - D_1)}{360}$$

where:

"**Y_1**" is the year, expressed as a number, in which the first day of the Calculation Period falls;

"**Y_2**" is the year, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**M_1**" is the calendar month, expressed as a number, in which the first day of the Calculation Period falls;

"**M_2**" is the calendar month, expressed as a number, in which the day immediately following the last day included in the Calculation Period falls;

"**D_1**" is the first calendar day, expressed as a number, of the Calculation Period, unless: (i) that day is the last day of February; or (ii) such number would be 31, in which case D1 will be 30; and

"**D_2**" is the calendar day, expressed as a number, immediately following the last day included in the Calculation Period, unless: (i) that day is the last day of February but not the Maturity Date; or (ii) such number would be 31, in which case D2 will be 30; and

(vii) if "**Actual/Actual-ICMA**" is specified in the applicable Final Terms or Drawdown Prospectus:

(a) if the Calculation Period is equal to or shorter than the Determination Period during which it falls, the number of days in the Calculation Period divided by the product of: (x) the number of days in such Determination Period; and (y) the number of Determination Periods normally ending in any year; and

(b) if the Calculation Period is longer than one Determination Period, the sum of:

(x) the number of days in such Calculation Period falling in the Determination Period in which it begins divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year; and

(y) the number of days in such Calculation Period falling in the next Determination Period divided by the product of: (1) the number of days in such Determination Period; and (2) the number of Determination Periods normally ending in any year;

where:

"**Determination Period**" means the period from and including a Determination Date in any year to but excluding the next Determination Date; and

"**Determination Date**" means the date(s) specified as such in the applicable Final Terms or Drawdown Prospectus or, if none is so specified, the Interest Payment Date(s).

"**Euro-zone**" means the region comprised of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended.

"**Interest Accrual Period**" means the period beginning on (and including) the Interest Commencement Date and ending on (but excluding) the first Interest Period Date and each successive period beginning on (and including) an Interest Period Date and ending on (but excluding) the next succeeding Interest Period Date.

"**Interest Amount**" means:

(i) in respect of an Interest Accrual Period, the amount of interest payable per Calculation Amount for that Interest Accrual Period and which, in the case of Fixed Rate Notes, and unless otherwise specified in the applicable Final Terms or Drawdown Prospectus, means the Fixed Coupon Amount or Broken Amount specified in the applicable Final Terms or Drawdown Prospectus as being payable on the Interest Payment Date ending the Interest Period of which such Interest Accrual Period forms part; and

(ii) in respect of any other period, the amount of interest payable per Calculation Amount for that period.

"**Interest Commencement Date**" means the Issue Date or such other date as may be specified in the relevant Final Terms or the Drawdown Prospectus.

"**Interest Determination Date**" means, with respect to a Rate of Interest and Interest Accrual Period, the date specified as such in the relevant Final Terms or the Drawdown Prospectus or, if none is so specified: (a) if the Reference Rate is not SONIA; (i) the first day of such Interest Accrual Period if the Specified Currency is Sterling; (ii) the day falling two Business Days in London for the Specified Currency prior to the first day of such Interest Accrual Period if the Specified Currency is neither Sterling nor euro; or (iii) the day falling two TARGET2 Business Days prior to the first day of such Interest Accrual Period if the Specified Currency is euro; or (b) if the Reference Rate is SONIA, the day falling five Business Days in London prior to the Interest Payment Date for such Interest Period.

"**Interest Period**" means the period beginning on and including the Interest Commencement Date and ending on but excluding the first Interest Payment Date and each successive period beginning on and including an Interest Payment Date and ending on but excluding the next succeeding Interest Payment Date.

"**Interest Period Date**" means each Interest Payment Date unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

"**ISDA Definitions**" means the 2006 ISDA Definitions, as published by the International Swaps and Derivatives Association, Inc., unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

"**Rate of Interest**" or "**Interest Rate**" means the rate of interest payable from time to time in respect of this Note and that is either specified or calculated in accordance with the provisions in the relevant Final Terms or the Drawdown Prospectus.

"**Reference Banks**" means in the case of a determination of EURIBOR, the principal Euro-zone office of four major banks in the Euro-zone inter-bank market, in each case selected by the Issuer or as specified in the relevant Final Terms or the Drawdown Prospectus.

"**Reference Rate**" means the rate specified as such in the relevant Final Terms or the Drawdown Prospectus.

"**Relevant Screen Page**" means such page, section, caption, column or other part of a particular information service as may be specified in the relevant Final Terms or the Drawdown Prospectus.

"**Specified Currency**" means the currency specified as such in the relevant Final Terms or the Drawdown Prospectus or, if none is specified, the currency in which the Notes are denominated.

"**TARGET2 System**" means the Trans-European Automated Real-Time Gross Settlement Express Transfer (known as TARGET2) System which was launched on 19 November 2007 or any successor thereto.

(j) Calculation Agent

The Issuer shall procure that there shall at all times be one or more Calculation Agents if provision is made for them in the applicable Final Terms or Drawdown Prospectus and for so long as any Note is outstanding. Where more than one Calculation Agent is appointed in respect of the Notes, references in these Conditions to the Calculation Agent shall be construed as each Calculation Agent performing its respective duties under the Conditions. If the Calculation Agent is unable or unwilling to act as such or if the Calculation Agent fails duly to establish the Rate of Interest for an Interest Accrual Period or to calculate any Interest Amount, Final Redemption Amount, Early Redemption Amount or Optional

Redemption Amount, as the case may be, or to comply with any other requirement, the Issuer shall appoint a leading bank or financial institution engaged in the interbank market (or, if appropriate, money, swap or over-the-counter index options market) that is most closely connected with the calculation or determination to be made by the Calculation Agent (acting through its principal London office or any other office actively involved in such market) to act as such in its place. The Calculation Agent may not resign its duties without a successor having been appointed as aforesaid.

6 Redemption, Purchase and Options

(a) Final Redemption

Unless previously redeemed, purchased and cancelled as provided below, each Note shall be finally redeemed on the Maturity Date specified in the applicable Final Terms or Drawdown Prospectus at its Final Redemption Amount (which, unless otherwise provided in the applicable Final Terms or Drawdown Prospectus, is its nominal amount).

(b) Early Redemption

(i) Zero Coupon Notes

(A) The Early Redemption Amount payable in respect of any Zero Coupon Note, the Early Redemption Amount of which is not linked to an index and/or a formula, upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) shall be the Amortised Face Amount (calculated as provided below) of such Note unless otherwise specified in the applicable Final Terms or Drawdown Prospectus.

(B) Subject to the provisions of sub-paragraph (C) below, the Amortised Face Amount of any such Note shall be the scheduled Final Redemption Amount of such Note on the Maturity Date discounted at a rate per annum (expressed as a percentage) equal to the Amortisation Yield (which, if none is specified in the applicable Final Terms or Drawdown Prospectus, shall be such rate as would produce an Amortised Face Amount equal to the issue price of the Notes if they were discounted back to their issue price on the Issue Date) compounded annually (the "**Amortised Face Amount**").

(C) If the Early Redemption Amount payable in respect of any such Note upon its redemption pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*) is not paid when due, the Early Redemption Amount due and payable in respect of such Note shall be the Amortised Face Amount of such Note as defined in sub-paragraph (B) above, except that such sub-paragraph will have effect as though the date on which the Note becomes due and payable were the Relevant Date. The calculation of the Amortised Face Amount in accordance with this sub-paragraph shall continue to be made (both before and after judgment) until the Relevant Date, unless the Relevant Date falls on or after the Maturity Date, in which case the amount due and payable shall be the scheduled Final Redemption Amount of such Note on the Maturity Date together with any interest that may accrue in accordance with Condition 5(d) (*Zero Coupon Notes*).

Where such calculation is to be made for a period of less than one year, it shall be made on the basis of the Day Count Fraction shown in the relevant Final Terms or the Drawdown Prospectus.

(ii) Other Notes

The Early Redemption Amount payable in respect of any Note (other than Notes described in paragraph (i) above), upon redemption of such Note pursuant to Condition 6(c) (*Redemption for Taxation Reasons*) or upon it becoming due and payable as provided in Condition 10 (*Events of Default*), shall be the Final Redemption Amount unless otherwise specified in the relevant Final Terms or the Drawdown Prospectus.

(c) Redemption for Taxation Reasons

The Notes may be redeemed at the option of the Issuer in whole, but not in part, on any Interest Payment Date (if this Note is either a Floating Rate Note) or at any time (if this Note is not a Floating Rate Note), on giving not less than 30 nor more than 60 days' notice to the Noteholders (which notice shall be irrevocable) at their Early Redemption Amount (as described in Condition 6(b) (*Early Redemption*) above) (together with interest accrued to the date fixed for redemption), if: (i) the Issuer (or, if the Guarantee were called, the Guarantor) satisfies the Note Trustee immediately before the giving of such notice that it has or will become obliged to pay additional amounts as described under Condition 8 (*Taxation*) as a result of any change in, or amendment to, the laws or regulations of the United Kingdom or any political subdivision or, in each case, any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws or regulations, which change or amendment becomes effective on or after the date on which agreement is reached to issue the first Tranche of the Notes; and (ii) such obligation cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it (including, but not limited to, the replacement of the Issuing and Paying Agent), provided that no such notice of redemption shall be given earlier than 90 days prior to the earliest date on which the Issuer (or the Guarantor, as the case may be) would be obliged to pay such additional amounts were a payment in respect of the Notes (or either Guarantee, as the case may be) then due and provided that any two Directors of the Issuer are able to certify in the notice provided to the Noteholders that it has sufficient funds to pay such Optional Redemption Amount. Prior to the publication of any notice of redemption pursuant to this Condition 6(c), the Issuer shall deliver to the Note Trustee a certificate signed by two Directors of the Issuer (or the Guarantor, as the case may be) stating that the obligation referred to in (i) above cannot be avoided by the Issuer (or the Guarantor, as the case may be) taking reasonable measures available to it and the Note Trustee shall be entitled to accept such certificate as sufficient evidence of the satisfaction of the condition precedent set out in (ii) above, in which event it shall be conclusive and binding on Noteholders and Couponholders.

(d) Redemption at the Option of the Issuer

If a Call Option is specified in the applicable Final Terms or Drawdown Prospectus and provided that on or prior to the date on which the notice expires, the Note Trustee has not instituted proceedings against the Issuer and/or the Guarantor in accordance with Condition 12 (*Enforcement*), the Issuer may, on giving not less than 15 nor more than 30 days' irrevocable notice to the Noteholders (or such other notice period as may be specified in the applicable Final Terms or Drawdown Prospectus) in accordance with Condition 16 (*Notices*) redeem all or, if so provided, some of the Notes on any Optional Redemption Date. Any such redemption of Notes shall be at their Optional Redemption Amount together with interest accrued to the date fixed for redemption, provided that any two Directors of the Issuer are able to certify in the notice provided to the Noteholders that it has sufficient funds to pay such Optional Redemption Amount. Any such redemption or exercise must relate to Notes of a nominal amount at least equal to the Minimum Redemption Amount to be redeemed specified in the relevant Final Terms or the Drawdown Prospectus and no greater than the Maximum Redemption Amount to be redeemed specified in the relevant Final Terms or the Drawdown Prospectus.

All Notes in respect of which any such notice is given shall be redeemed on the date specified in such notice in accordance with this Condition 6(d).

In the case of a partial redemption, the notice to Noteholders shall also contain the certificate numbers of the Bearer Notes, or, in the case of Registered Notes, shall specify the nominal amount of Registered Notes drawn and the holder(s) of such Registered Notes to be redeemed, which have been drawn in such place as the Note Trustee may approve and in such manner as it deems appropriate, subject to compliance with any applicable laws and stock exchange or other relevant authority requirements.

(e) Guarantor Change of Control Put

If at any time there occurs a Guarantor Change of Control, a "**Guarantor Change of Control Event**" shall be deemed to have occurred.

Promptly upon the Issuer or the Guarantor being aware of a Guarantor Change of Control Event having occurred and in any event within 14 days thereof, the Guarantor or the Issuer shall give notice to the Noteholders of the occurrence of such Guarantor Change of Control Event (such notice, a "**Guarantor Change of Control Event Notice**"), any such notice to be delivered in accordance with the provisions of Condition 16 (*Notices*). At any time from the date of giving such Guarantor Change of Control Event Notice to the date falling 45 days thereafter (such period, the "**Put Exercise Period**") upon the Issuer receiving at least five Business Days' notice from any Noteholder (any such notice, a "Put Event Notice"), the Notes of such Noteholder as specified in the Put Event Notice shall become due and repayable and the Issuer will, upon the expiry of such Put Event Notice (such date, the "Guarantor Change of Control Event Date"), redeem each Note the subject of such Put Event Notice at 101 per cent. of its principal amount together with interest accrued to (but excluding) the Guarantor Change of Control Event Date.

Pursuant to the above provisions, any Noteholder having the right to require early redemption of any Notes held by it pursuant to this Condition 6(e), to exercise the right to require redemption of such Notes such Noteholder must, if such Note is in definitive form and held outside Euroclear and Clearstream, Luxembourg, deliver, at the specified office of any Paying Agent at any time during normal business hours of such Paying Agent falling within the Put Exercise Period, a duly completed and signed notice of exercise in the form (for the time being current) obtainable from any specified office of any Paying Agent (a "**Put Exercise Notice**") and in which the Noteholder must specify a bank account (or, if payment is required to be made by cheque, an address) to which payment is to be made under this Condition 6(e) accompanied by such Note or evidence satisfactory to the Paying Agent concerned that such Note will, following delivery of the Put Exercise Notice, be held to its order or under its control. If such Note is represented by a Global Note or is in definitive form and held through Euroclear or Clearstream, Luxembourg, to exercise the right to require redemption of such Notes, the holder of such Note must, within the Put Exercise Period, give notice to the Issuing and Paying Agent of such exercise in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg (which may include notice being given on instruction of the relevant Noteholder by Euroclear or Clearstream, Luxembourg, as the case may be, or any common service provider for them to the Issuing and Paying Agent by electronic means) in a form acceptable to Euroclear or, as the case may be, Clearstream, Luxembourg from time to time and, if such Note is represented by a Global Note, at the same time present or procure the presentation of the relevant Global Note to the Issuing and Paying Agent for notation accordingly.

Any Put Exercise Notice or other notice given by a holder of any Note in accordance with the standard procedures of Euroclear or, as the case may be, Clearstream, Luxembourg pursuant to this Condition 6(e) shall be irrevocable except where, prior to the due date of redemption, an Event of Default has occurred and the Note Trustee has declared the Notes to be due and repayable pursuant to Condition 10 (*Events of Default*), in which event such holder, at its option, may elect by notice to the Issuer to withdraw the notice given pursuant to this Condition 6(e).

In this Condition 6(e):

"**Guarantor Change of Control**" means the Initial Investors and/or any Initial Investor Affiliates and/or any Acceptable Investors and/or any Acceptable Investor Affiliates together or separately cease to control directly or indirectly the Guarantor. For the purposes of this definition, "control" of the Guarantor means:

(a) the power (whether by way of ownership of shares, proxy, contract, agency or otherwise) to:

  (i) cast, or control the casting of, more than one-half of the maximum number of votes that might be cast at a general meeting of the Guarantor; or

  (ii) appoint or remove all, or the majority, of the directors or other equivalent officers of the Guarantor; or

  (iii) give directions with respect to the operating and financial policies of the Guarantor with which the directors or other equivalent officers of the Guarantor are obliged to comply; and/or

(b) the holding beneficially of more than one-half of the issued share capital of the Guarantor (excluding any part of that issued share capital that carries no right to participate beyond a specified amount in a distribution of either profits or capital).

"**Acceptable Investor**" means an entity:

(a) which is a financial investor, Fund or Trust, which is regularly engaged in making, managing, advising on the management of or holding investments in Regulated Infrastructure Assets and which has at the Relevant Time total infrastructure assets principally invested or under management of no less than £2 billion (or its currency equivalent); or

(b) in respect of which, if the conditions in sub-paragraph (a) above are not met, the Note Trustee (acting as directed by an Extraordinary Resolution of the Noteholders) has approved of such entity being an Acceptable Investor.

"**Acceptable Investor Affiliate**" means, in relation to an Acceptable Investor, any Fund, Trust or company (including any unit trust, investment trust, limited partnership or general partnership) which is controlled by, which is advised by, or which is, or the assets of which are, managed from time to time by:

(a) that Acceptable Investor; or

(b) any Fund, Trust or company which is controlled by that Acceptable Investor and which forms part of that Acceptable Investor's consolidated group for accounting purposes,

and this shall include any wholly-owned subsidiary of such Fund, Trust or company but for the avoidance of doubt shall not include an investee company of an Acceptable Investor.

"**Regulated Infrastructure Assets**" means assets in respect of water, gas, electricity, telecommunications, roads, rail, ports, airports and analogous assets, and/or entities which own such assets, in each case whose core operations are in a monopolistic or quasi-monopolistic position, require a licence, are based on a governmental concession or franchise and/or are subject to a specific legislative regime.

"**Relevant Time**" means the time of an acquisition of rights which amount to beneficial ownership of all or part of the issued share capital of the Guarantor.

(f) Redemption at the Option of Noteholders

If Put Option is specified in the applicable Final Terms or Drawdown Prospectus, the Issuer shall, at the option of the holder of any such Note, upon the holder of such Note giving not less than 15 nor more than 30 days' notice to the Issuer (or such other notice period as may be specified in the applicable Final Terms or Drawdown Prospectus) in accordance with Condition 16 (*Notices*) redeem such Note on the Optional Redemption Date(s) at its Optional Redemption Amount together with interest accrued to the date fixed for redemption.

To exercise such option the holder must deposit (in the case of Bearer Notes) such Note (together with all unmatured Receipts and Coupons and unexchanged Talons) with any Paying Agent or (in the case of Registered Notes) the Certificate representing such Note(s) with the Registrar or any Transfer Agent at its specified office, together with a duly completed option exercise notice ("**Exercise Notice**") in the form obtainable from any Paying Agent, the Registrar or any Transfer Agent (as applicable) within the notice period. No Note or Certificate so deposited and option exercised may be withdrawn (except as provided in the Agency Agreement) without the prior consent of the Issuer.

(g) Purchases

Each of the Issuer, the Guarantor and its Subsidiaries (as defined in the Trust Deed) may at any time purchase Notes (provided that all unmatured Receipts and Coupons and unexchanged Talons relating thereto are attached thereto or surrendered therewith) in the open market or otherwise at any price. The Notes so purchased, while held by or on behalf of the Issuer, the Guarantor or any other Subsidiary of the Guarantor, shall not entitle the holder to vote at any meetings of the Noteholders and shall not be deemed to be outstanding for the purposes of Condition 10 (*Events of Default*), Condition 11(a) (*Meetings of Noteholders*) or Condition 12 (*Enforcement*).

(h) Cancellation

All Notes purchased by or on behalf of the Issuer, the Guarantor or any of its Subsidiaries may be surrendered for cancellation, in the case of Bearer Notes, by surrendering each such Note together with all unmatured Receipts and Coupons and all unexchanged Talons to, or to the order of, the Issuing and Paying Agent and, in the case of Registered Notes, by surrendering the Certificate representing such Notes to the Registrar and, in each case, if so surrendered, shall, together with all Notes redeemed by the Issuer, be cancelled forthwith (together with all unmatured Receipts and Coupons and unexchanged Talons attached thereto or surrendered therewith). Any Notes so surrendered for cancellation may not be reissued or resold and the obligations of the Issuer and the Guarantor in respect of any such Notes shall be discharged.

(i) Optional Redemption

Subject as provided below, if a Call Option is specified as applicable in the relevant Final Terms or Drawdown Prospectus, upon giving not more than 60 nor less than 30 days' notice to the Note Trustee, the Security Trustee, the Majority Creditors and the Noteholders, the Issuer may (prior to the Maturity Date) redeem any Sub-Class of the Notes in whole or in part (but on a pro rata basis only) on any Interest Payment Date at their Redemption Amount, **provided that**: (i) Floating Rate Notes may not be redeemed before the date specified in the relevant Final Terms or Drawdown Prospectus; and (ii) if the term "Issuer

Maturity Call" is also specified to be applicable in the applicable Final Terms, such redemption date falls prior to the start of the Issuer Maturity Call Period, as follows:

(i) In respect of Fixed Rate Notes, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be an amount equal to the higher of: (i) their Principal Amount Outstanding; and (ii) the price determined to be appropriate by a financial adviser in London (selected by the Issuer and approved by the Note Trustee) as being the price at which the Gross Redemption Yield (as defined below) on such Notes on the Reference Date (as defined below) is equal to the Gross Redemption Yield at 3:00 p.m. (London time) on the Reference Date on the Reference Gilt (as defined below) while that stock is in issue, and thereafter such Government stock (or such other stock as specified in the relevant Final Terms or Drawdown Prospectus for Notes denominated in currencies other than Sterling) as the Issuer may, with the advice of three persons operating in the gilt-edged market (selected by the Issuer and approved by the Note Trustee) determine to be appropriate, plus accrued but unpaid interest on the Principal Amount Outstanding.

For the purposes of this Condition 8(b)(i), "Gross Redemption Yield" means a yield expressed as a percentage and calculated on a basis consistent with the basis indicated by the United Kingdom Debt Management Office publication "Formulae for Calculating Gilt Prices from Yields" published 8 June 1998 with effect from 1 November 1998 and updated on 15 January 2002 (and as further updated, supplemented, amended or replaced from time to time) page 5 or any replacement therefor; "Reference Date" means the date which is two Business Days prior to the despatch of the notice of redemption under this Condition 8(b)(i); and "Reference Gilt" means the Treasury Stock specified in the relevant Final Terms or Drawdown Prospectus.

(ii) In respect of Floating Rate Notes, the Redemption Amount will, unless otherwise specified in the relevant Final Terms or Drawdown Prospectus, be the Principal Amount Outstanding plus any premium for early redemption in certain years (as specified in the relevant Final Terms or Drawdown Prospectus) plus any accrued but unpaid interest on the Principal Amount Outstanding.

(j) Redemption at the Option of the Issuer (Issuer Maturity Call)

If the term "Issuer Maturity Call" is specified in the applicable Final Terms, the Issuer may, having given not more than 30 nor less than 15 days' notice to the Note Trustee, the Security Trustee, the Majority Creditors and the Noteholders (or such other notice period as may be specified in the applicable Final Terms), which notices to the Note Trustee, the Security Trustee, the Majority Creditors and the Noteholders only shall be irrevocable and shall specify the date fixed for redemption, redeem any Sub-Class of the Notes in whole or in part (but on a pro rata basis only) then outstanding at any time during the Issuer Maturity Call Period at the Final Redemption Amount specified in the applicable Final Terms, together (if appropriate) with interest accrued (but unpaid) to (but excluding) the date fixed for redemption.

For the purposes of these Conditions, "**Issuer Maturity Call Period**" has the meaning given to it in the applicable Final Terms.

7 Payments and Talons

(a) **Bearer Notes**

Payments of principal and interest in respect of Bearer Notes shall, subject as mentioned below, be made against presentation and surrender of the relevant Receipts, Notes (in the case of all other payments of principal and, in the case of interest, as specified in Condition 7(f)(v)) or Coupons (in the case of interest, save as specified in Condition 7(f)(ii)), as the case may be, at the specified office of any Paying Agent outside the United States by a cheque payable in the relevant currency drawn on, or, other than in the case of Bearer Notes denominated in U.S. Dollars, at the option of the holder, by transfer to an account denominated in such currency with, a Bank. "**Bank**" means a bank in the principal financial centre for such currency or, in the case of euro, in a city in which banks have access to the TARGET2 System.

(b) **Registered Notes and Record Date**

(i) Payments of principal in respect of Registered Notes shall be made against presentation and surrender of the relevant Certificates at the specified office of any of the Transfer Agents or of the Registrar and in the manner provided in paragraph (ii) below.

(ii) Interest on Registered Notes shall be paid to the person shown on the Register at the close of business on the 15th day before the due date for payment thereof (the "**Record Date**"). Payments of interest on each Registered Note shall be made in the relevant currency by cheque drawn on a Bank and mailed to the holder (or to the first named of joint holders) of such Note at its address appearing in the Register. Upon application by the holder to the specified office of the Registrar or any Transfer Agent before the Record Date, such payment of interest may be made by transfer to an account in the relevant currency maintained by the payee with a Bank.

(c) **Payments in the United States**

Notwithstanding the foregoing, if any Bearer Notes are denominated in U.S. Dollars, payments in respect thereof may be made at the specified office of any Paying Agent in New York City in the same manner as aforesaid if: (i) the Issuer has appointed Paying Agents with specified offices outside the United States with the reasonable expectation that such Paying Agents would be able to make payment of the amounts on the Notes in the manner provided above when due; (ii) payment in full of such amounts at all such offices is illegal or effectively precluded by exchange controls or other similar restrictions on payment or receipt of such amounts; and (iii) such payment is then permitted by United States law, without involving, in the opinion of the Issuer, any adverse tax consequence to the Issuer.

(d) **Payments subject to Laws**

Payments will be subject in all cases to any applicable laws, regulations and directives in the place of payment, but without prejudice to the provisions of Condition 8 (*Taxation*). No commission or expenses shall be charged to the Noteholders or Couponholders in respect of such payments.

(e) **Appointment of Agents**

The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent initially appointed by the Issuer and the Guarantor and their respective specified offices are listed below. The Issuing and Paying Agent, the Paying Agents, the Registrar, the Transfer Agents and the Calculation Agent act solely as agents of the Issuer and the Guarantor and do not assume any obligation or relationship of agency or trust for or with any Noteholder or Couponholder. The Issuer and the Guarantor reserve the right at any time with the approval of the Note Trustee to vary or terminate the appointment of the Issuing and Paying Agent, any other Paying Agent, the Registrar, any Transfer Agent or the Calculation Agent(s) and to appoint additional or other Paying Agents, Transfer Agents, or Calculation Agent(s), provided that the Issuer shall at all times maintain: (i) an Issuing and Paying Agent; (ii) a Registrar in relation to Registered Notes; (iii) a Transfer Agent in relation to Registered Notes; (iv) one or more Calculation Agent(s) where the Conditions so require; (v) a Paying Agent having its specified office in a major European city; and (vi) such other agents as may be required by any other stock exchange on which the Notes may be listed in each case, as approved by the Note Trustee. In addition, the Issuer and the Guarantor shall forthwith appoint a Paying Agent in New York City in respect of any Bearer Notes denominated in U.S. Dollars in the circumstances described in Condition 7(c) above.

Notice of any such change or any change of any specified office shall promptly be given to the Noteholders.

(f) **Unmatured Coupons and Receipts and Unexchanged Talons**

(i) Upon the due date for redemption of Bearer Notes which comprise Fixed Rate Notes, such Notes should be surrendered for payment together with all unmatured Coupons (if any) relating thereto, failing which an amount equal to the face value of each missing unmatured Coupon (or, in the case of payment not being made in full, that proportion of the amount of such missing unmatured Coupon that the sum of principal so paid bears to the total principal due) shall be deducted from the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, due for payment. Any amount so deducted shall be paid in the manner mentioned above against surrender of such missing Coupon within a period of 10 years from the Relevant Date for the payment of such principal (whether or not such Coupon has become void pursuant to Condition 9 (*Prescription*)).

(ii) Upon the due date for redemption of any Bearer Note comprising a Floating Rate Note, unmatured Coupons relating to such Note (whether or not attached) shall become void and no payment shall be made in respect of them.

(iii) Upon the due date for redemption of any Bearer Note, any unexchanged Talon relating to such Note (whether or not attached) shall become void and no Coupon shall be delivered in respect of such Talon.

(iv) Where any Bearer Note that provides that the relative unmatured Coupons are to become void upon the due date for redemption of those Notes is presented for redemption without all unmatured Coupons, and where any Bearer Note is presented for redemption without any unexchanged Talon relating to it, redemption shall be made only against the provision of such indemnity as the Issuer may require.

(v) If the due date for redemption of any Note is not a due date for payment of interest, interest accrued from the preceding due date for payment of interest or the Interest Commencement Date, as the case may be, shall only be payable against presentation (and surrender, if appropriate) of the relevant Bearer Note or Certificate representing it, as the case may be. Interest accrued on a Note that only bears interest after its Maturity Date shall be payable on redemption of such Note against presentation of the relevant Note or Certificate representing it, as the case may be.

(g) **Talons**

On or after the Interest Payment Date for the final Coupon forming part of a Coupon sheet issued in respect of any Bearer Note, the Talon forming part of such Coupon sheet may be surrendered at the specified office of the Issuing and Paying Agent in exchange for a further Coupon sheet (and, if necessary, another Talon for a further Coupon sheet) (but excluding any Coupons that may have become void pursuant to Condition 9 (*Prescription*)).

(h) **Non-Business Days**

If any date for payment in respect of any Note, Receipt or Coupon is not a business day, the holder is not entitled to payment until the next following business day nor to any interest or other sum in respect of such postponed payment. In this Condition 7(h), “business day” means a day (other than a Saturday or a Sunday) on which banks and foreign exchange markets are open for business in the relevant place of presentation, in such jurisdictions as shall be specified as "Financial Centres" in the relevant Final Terms or the Drawdown Prospectus and:

(i) (in the case of a payment in a currency other than euro) where payment is to be made by transfer to an account maintained with a bank in the relevant currency, on which foreign exchange transactions may be carried on in the relevant currency in the principal financial centre of the country of such currency; or

(ii) (in the case of a payment in euro) which is a TARGET2 Business Day.

8 Taxation

All payments of principal and interest by or on behalf of the Issuer or the Guarantor in respect of the Notes, the Receipts and the Coupons or under the Guarantee shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or within the United Kingdom or any authority therein or thereof having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer or, as the case may be, the Guarantor shall pay such additional amounts as shall result in receipt by the Noteholders and Couponholders of such amounts as would have been received by them had no such withholding or deduction been required, except that no such additional amounts shall be payable with respect to any Note, Receipt or Coupon:

(a) **Other connection**: to, or to a third party on behalf of, a holder who is liable to such taxes, duties, assessments or governmental charges in respect of such Note, Receipt or Coupon by reason of his having some connection with the United Kingdom other than the mere holding of the Note, Receipt or Coupon;

(b) **Presentation more than 30 days after the Relevant Date:** presented (or in respect of which the Certificate representing it is presented) for payment more than 30 days after the Relevant Date, except to the extent that the holder of it would have been entitled to such additional amounts on presenting it for payment on the thirtieth day;

Notwithstanding any other provision of the Conditions or the Trust Deed, any amounts to be paid in respect of the Notes and the Coupons by or on behalf of the Issuer or the Guarantor, will be paid net of any deduction or withholding imposed or required pursuant to an agreement described in Section 1471(b) of the Code, or otherwise imposed pursuant to Sections 1471 through 1474 of the Code (or any regulations thereunder or official interpretations thereof) or an intergovernmental agreement between the United States and another jurisdiction facilitating the implementation thereof (or any fiscal or regulatory legislation, rules or practices implementing such an intergovernmental agreement) (any such withholding or deduction, a "**FATCA Withholding**"). Neither the Issuer, the Guarantor nor any other person will be required to pay any additional amounts in respect of FATCA Withholding.

"**Relevant Date**" means, in relation to a payment, whichever is the later of: (i) the date on which such payment first becomes due; and (ii) if the full amount payable has not been received in London by the Paying Agents or the Note Trustee on or prior to such due date, the date on which, the full amount having been so received, notice to that effect has been given to the Noteholders. Any reference in these Conditions to principal and/or interest shall be deemed to include any additional amounts which may be payable under this Condition or any undertaking given in addition to or substitution for it under the Trust Deed.

9 Prescription

Claims against the Issuer and/or the Guarantor for payment in respect of the Notes, Receipts and Coupons (which, for this purpose, shall not include Talons) shall be prescribed and become void unless made within 10 years (in the case of principal) or five years (in the case of interest) from the appropriate Relevant Date in respect of them.

10 Events of Default

If any of the following events ("Events of Default") occurs and is continuing (subject to any applicable grace periods), the Note Trustee at its discretion may, and if so requested by holders of at least one-fifth in nominal amount of the Notes then outstanding or if so directed by an Extraordinary Resolution and, in each case, subject to being indemnified and/or secured and/or pre-funded to its satisfaction shall, give notice to the Issuer that the Notes are, and they shall immediately become, due and payable at their Early Redemption Amount together (if applicable) with accrued interest:

(a) Non-Payment

Default is made for more than 14 days (in the case of interest) or seven days (in the case of principal) in the payment on the due date of interest or principal in respect of any of the Notes.

(b) Financial Covenants

Subject, in each case, to Equity Cure (as defined below):

(i) RCV Test

as at any Calculation Date, Group RAR exceeds 0.95:1; or

(ii) Interest Cover Ratio

Interest Cover Ratio shall not be less than 2.00:1,

(the "Financial Ratios").

The backward looking Financial Ratios shall be calculated on the basis of the most recently delivered financial statements and the forward looking financial covenants shall be calculated on the basis of internal forecasts prepared on a consistent basis and, so far is practicable, in accordance with Accounting Principles and internal management accounts.

(c) Breach of Other Obligations

The Issuer or the Guarantor does not perform or comply with any one or more of its other obligations in the Notes or the Trust Deed which default is: (i) incapable of remedy or, if in the opinion of the Note Trustee capable of remedy, is not in the opinion of the Note Trustee remedied within 30 days after notice of such default has been given to the Issuer or the Guarantor by the Note Trustee; and (ii) in the opinion of the Note Trustee materially prejudicial to the interests of the Noteholders.

(d) Cross-Acceleration

Any other present or future indebtedness of the Issuer or the Guarantor for or in respect of monies borrowed or raised becomes due and payable prior to its stated maturity by reason of any actual event of default (howsoever described) provided that the aggregate amount of the Financial Indebtedness in respect of which the events mentioned above in this Condition 10(d) have occurred equals or exceeds £15,000,000 or its equivalent (as reasonably determined by the Note Trustee).

(e) Failure to pay under a Loan Facility

Default is made in the payment on the due date of interest or principal in respect of any Loan Facility (as defined in the Trust Deed) (after giving effect to any originally applicable grace period).

(f) Cross Acceleration in respect of the Securitisation

The termination of a Standstill Period (as defined in the TWUL Prospectus) other than by waiver or remedy of default.

(g) Enforcement Proceedings

A distress, attachment, execution or other legal process is levied, enforced or sued out on or against any material part of the property, assets or revenues of the Issuer or the Guarantor and is not discharged or stayed within 30 days.

(h) Security Enforced

Any mortgage, charge, pledge, lien or other encumbrance, present or future, created or assumed by the Issuer or the Guarantor becomes enforceable and any step is taken to enforce it (including the taking of possession or the appointment of a receiver, administrative receiver, administrator manager or other similar person).

(i) Insolvency

The Issuer or the Guarantor is (or is, or could be, deemed by law or a court to be) insolvent or bankrupt or unable to pay its debts, stops, suspends or threatens to stop or suspend payment of all or a material part of (or of a particular type of) its debts, proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts or a moratorium is agreed or declared or comes into effect in respect of or affecting all or any part of (or of a particular type of) the debts of the Issuer or the Guarantor.

(j) Winding-up

An administrator is appointed, an order is made or an effective resolution is passed for the winding-up or dissolution or administration of the Issuer or the Guarantor, or the Issuer or the Guarantor shall apply or petition for a winding-up or administration order in respect of itself or ceases or through an official action of its board of directors threatens to cease to carry on all or substantially all of its business or operations, in each case except for the purpose of and followed by a reconstruction, amalgamation, reorganisation, merger or consolidation on terms approved by the Note Trustee or by an Extraordinary Resolution of the Noteholders.

(k) Ownership

The Issuer ceases to be wholly-owned and controlled by the Guarantor.

(l) Illegality

It is or will become unlawful for the Issuer or the Guarantor to perform or comply with any one or more of its material obligations under any of the Note Documents.

(m) Analogous Events

Any event occurs that under the laws of any relevant jurisdiction has an analogous effect to any of the events referred to in any of the foregoing paragraphs.

(n) Guarantee

The Guarantee is not (or is claimed by the Guarantor not to be) in full force and effect.

Equity Cure

(a) No default under Condition 10(b) (*Financial Covenants*) above shall occur if, prior to the date on which the Compliance Certificate setting out the calculations in respect of the relevant covenant determination is required to be delivered:

(i) the Obligors procure that a Cure Investment is made;

(ii) the proceeds of such Cure Investment are applied to prepayment of Financial Indebtedness of the Group or credit to the Defeasance Account (as the Obligors may decide in their discretion); and

(iii) a Compliance Certificate is delivered to the Note Trustee and the Working Capital Facility Agent evidencing that, after taking into account the Cure Investment, the relevant Financial Ratio is not breached,

(a "**Cure Right**").

(b) For the purposes of re-calculating the Financial Ratios, in respect of each £1 of Cure Investment the Obligors shall apply such £1:

(i) as reducing Total Net Debt as at the Calculation Date if the Group RAR is the defaulted Financial Ratio; or

(ii) as an addition to Group EBITDA on a historical basis (as at the immediately previous Calculation Date) if the Interest Cover Ratio is the defaulted Financial Ratio.

A Cure Right may not be exercised more than 3 times in any 5 year period or in respect of two consecutive Calculation Dates.

(c) The backward looking Financial Ratios shall be calculated on the basis of the most recently delivered financial statements and the forward looking financial covenants shall be calculated on the basis of internal forecasts prepared on a consistent basis and, so far is practicable, in accordance with Accounting Principles and internal management accounts.

11 Meetings of Noteholders, Modification, Waiver and Substitution

(a) Meetings of Noteholders

The Trust Deed contains provisions for convening meetings of Noteholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Trust Deed) of a modification of any of these Conditions or any provisions of the Trust Deed. Such a meeting may be convened by Noteholders holding not less than 10 per cent. in nominal amount of the Notes for the time being outstanding.

The quorum for any meeting convened to consider an Extraordinary Resolution shall be two or more persons holding or representing a clear majority in nominal amount of the Notes for the time being outstanding, or at any adjourned meeting two or more persons being or representing Noteholders whatever the nominal amount of the Notes held or represented, unless the business of such meeting includes consideration of proposals, *inter alia*:

(i) to amend the dates of maturity or redemption of the Notes or any date for payment of interest or Interest Amounts on the Notes;

(ii) to reduce or cancel the nominal amount of, or any premium payable on redemption of, the Notes;

(iii) to reduce the rate or rates of interest in respect of the Notes or to vary the method or basis of calculating the rate or rates or amount of interest or the basis for calculating any Interest Amount in respect of the Notes;

(iv) if a Minimum and/or a Maximum Rate of Interest or Redemption Amount is shown in the applicable Final Terms or Drawdown Prospectus, to reduce any such Minimum and/or Maximum;

(v) to vary any method of, or basis for, calculating the Final Redemption Amount, the Early Redemption Amount or the Optional Redemption Amount, including the method of calculating the Amortised Face Amount;

(vi) to vary the currency or currencies of payment or denomination of the Notes;

(vii) to modify the provisions concerning the quorum required at any meeting of Noteholders or the majority required to pass an Extraordinary Resolution; or

(viii) to modify or cancel the Guarantee,

in which case the necessary quorum shall be two or more persons holding or representing not less than 75 per cent., or at any adjourned meeting not less than 25 per cent., in nominal amount of the Notes for the time being outstanding.

Any Extraordinary Resolution duly passed shall be binding on Noteholders (whether or not they were present at the meeting at which such resolution was passed) and on all Couponholders.

The Trust Deed provides that a resolution in writing signed by or on behalf of the holders of not less than 75 per cent. in nominal amount of the Notes outstanding shall for all purposes be as valid and effective as an Extraordinary Resolution passed at a meeting of Noteholders duly convened and held. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more Noteholders.

(b) Modification of the Trust Deed

The Note Trustee may agree, without the consent of the Noteholders or Couponholders, to: (i) any modification of any of the provisions of the Trust Deed, the Conditions or any other Transaction Document that is of a formal, minor or technical nature or is made to correct a manifest error or an error which is, in the opinion of the Note Trustee, proven; or (ii) any other modification (except as mentioned in the Trust Deed), and any waiver or authorisation of any breach or proposed breach, of any of the provisions of the Trust Deed, the Conditions or any other Transaction Document that is in the opinion of the Note Trustee not materially prejudicial to the interests of the Noteholders. The Note Trustee shall, at the request of the Issuer, without the consent of the Noteholders or Couponholders, agree to such amendments to the Trust Deed or the Conditions as may be required by the Issuer to transfer the listing of any Notes between Euronext Dublin and the London Stock Exchange, provided that: (i) the Note Trustee has received a certificate signed by two directors of the Issuer certifying that such amendments are required to effect such transfer and are only intended to give effect to such transfer (upon which certificate the Note Trustee shall be entitled to rely without further enquiry or liability); and (ii) such amendments do not require the Note Trustee to undertake any more onerous duties or responsibilities or impose on the Note Trustee any additional liabilities beyond those set out in the Trust Deed. In addition, the Note Trustee shall be obliged to concur with the Issuer in using its reasonable endeavours to effect any Benchmark Amendments in the circumstances and as otherwise set out in Condition 5(b)(vi)(D) without the consent or approval of the Noteholders or the Couponholders. Any such modification, authorisation or waiver shall be binding on the Noteholders and the Couponholders and, if the Note Trustee so requires, such modification shall be notified to the Noteholders as soon as practicable.

These Conditions may be amended, modified or varied in relation to any Series of Notes by the terms of the relevant Final Terms or Drawdown Prospectus in relation to such Series.

(c) Substitution

The Trust Deed contains provisions permitting the Note Trustee to agree, subject to such amendment of the Trust Deed and such other conditions as the Note Trustee may require, but without the consent of the Noteholders or the Couponholders, to the substitution of the Issuer's successor in business in place of the Issuer or of the Guarantor's successor in business in place of the Guarantor, or, in each case, in place of any previous substituted company, as principal debtor or, as the case may be, Guarantor under the Trust Deed and the Notes. In the case of such a substitution, the Note Trustee may agree, without the consent of the Noteholders or the Couponholders, to a change of the law governing the Notes, the Receipts, the Coupons, the Talons and/or the Trust Deed, provided that such change would not in the opinion of the Note Trustee be materially prejudicial to the interests of the Noteholders.

(d) Entitlement of the Note Trustee

In connection with the exercise of its functions (including but not limited to those referred to in this Condition 11), the Note Trustee shall have regard to the interests of the Noteholders as a class and shall not have regard to the consequences of such exercise for individual Noteholders or Couponholders and the Note Trustee shall not be entitled to require, nor shall any Noteholder or Couponholder be entitled to claim, from the Issuer or the Guarantor any indemnification or payment in respect of any tax consequence of any such exercise upon individual Noteholders or Couponholders.

(e) Benchmark Amendments

For the avoidance of doubt, the requirements set out in this Condition 11 do not apply to amendments to the Conditions and/or the Note Trust Deed that are made pursuant to Condition 5(b)(vi)(D).

12 Enforcement

Subject to the terms of the Intercreditor Agreement, at any time after the Notes become due and payable, the Note Trustee may, at its discretion and without further notice, institute such proceedings against the Issuer and/or the Guarantor as it may think fit to enforce the terms of the Trust Deed, the Notes, the Receipts and the Coupons, and may give instructions to the Security Trustee in relation to the Security Agreement under the Intercreditor Agreement as a Secured Creditor Representative representing 100 per cent. of the principal amount of the Notes outstanding, provided that the provisions of the Intercreditor Agreement shall determine whether or not the Security Trustee is obliged to comply with those instructions; but it shall not be required to take any such proceedings or give such instructions unless: (a) it has been so directed by an Extraordinary Resolution or so requested in writing by Noteholders holding at least one-fifth in nominal amount of the Notes outstanding; and (b) it has been indemnified and/or secured and/or pre-funded to its satisfaction. For the avoidance of doubt, enforcement of the Transaction Security may only take place in accordance with the terms of the Intercreditor Agreement. No Noteholder, Receiptholder or Couponholder may proceed directly against the Issuer or the Guarantor unless the Note Trustee, having become bound so to proceed and permitted so to do by the Intercreditor Agreement, fails to do so within a reasonable time and such failure is continuing.

13 Indemnification of the Note Trustee

Trust Deed contains provisions for the indemnification of the Note Trustee and for its relief from responsibility. The Note Trustee is entitled to enter into business transactions with the Issuer, the Guarantor and any entity related to the Issuer or the Guarantor without accounting for any profit.

The Note Trustee may rely without liability to Noteholders or Couponholders on a report, confirmation or certificate or any advice of any accountants, financial advisers, financial institution or any other expert, whether or not addressed to it and whether their liability in relation thereto is limited (by its terms or by any engagement letter relating thereto entered into by the Note Trustee or in any other manner) by reference to a monetary cap, methodology or otherwise. The Note Trustee may accept and is entitled to rely on any such report, confirmation or certificate or advice and such report, confirmation or certificate or advice shall be binding on the Issuer, the Note Trustee and the Noteholders.

14 Replacement of Notes, Certificates, Receipts, Coupons and Talons

If a Note, Certificate, Receipt, Coupon or Talon is lost, stolen, mutilated, defaced or destroyed, it may be replaced, subject to applicable laws and requirements of London Stock Exchange (in the case of Notes admitted to listing on such stock exchange), if the relevant Notes have been admitted to listing, trading and/or quotation on such stock exchange), at the specified office of the Issuing and Paying Agent in London (in the case of Bearer Notes, Receipts, Coupons or Talons) and of the Registrar (in the case of Certificates) or such other Paying Agent or Transfer Agent, as the case may be, as may from time to time be designated by the Issuer for the purpose and notice of whose designation is given to Noteholders, in each case on payment by the claimant of the fees and costs incurred in connection therewith and on such terms as to evidence, security and indemnity (which may provide, *inter alia*, that if the allegedly lost, stolen or destroyed Note, Certificate, Receipt, Coupon or Talon is subsequently presented for payment or, as the case may be, for exchange for further Coupons, there shall be paid to the Issuer on demand the amount payable by the Issuer in respect of such Notes, Certificates, Receipts, Coupons or further Coupons) and otherwise as the Issuer may require. Mutilated or defaced Notes, Certificates, Receipts, Coupons or Talons must be surrendered before replacements will be issued.

15 Further Issues

The Issuer may from time to time without the consent of the Noteholders or Couponholders create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest on them and their issue price) and so that such further securities shall be consolidated and form a single series, which shall not be prior to the expiry of the distribution compliance period (as defined in Regulation S) applicable to the Notes of such Tranche, with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue. References in these Conditions to the Notes include (unless the context requires otherwise) any other securities issued pursuant to this Condition 15 and forming a single series with the Notes. Any further securities forming a single series with the outstanding securities of any series (including the Notes) constituted by the Trust Deed or any deed supplemental to it shall, and any other securities may, be constituted by the Trust Deed. The Trust Deed contains provisions for convening a single meeting of the Noteholders and the holders of securities of other series where the Note Trustee so decides.

16 Notices

Notices to the holders of Registered Notes shall be mailed to them at their respective addresses in the Register and deemed to have been given on the fourth weekday (being a day other than a Saturday or a Sunday) after the date of mailing. Notices to the holders of Bearer Notes shall be valid if published in a daily newspaper of general circulation in London (which is expected to be the *Financial Times*). The Issuer shall also ensure that all notices are duly published in a manner which complies with the rules and regulations of London Stock Exchange, on which the Notes are for the time being listed. Any such notice shall be deemed to have been given on the date of such publication or, if published more than once or on different dates, on the first date on which publication is made, as provided above.

Couponholders shall be deemed for all purposes to have notice of the contents of any notice given to the holders of Bearer Notes in accordance with this Condition 16.

17 Contracts (Rights of Third Parties) Act 1999

No person shall have any right to enforce any term or condition of the Notes under the Contracts (Rights of Third Parties) Act 1999 (the "Act"), but this does not affect any other right or remedy of a third party which exists or is available apart from the Act.

18 Governing Law and Jurisdiction

(a) Governing Law

The Trust Deed, the Notes, the Receipts, the Coupons and the Talons and any non-contractual obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(b) Jurisdiction

The courts of England are to have jurisdiction to settle any disputes that may arise out of or in connection with any Notes, Receipts, Coupons or Talons or the Guarantee (including any disputes in relation to non-contractual obligations arising out of or in connection with them) and accordingly any legal action or proceedings arising out of or in connection with any Notes, Receipts, Coupons or Talons or the Guarantee ("**Proceedings**") may be brought in such courts. Each of the Issuer and the Guarantor has in the Trust Deed irrevocably submitted to the jurisdiction of such courts and waived any objections to Proceedings in such courts on the ground of venue or on the ground that the Proceedings have been brought in an inconvenient forum. Each of the Note Trustee, the Noteholders and the Couponholders may take: (i) Proceedings in any other court of competent jurisdiction; or (ii) Proceedings in any one or more jurisdictions (whether concurrently or not).

SUMMARY OF PROVISIONS RELATING TO THE NOTES WHILE IN GLOBAL FORM

Initial Issue of Notes

If the Global Notes or the Global Certificates are stated in the applicable Final Terms or Drawdown Prospectus to be issued in NGN form or to be held under the NSS (as the case may be), the Global Notes or the Global Certificates will be delivered on or prior to the original issue date of the Tranche to a Common Safekeeper. Depositing the Global Notes or the Global Certificates with the Common Safekeeper does not necessarily mean that the Notes will be recognised as eligible collateral for Eurosystem monetary policy and intra-day credit operations by the Eurosystem either upon issue, or at any or all times during their life. Such recognition will depend upon satisfaction of the Eurosystem eligibility criteria.

Where the Global Notes or the Global Certificates issued in respect of any Tranche are in NGN form or issued under the NSS structure, the Common Safekeeper will be notified whether or not such Global Notes or Global Certificates are intended to be held in a manner which would allow Eurosystem eligibility.

Global Notes which are issued in CGN form and Global Certificates which are not held under the NSS may be delivered on or prior to the original issue date of the Tranche to a Common Depositary.

If the Global Note is issued in CGN form, upon the initial deposit of a Global Note with a common depositary for Euroclear and Clearstream, Luxembourg (the "**Common Depositary**") or registration of Registered Notes in the name of any nominee for Euroclear and Clearstream, Luxembourg and delivery of the relative Global Certificate to the Common Depositary, Euroclear or Clearstream, Luxembourg will credit each subscriber with a nominal amount of Notes equal to the nominal amount thereof for which it has subscribed and paid. If the Global Note is issued in NGN form, the nominal amount of the Notes shall be the aggregate amount from time to time entered in the records of Euroclear or Clearstream, Luxembourg. The records of such clearing system shall be conclusive evidence of the nominal amount of Notes represented by the Global Note and a statement issued by such clearing system at any time shall be conclusive evidence of the records of the relevant clearing system at that time.

Notes that are initially deposited with the Common Depositary may also be credited to the accounts of subscribers with (if indicated in the relevant Final Terms or Drawdown Prospectus) other clearing systems through direct or indirect accounts with Euroclear and Clearstream, Luxembourg held by such other clearing systems. Conversely, Notes that are initially deposited with any other clearing system may similarly be credited to the accounts of subscribers with Euroclear, Clearstream, Luxembourg or other clearing systems.

Relationship of Accountholders with Clearing Systems

Each of the persons shown in the records of Euroclear, Clearstream, Luxembourg or any other permitted clearing system ("**Alternative Clearing System**") as the holder of a Note represented by a Global Note or a Global Certificate must look solely to Euroclear, Clearstream, Luxembourg or any such Alternative Clearing System (as the case may be) for his share of each payment made by the Issuer to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, and in relation to all other rights arising under the Global Notes or Global Certificates, subject to and in accordance with the respective rules and procedures of Euroclear, Clearstream, Luxembourg or such Alternative Clearing System (as the case may be). Such persons shall have no claim directly against the Issuer in respect of payments due on the Notes for so long as the Notes are represented by such Global Note or Global Certificate and such obligations of the Issuer will be discharged by payment to the bearer of such Global Note or the holder of the underlying Registered Notes, as the case may be, in respect of each amount so paid.

Exchange

Temporary Global Notes

Each temporary Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date:

(i) if the relevant Final Terms or Drawdown Prospectus indicates that such Global Note is issued in compliance with TEFRA C or in a transaction to which TEFRA is not applicable (as to which, see "*Overview of the Programme —Selling Restrictions*"), in whole, but not in part, for the Definitive Notes defined and described below; and

(ii) otherwise, in whole or in part upon certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement for interests in a permanent Global Note or, if so provided in the relevant Final Terms or Drawdown Prospectus, for Definitive Notes.

Permanent Global Notes

Each permanent Global Note will be exchangeable, free of charge to the holder, on or after its Exchange Date in whole but not, except as provided under paragraph 3.4 below, in part for Definitive Notes if the permanent Global Note is held on behalf of Euroclear or Clearstream, Luxembourg or an Alternative Clearing System and any such clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or in fact does so.

Exchange provisions relating to Global Notes generally

In the event that Global Notes are exchangeable for Definitive Notes in circumstances other than the limited circumstances specified in the Global Notes, such Global Notes shall be issued in Specified Denomination(s) only. A Noteholder who holds a principal amount of less than the minimum Specified Denomination will not receive a Definitive Note in respect of such holding and would need to purchase a principal amount of Notes such that it holds an amount equal to one or more Specified Denominations.

Permanent Global Certificates

If the Final Terms or Drawdown Prospectus state that the Notes are to be represented by a permanent Global Certificate on issue, the following will apply in respect of transfers of Notes held in Euroclear or Clearstream, Luxembourg or an Alternative Clearing System. These provisions will not prevent the trading of interests in the Notes within a clearing system whilst they are held on behalf of such clearing system, but will limit the circumstances in which the Notes may be withdrawn from the relevant clearing system.

Transfers of a holding of Notes represented by any Global Certificate pursuant to Condition 2(b) (*Transfer of Registered Notes*) may only be made in part:

(i) if the relevant clearing system is closed for business for a continuous period of 14 days (other than by reason of holidays, statutory or otherwise) or announces an intention permanently to cease business or does in fact do so; or

(ii) with the consent of the Issuer,

provided that, in the case of the first transfer of part of a holding pursuant to paragraph 3.4(i) above, the Registered Holder has given the Registrar not less than 30 days' notice at its specified office of the Registered Holder's intention to effect such transfer.

Partial Exchange of Permanent Global Notes

For so long as a permanent Global Note is held on behalf of a clearing system and the rules of that clearing system permit, such permanent Global Note will be exchangeable for Definitive Notes if so provided in, and in accordance with, the Conditions (which will be set out in the relevant Final Terms or Drawdown Prospectus).

Delivery of Notes

If the Global Note is issued in CGN form, on or after any due date for exchange, the holder of a Global Note may surrender such Global Note or, in the case of a partial exchange, present it for endorsement to or to the order of the Issuing and Paying Agent. In exchange for any Global Note, or the part thereof to be exchanged, the Issuer will: (i) in the case of a temporary Global Note exchangeable for a permanent Global Note, deliver, or procure the delivery of, a permanent Global Note in an aggregate nominal amount equal to that of the whole or that part of a temporary Global Note that is being exchanged or, in the case of a subsequent exchange, endorse, or procure the endorsement of, a permanent Global Note to reflect such exchange; or (ii) in the case of a Global Note exchangeable for Definitive Notes, deliver, or procure the delivery of, an equal aggregate nominal amount of duly executed and authenticated Definitive Notes or if the Global Note is issued in NGN form, the Issuer will procure that details of such exchange be entered pro rata in the records of the relevant clearing system. In this Prospectus, "Definitive Notes" means in relation to any Global Note, the definitive Bearer Notes for which such Global Note may be exchanged (if appropriate, having attached to them all Coupons and Receipts in respect of interest that has not already been paid on the Global Note and a Talon). Definitive Notes will be security-printed in accordance with any applicable legal and stock exchange requirements in or substantially in the form set out in the Schedules to the Trust Deed. On exchange in full of each permanent Global Note, the Issuer will, if the holder so requests, procure that it is cancelled and returned to the holder together with the relevant Definitive Notes.

Exchange Date

"Exchange Date" means in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located.

Amendment to Conditions

The temporary Global Notes, permanent Global Notes and Global Certificates contain provisions that apply to the Notes that they represent, some of which modify the effect of the terms and conditions of the Notes set out in this Prospectus. The following is a summary of certain of those provisions:

Payments

No payment falling due after the Exchange Date will be made on any Global Note unless exchange for an interest in a permanent Global Note or for Definitive Notes is improperly withheld or refused. Payments on any temporary Global Note issued in compliance with TEFRA D before the Exchange Date will only be made against presentation of certification as to non-U.S. beneficial ownership in the form set out in the Agency Agreement. All payments in respect of Notes represented by a Global Note in CGN form will be made against presentation for endorsement and, if no further payment falls to be made in respect of the Notes, surrender of that Global Note to or to the order of the Issuing and Paying Agent or such other Paying Agent as has been notified to the Noteholders for such purpose. If the Global Note is in CGN form, a record of each payment so made will be endorsed on each Global Note, which endorsement will be prima facie evidence that such payment has been made in respect of the Notes. If the Global Note is in NGN form or if the Global Certificate is held under the NSS, the Issuer shall procure that details of each such payment shall be entered pro rata in the records of the relevant clearing system and, in the case of payments of principal, the nominal amount of the Notes recorded in the records of the relevant clearing system and represented by the Global Note or the Global Certificate will be reduced accordingly. Payments under a Global Note in NGN form will be made to its holder. Each payment so made will discharge the Issuer's obligations in respect thereof. Any failure to make the entries in the records of the relevant clearing system shall not affect such discharge. For the purpose of any payments made in respect of a Global Note, the relevant place of presentation shall be disregarded in the definition of “business day” set out in Condition 7(h) (*Non-Business Days*).

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the Register at the close of business on the Clearing System Business Day immediately prior to the date for payment (the “**Record Date**”), where Clearing System Business Day means Monday to Friday inclusive except 25 December and 1 January.

Prescription

Claims against the Issuer in respect of Notes that are represented by a permanent Global Note will become void unless it is presented for payment within a period of 10 years (in the case of principal) and five years (in the case of interest) from the appropriate Relevant Date (as defined in Condition 8 (*Taxation*)).

Meetings

The holder of a permanent Global Note or of the Notes represented by a Global Certificate shall (unless such permanent Global Note or Global Certificate represents only one Note) be treated as being two persons for the purposes of any quorum requirements of a meeting of Noteholders and, at any such meeting, the holder of a permanent Global Note shall be treated as having one vote in respect of each integral currency unit of the Specified Currency of the Notes. All holders of Registered Notes are entitled to one vote in respect of each integral currency unit of the Specified Currency of the Notes comprising such Noteholder’s holding, whether or not represented by a Global Certificate.

Cancellation

Cancellation of any Note represented by a permanent Global Note that is required by the Conditions to be cancelled (other than upon its redemption) will be effected by reduction in the nominal amount of the relevant permanent Global Note.

Purchase

Notes represented by a permanent Global Note may only be purchased by the Issuer, the Guarantor or any of their respective subsidiaries if they are purchased together with the rights to receive all future payments of interest thereon.

Issuer’s Option

Any option of the Issuer provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note shall be exercised by the Issuer giving notice to the Noteholders within the time limits set out in and containing the information required by the Conditions, except that the notice shall not be required to contain the serial numbers of Notes drawn in the case of a partial exercise of an option and accordingly no drawing of Notes shall be required. In the event that any option of the Issuer is exercised in respect of some but not all of the Notes of any Series, the rights of accountholders with a clearing system in respect of the Notes will be governed by the standard procedures of Euroclear and/or Clearstream, Luxembourg (to be reflected in the records of Euroclear and Clearstream, Luxembourg as either a pool factor or a reduction in nominal amount, at their discretion) or any other Alternative Clearing System (as the case may be).

Noteholders’ Options

Any option of the Noteholders provided for in the Conditions of any Notes while such Notes are represented by a permanent Global Note may be exercised by the holder of the permanent Global Note giving notice to the Issuing and Paying Agent within the time limits relating to the deposit of Notes with a Paying Agent set out in the Conditions substantially in the form of the notice available from any Paying Agent, except that the notice shall not be required to contain the serial numbers of the Notes in respect of which the option has been exercised, and stating the nominal amount of Notes in respect of which the option is exercised and at the same time, where the permanent Global Note is in CGN form, presenting the permanent Global Note to the Issuing and Paying Agent for notation. Where the Global Note is in NGN form or where the Global Certificate is held under the NSS, the Issuer shall procure that details of such exercise shall be entered pro rata in the records of the relevant clearing system and the nominal amount of the Notes recorded in those records will be reduced accordingly.

NGN Nominal Amount

Where the Global Note is in NGN form, the Issuer shall procure that any exchange, payment, cancellation, exercise of any option or any right under the Notes, as the case may be, in addition to the circumstances set out above, shall be entered in the records of the relevant clearing systems and upon any such entry being made, in respect of payments of principal, the nominal amount of the Notes represented by such Global Note shall be adjusted accordingly.

Trustee's Powers

In considering the interests of Noteholders while any Global Note is held on behalf of, or Registered Notes are registered in the name of any nominee for, a clearing system, the Note Trustee may have regard to any information provided to it by such clearing system or its operator as to the identity (either individually or by category) of its accountholders with entitlements to such Global Note or Registered Notes and may consider such interests as if such accountholders were the holders of the Notes represented by such Global Note or Global Certificate.

Notices

So long as any Notes are represented by a Global Note and such Global Note is held on behalf of a clearing system, notices to the holders of Notes of that Series may be given by delivery of the relevant notice to that clearing system for communication by it to entitled accountholders in substitution for publication as required by the Conditions or by delivery of the relevant notice to the holder of the Global Note.

BUSINESS DESCRIPTION OF ISSUER

The Issuer was incorporated in England and Wales on 4 February 2011 with registered number 07516930 (LEI: 213800S7UU2MQXYJQO60) and is a public limited company under the Companies Act 2006 (as amended). The registered office of the Issuer is at Clearwater Court, Vastern Road, Reading RG1 8DB. The telephone number of the Issuer's registered office is +44 (0) 20 3577 8800. The website of the Issuer is www.thameswater.co.uk but information on the website does not form part of this Prospectus unless it has been explicitly incorporated by reference into this Prospectus.

Ownership

As at the date of this Prospectus, the issued share capital of the Issuer comprises 50,000 ordinary shares of £1 each, 13,000 of which are fully paid, all of which are legally and beneficially owned by the Guarantor (see "*Business Description of Guarantor*" below).

In respect of measures in relation to such control, the Guarantor is ultimately owned by the shareholders of Kemble Water Holdings Limited. The directors of the Issuer support high standards of corporate governance and have particular regard for the UK Corporate Governance Code issued by the Financial Reporting Council. As a company registered in England and Wales, the Issuer is also subject to the provisions of the Companies Act.

Business Activities

The Issuer is a special purpose financing entity with no business operations other than raising external funding for the Guarantor through the issuance of the Notes and other debt finance. The Issuer has no Subsidiaries.

The Issuer has not engaged, since its incorporation, in any material activities nor commenced operations other than those incidental to its registration as a public company under the Companies Act 2006 (as amended) and to the issues or proposed issues of the Notes and the authorisation of and entry into the other Finance Documents referred to in this Prospectus to which it is a party and other matters which are incidental or ancillary to the foregoing. Save as disclosed in this Prospectus, the Issuer has no loan capital, borrowings or material contingent liabilities (including guarantees) as at the date of this Prospectus. The Issuer has no employees.

The Issuer will covenant to observe certain restrictions on its activities which are detailed in the Conditions and the Trust Deed.

Financial Statements

The accounting reference date of the Issuer is 31 March and the statutory accounts of the Issuer for the 12 months ended 31 March 2020 and 2021 have been prepared and delivered to the Registrar of Companies on behalf of the Issuer.

The auditors of the Issuer for the 12 months ended 31 March 2020 and 2021 were PricewaterhouseCoopers LLP ("**PwC**"), which is a member firm of the Institute of Chartered Accountants in England and Wales.

Corporate Governance

The following table sets out the directors of the Issuer and their respective business addresses and occupations.

Name	Position	Position(s) Outside the Issuer	Business Address
Tom Bolton	Director	Head of Corporate Finance	Clearwater Court Vastern Road Reading RG1 8DB
Dinesh Manuelpillai	Director	Finance Director	Clearwater Court Vastern Road Reading RG1 8DB
Mark Bamford	Director	Group Financial Controller	Clearwater Court Vastern Road Reading RG1 8DB

The company secretary of the Issuer is David Hughes, whose business address is Clearwater Court, Vastern Road, Reading RG1 8DB.

Conflicts

There are no potential conflicts of interest between any duties to the Issuer of its directors or the company secretary and their private interests or other duties.

BUSINESS DESCRIPTION OF GUARANTOR

The Guarantor was incorporated in England and Wales on 17 May 2006 with registered number 05819317 and LEI 2138003A8GC5KL85UR35 as a private limited company under the Companies Act 1985 (as amended). The registered office of the Guarantor is at Clearwater Court, Vastern Road, Reading RG1 8DB. The telephone number of the Guarantor's registered office is +44 (0) 20 3577 8800.

Ownership

As at the date of this Prospectus, the issued share capital of the Guarantor comprises 1,000,001 ordinary shares of one pound each, all of which are beneficially owned by Kemble Water Eurobond plc.

In respect of measures in relation to such control, Kemble Water Eurobond plc is ultimately owned by the Kemble Shareholders. The Kemble Shareholders have entered into a shareholders' agreement which complies with the Ofwat publication "Board leadership, transparency & governance – principles." The directors of the Guarantor support high standards of corporate governance and have particular regard for the UK Corporate Governance Code issued by the Financial Reporting Council. As a company registered in England and Wales, the Guarantor is also subject to the provisions of the Companies Act.

Business Activities and Subsidiaries

The Guarantor is a holding company with no material, direct business operations other than raising external funding for the Group through debt finance.

The Guarantor is the beneficial owner of: (i) the entire issued share capital of the Issuer; and (ii) the entire issued share capital of Thames Water Limited. The Guarantor will covenant to observe certain restrictions on its activities which are set out in the Trust Deed and the Conditions.

The Auditors of the Guarantor for the financial years ended 31 March 2020 and 31 March 2021 were PricewaterhouseCoopers LLP.

Corporate Governance

The following table sets out the current directors of the Guarantor and their respective business addresses and occupations:

Name	Position	Position(s) Outside the Guarantor	Business Address
Michael David Bloch-Hansen	Director	Managing Director	Clearwater Court Vastern Road Reading RG1 8DB
Michael McNicholas	Director	Managing Director	Clearwater Court Vastern Road Reading RG1 8DB

Name	Position	Position(s) Outside the Guarantor	Business Address
Stephen Alan John Deeley	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB
Christy Pham	Director	Portfolio Manager	Clearwater Court Vastern Road Reading RG1 8DB
Alastair Colin Hall	Director	Investment Professional	Clearwater Court Vastern Road Reading RG1 8DB
Guy Lambert	Director	Investment Professional	Clearwater Court Vastern Road Reading RG1 8DB
Perry Noble	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB
Giles Tucker	Director	Principal	Clearwater Court Vastern Road Reading RG1 8DB
Gregory Pestrak	Director	Executive Vice President	Clearwater Court Vastern Road Reading RG1 8DB
Fuxin Sheng	Director	Investment Manager	Clearwater Court Vastern Road Reading RG1 8DB

The company secretary of the Guarantor is David Hughes, whose business address is Clearwater Court, Vastern Road, Reading RG1 8DB.

Conflicts

There are no potential conflicts of interest between any duties to the Guarantor of its directors or the company secretaries and their private interests or other duties.

OVERVIEW OF THE KEY DOCUMENTS

Trust Deed

General

The Trust Deed between the Issuer, the Guarantor and the Note Trustee contains, amongst other things, the following provisions:

(a) the Issuer's covenant to the Note Trustee (who holds the benefit of the covenant on trust for the Noteholders) to pay the principal and interest on the Notes in accordance with the Conditions;

(b) the Issuer is at liberty from time to time (but subject always to the provisions of the Trust Deed) without the consent of the Noteholders or the Couponholders to create and issue further securities either having the same terms and conditions as the Notes in all respects (or in all respects except for the first payment of interest and their issue price in respect of such Notes) and so that such further issues shall be consolidated and form a single series with the outstanding securities of any series (including the Notes) or upon such terms as the Issuer may determine at the time of their issue;

(c) requirements in relation to Global Notes and Definitive Notes;

(d) the Guarantee given by the Guarantor as further described below;

(e) the covenants and undertakings of the Issuer and the Guarantor as further described below;

(f) the Note Trustee's power to approve, authorise or waive any breach or proposed breach of any of the covenants or provisions of the Trust Deed or the Conditions or determine that any Event of Default or Potential Event of Default shall not be treated as such for the purposes of the Trust Deed, provided that the Note Trustee shall not exercise any powers conferred upon it by such provision in contravention of any express direction by an Extraordinary Resolution (as defined in the Trust Deed) or of a request pursuant to Condition 10 (Events of Default);

(g) provisions relating to meetings of Noteholders; and

(h) the appointment, retirement, removal, remuneration, indemnification and liability of the Note Trustee.

Guarantee

The Guarantor unconditionally and irrevocably guarantees that if the Issuer does not pay any sum payable by it under the Trust Deed, the Notes, the Receipts or the Coupons at the time and on the date specified for such payment (whether on the normal due date, on acceleration or otherwise), the Guarantor will pay or procure the payment of that sum to or to the order of the Note Trustee, according to the terms of the Trust Deed and the Notes and the Coupons. In case of the failure of the Issuer to pay any such sum as and when the same becomes due and payable, the Guarantor agrees to cause such payment to be made as and when the same becomes due and payable, as if such payment were made by the Issuer.

The Guarantor unconditionally and irrevocably agrees, as an independent primary obligation, that it will pay to the Note Trustee sums sufficient to indemnify the Note Trustee and each Noteholder and Couponholder against any loss suffered by it as a result of any sum expressed to be payable by the Issuer under the Trust Deed, the Notes or the Receipts or Coupons not being paid on the date and otherwise in the manner specified in the Trust Deed or any payment obligation of the Issuer under the Trust Deed, the Notes or the Receipts or Coupons being or becoming void, voidable or unenforceable for any reason (whether or not now existing and whether or not now known or becoming known to the Note Trustee, any Noteholder or any Couponholder), the amount of that loss being the amount expressed to be payable by the Issuer in respect of the relevant sum.

The Guarantor's guarantee and indemnity is a continuing guarantee and indemnity and shall remain in full force and effect until all amounts due in respect of the Notes, the Receipts or Coupons or under the Trust Deed have been paid in full. The Guarantor shall not be discharged by anything other than a complete performance of the obligations under the Trust Deed and the Notes and the Guarantor shall be subrogated to all rights of the Note Trustee and the Noteholders against the Issuer in respect of any amounts paid by the Guarantor pursuant to the Trust Deed.

The Guarantor has, pursuant to the Security Agreement, secured its obligations under the Guarantee. Enforcement of the security created pursuant to the Security Agreement is subject to the Intercreditor Agreement. The payment obligations of the Guarantor in respect of the Guarantee constitute direct, secured, irrevocable and unconditional obligations of the Guarantor.

Lock-Up

Subject to Equity Cure, at any time at which:

(a) Group RAR at the date the payment is made (and taking into account such payment) is more than 0.925:1; or

(b) any drawing is made and is outstanding under the Working Capital Facility; or

(c) any Event of Default is continuing or would occur immediately after the making of the payment; or

(d) a Trigger Event (as defined in the Master Definitions Agreement) has occurred and is continuing,

the Issuer and the Guarantor will not (and shall procure that no member of the Group shall make any of the payments referred to below to any direct or indirect shareholder of the Guarantor):

(i) declare, make or pay any dividend, charge, fee, any amount by way of intercompany loan or Subordinated Debt, or other distribution (or interest on any unpaid dividend, charge, fee or other distribution) (whether in cash or in kind) on or in respect of its share capital (or any class of its share capital); or

(ii) repay or distribute any dividend or share premium reserve (each of (i) and (ii) constituting a "**Lock-Up**"),

other than a Permitted Distribution. If the Lock-Up is caused solely by a drawing being made under the Working Capital Facility, then such Lock-Up shall cease upon the repayment of such drawing.

Covenants of the Issuer and the Guarantor

So long as any Note or any Coupon is outstanding, each of the Issuer and the Guarantor will:

(a) **No acquisitions**: not enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to acquire any assets, if such acquisition would negatively impact the rating of the Notes and/or, taking into account such acquisition, result in the ratio of Group RAR as at the most recent Calculation Date exceeding 0.925:1;

(b) **No disposal of TWUL**: not (and procure that no member of the Group shall) enter into a single transaction or a series of transactions (whether related or not) and whether voluntary or involuntary to dispose of any of its (direct or indirect) interests in the Licence Holder where such disposal results in the Group ceasing to hold beneficially all of the issued share capital of the Licence Holder;

(c) **No merger**: not enter into any amalgamation, demerger, merger, consolidation or corporate reconstruction other than a Permitted Transaction;

(d) **No Loans**: except in respect of Permitted Transactions and/or Permitted Loans and/or loans to an indirect or direct shareholder of the Guarantor (payments in respect of which, for the avoidance of doubt, shall be subject to Lock-Up), not be (and shall procure that no Intermediate Subsidiary shall be) a creditor in respect of any Financial Indebtedness.

(e) **No guarantees**: not incur or allow to remain outstanding (and procure that no Intermediate Subsidiary shall incur or allow to remain outstanding) any guarantee in respect of any obligation of any person, other than in relation to a Permitted Transaction or any Permitted Guarantee;

(f) **Pari passu ranking**: ensure that at all times any secured and unsubordinated claims of a Noteholder against it under the Note Documents rank at least pari passu with the claims of all its unsecured and unsubordinated creditors, except those creditors whose claims are mandatorily preferred by laws of general application to companies;

(g) **Conduct of Business**: at all times carry on and conduct its affairs and procure its Intermediate Subsidiaries to carry on and conduct their respective affairs in a proper and efficient manner;

(h) **Opinions**: give or procure to be given to the Note Trustee such opinions, certificates, information and evidence as it shall require and in such form as it shall reasonably require, for the purpose of the discharge or exercise of the duties, trusts, powers, authorities and discretions vested in it under the Trust Deed, any other Transaction Document or by operation of law;

(i) **Accounts**: in respect of the Guarantor only supply to the Note Trustee as soon as the same become available, but in any event within 180 days after the end of each of its financial years:

    (i) its audited consolidated financial statements for that Financial Year; and

    (ii) the audited financial statements of TWUL for that Financial Year;

(j) **Audited Accounts**: In respect of the Issuer only, supply to the Note Trustee its audited financial statements for each of the financial years within 180 days of the end of the relevant financial period;

(k) **Accounts to comply with stock exchange rules**: cause to be prepared and certified by the Auditors, in respect of each of its financial years, accounts in such form as will comply with all relevant legal and accounting requirements and all requirements for the time being of Euronext Dublin, London Stock Exchange or such other stock exchange as the Notes may be listed from time to time;

(l) **Books of Account**: at all times keep, and procure its Intermediate Subsidiaries to keep, proper books of account, and allow, and procure its Subsidiaries to allow, after an Event of Default or Potential Event of Default, or if the Note Trustee has reasonable grounds for so requiring, the Note Trustee and any person appointed by the Note Trustee to whom the Issuer, the Guarantor or the relevant Intermediate Subsidiary (as the case may be) have no reasonable objection, free access to such books of account at all reasonable times during normal business hours and make available its annual audited accounts to the Paying Agents at their specified offices for inspection by Noteholders and Couponholders;

(m) **Paying Agents**: at all times maintain Paying Agents in accordance with the Conditions;

(n) **Stock Exchange**:

    (i) use all reasonable endeavours to maintain the listing of notes on the official list of the London Stock Exchange and admission to trading on the Main Market of the London Stock Exchange; or

    (ii) if it is unable to do so having used its reasonable endeavours or if the Note Trustee agrees with the Issuer that the maintenance of such listing is unduly onerous and the Note Trustee is satisfied that to do so would not be materially prejudicial to the interests of the Noteholders, use its reasonable endeavours to obtain and maintain a quotation or listing of the Notes on an Main Market or on such other stock exchange or exchanges or securities market or markets as the Issuer may (with the prior written approval of the Note Trustee) decide and shall also upon obtaining a quotation or listing of the Notes on such other stock exchange or exchanges or securities market or markets, enter into a trust deed supplemental to the Trust Deed to effect such consequential amendments to the Trust Deed as the Note Trustee may require or as shall be requisite to comply with the requirements of any such stock exchange(s) or securities market(s);

(o) **Compliance Certificate**: in respect of the Guarantor only, supply to the Note Trustee a Compliance Certificate (in the form set out in Schedule 4 (Form of Compliance Certificate) to the Trust Deed) with each set of financial statements supplied to the Note Trustee under paragraph (i) above commencing in respect of the half year ending 30 September 2011, provided that the Compliance Certificate must be signed by two authorised signatories, or by the Chief Financial Officer and an authorised signatory of the Guarantor;

(p) **No Default**: supply to the Note Trustee: (i) within 15 Business Days after demand by the Note Trustee therefore a certificate signed by two authorised signatories of the Issuer and the Guarantor, respectively; and (ii) (without the necessity for demand) promptly after the publication of its audited financial statements in respect of each year, commencing with the year ending 31 March 2011 and in any event not later than 180 days after the end of such year, a certificate signed by two authorised signatories of the Guarantor, to the effect that there does not exist and had not existed since the certification date of the previous certificate (or, in the case of the first such certificate, the date hereof) any Event of Default or any Potential Event of Default (or if such exists or existed specifying the same);

(q) **Notices**: send to the Note Trustee, not less than three days prior to the date on which any such notice is to be given, the form of every notice to be given to the Noteholders in accordance with Condition 16 (Notices) and obtain the prior written approval of the Note Trustee to, and promptly give to the Note Trustee two copies of, the final form of every notice to be given to the Noteholders in accordance with Condition 16 (Notices) (such approval, unless so expressed, not to constitute approval for the purposes of Section 21 of the FSMA of a communication within the meaning of Section 21 of the FSMA);

(r) **Obligations**: comply with and perform all its obligations under the Note Documents and the Intercreditor Agreement and use all reasonable endeavours to procure that the Paying Agents comply with and perform all their respective obligations under the Agency Agreement and any notice given by the Note Trustee pursuant to the Trust Deed;

(s) **Further Assurance**: at all times execute and do all such further documents, acts and things as may be necessary at any time or times in the opinion of the Note Trustee to give effect to the Note Documents and the Intercreditor Agreement;

(t) **Legal Opinions**: prior to making any modification or amendment or supplement to the Trust Deed, if reasonably requested, procure the delivery of legal opinion(s) as to English and any other relevant law, addressed to the Note Trustee, dated the date of such modification or amendment or supplement, as the case may be, and in a form acceptable to the Note Trustee from legal advisers acceptable to the Note Trustee;

(u) **Notification of Event of Default**: unless the Note Trustee has already been so notified, notify the Note Trustee of the occurrence of any Event of Default or Potential Event of Default relating to it (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence;

(v) **Change of Paying Agent**: give at least 14 days' prior notice to the Noteholders of any future appointment, resignation or removal of a Paying Agent or of any change by a Paying Agent of its specified office and not make any such appointment or removal without the Note Trustee's written approval;

(w) **Amendments**: not amend, vary, novate, supplement, supersede, waive, terminate or permit to become invalid or ineffective any term of a Note Document or the Intercreditor Agreement without the prior written consent of the Note Trustee;

(x) **Set-off**: pay moneys payable by it to the Note Trustee without set-off, counterclaim, deduction or withholding, unless otherwise compelled by law and in the event of any deduction or withholding compelled by law, will pay such additional amount as will result in the payment to the Note Trustee of the full amount which would otherwise have been payable by it to the Note Trustee under the Trust Deed;

(y) **Rating Agencies**: notify the Rating Agencies currently rating the Notes of any such amendment, variation, novation, supplementation, succession, waiver or termination of a Note Document or the Intercreditor Agreement (unless deemed not to be reasonably likely to be materially prejudicial to the interests of Noteholders) made in accordance with sub-paragraph (w) above; and

(z) **Ratings**: furnish, or procure that there is furnished, from time to time, any and all documents, instruments, information and undertakings that may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies (save that when any such document, instrument, information and/or undertaking is not within the possession or control of the Issuer, the Issuer agrees to use all reasonable efforts to furnish, or procure that there is furnished, from time to time any such documents, instruments, information and undertakings as may be necessary in order to maintain the current ratings of the Notes by the Rating Agencies).

Covenants of the Issuer

The Issuer covenants with the Note Trustee that, so long as any of the Notes or Coupons remain outstanding, it will:

(a) not incorporate or acquire any Subsidiaries;

(b) not carry on any business or enter into any documents other than those contemplated by or permitted in the Note Documents and the Intercreditor Agreement;

(c) not transfer, sell, lend, part with or otherwise dispose of, or deal with, or grant any option or present or future right to acquire any of its assets or undertakings or any interest, estate, right, title or benefit therein;

(d) hold itself out as a separate entity, conduct its business in its own name and maintain an arm's length relationship with its Affiliates; and

(e) observe all formalities required by its Articles of Association.

Covenants of the Guarantor

The Guarantor covenants with the Note Trustee, so long as any of the Notes or Coupons remain outstanding, that it shall hold all of the issued share capital of the Issuer.

Governing Law

The Trust Deed (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Issuer/Guarantor Loan Agreement

All Financial Indebtedness raised by the Issuer from time to time will be backed by an aggregate nominal amount of debt owed by the Guarantor to the Issuer under a loan agreement (the "**Issuer/Guarantor Loan**

Agreement"). Each advance under the Issuer/Guarantor Loan Agreement will relate to the principal amount of the relevant Notes issued by the Issuer on an Issue Date. The Issuer's obligations to repay principal and pay interest on the Notes are intended to be met primarily from the repayments of principal and payments of interest received from the Guarantor under the Issuer/Guarantor Loan Agreement and, to the extent that the Issuer has hedged its exposure to such payments under a Hedging Agreement, from payments received by the Issuer under such Hedging Agreement. The business of the Guarantor demonstrates the capacity to produce funds to service any payments due and payable under the Issuer/Guarantor Loan Agreement.

All advances to be made by the Issuer under the Issuer/Guarantor Loan Agreement will be in a currency and in amounts and at rates of interest set out in the relevant Final Terms or Drawdown Prospectus. Interest on each advance made under an Issuer/Guarantor Loan Agreement will accrue from the date of such advance. In addition, each advance will be repayable on the same date as the related Notes.

The Issuer/Guarantor Loan is repayable on demand by the Issuer or may be prepaid by the Guarantor in each case together with: (i) interest accrued thereon and any other amounts due or owing to the Issuer at such time; and (ii) if the Issuer has elected to redeem the Notes in accordance with Condition 6(d) (*Redemption at the Option of the Issuer*), an amount equal to the excess of the Redemption Price (as defined in Condition 6(d) (*Redemption at the Option of the Issuer*)) over the principal amount of the Issuer/Guarantor Loan (if any).

Governing Law

The Issuer/Guarantor Loan Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Agency Agreement

The Agency Agreement entered into between the Issuer, the Guarantor, the Issuing and Paying Agent and the Note Trustee, includes, amongst other things, the following provisions:

(a) the duties of the Issuing and Paying Agent and the Paying Agents and the terms on which they are appointed, or on which such appointment may be resigned or terminated or any additional or successor Paying Agents may be appointed;

(b) indemnity by the Issuer (failing whom, the Guarantor) of each Paying Agent against any claim, demand, action, liability, damages, cost, loss or expense incurred otherwise than by reason of its own gross negligence, or wilful default or fraud, as a result or arising out of or in relation to its acting as the agent of the Issuer and the Guarantor in relation to the Notes;

(c) payment by the Issuer (failing whom, the Guarantor) of principal and/or interest in respect of the Notes, as the same becomes due and payable, to the Issuing and Paying Agent, before such payment becomes due and the manner and time of such payments;

(d) payment by each Paying Agent of principal and interest to Noteholders in respect of the Notes in accordance with the Conditions;

(e) provisions relating to the notification of the Note Trustee in the event that the Issuing and Paying Agent: (i) does not receive on the due date for payment in respect of the Notes, the full amount payable; or (ii) receives such amount after the relevant due date for payment in respect of the Notes;

(f) provisions relating to the authentication of the temporary Global Note, the Global Notes and the Definitive Notes, the exchange of the temporary Global Note for a Global Note, the exchange of the Global Note for Definitive Notes and the issue of replacement Notes and Coupons;

(g) the keeping of records of the payment, redemption, replacement, cancellation and destruction of Notes; and

(h) the fees and expenses of the Issuing and Paying Agent and the Paying Agents.

Governing Law

The Agency Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantor, the Working Capital Lenders, the Security Trustee, the Note Trustee (on behalf of the initial Noteholders), the Issuing and Paying Agent and the Subordinated Lenders. For a summary and description of certain terms of the Intercreditor Agreement, see "*Intercreditor, Enforcement and the Working Capital Facility Agreement*".

Governing Law

The Intercreditor Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Security Agreement

The Issuer and the Guarantor entered into the Security Agreement pursuant to which:

(a) the Guarantor has granted, as security for the Guarantee: (i) fixed security over all its shares in the Issuer, Kemble Water Investments Limited and all its real property, book debts and bank accounts, present and future; (ii) an assignment of its rights in respect of the Transaction Documents; and (iii) a floating charge over all of its property, undertaking and assets; and

(b) the Issuer has granted, as security for the Notes: (i) an assignment of its rights in respect of the Transaction Documents; (ii) a fixed charge over all its book debts, bank accounts and investments, present and future; and (iii) a floating charge over all of its property, undertaking and assets.

In addition, each of the Issuer and the Guarantor has given certain undertakings in relation to dealings with the charged property. Pursuant to the terms of the Security Agreement, the proceeds of enforcement are required to be applied by the Security Trustee in accordance with the terms of the Intercreditor Agreement.

Governing Law

The Security Agreement (and any non-contractual obligations arising out of or in connection with it) shall be governed by English law.

Hedging Agreements

The Issuer and/or the Guarantor may enter into Hedging Agreements from time to time.

The Guarantor, or the Issuer (as applicable) will be entitled to terminate a Hedging Agreement in certain circumstances (including a failure to pay by the Hedge Counterparty, certain insolvency events affecting the Hedge Counterparty and certain rating downgrade events affecting the Hedge Counterparty, the Issuer or any guarantor as the case may be where the relevant Hedge Counterparty has failed to post collateral or take such other steps as may be stipulated in the relevant Hedging Agreement pursuant to the relevant provisions relating to counterparty credit risk in accordance with the current criteria of Fitch and Moody's).

A Hedge Counterparty will be entitled to terminate a Hedging Agreement only in certain limited circumstances being:

(a) a failure by the Issuer or Guarantor (as applicable) to make payment when due under the relevant Hedging Agreement;

(b) certain insolvency events affecting the Issuer or Guarantor (as applicable);

(c) illegality affecting the relevant Hedging Agreement;

(d) certain tax events; or

(e) the taking of Enforcement Action.

In certain limited circumstances, a Hedge Counterparty will also be entitled to terminate a Hedging Agreement as a result of a change in the Licence or the regulatory status of TWUL.

Notwithstanding the above, the Guarantor, or the Issuer (as applicable) shall not be prevented from terminating or closing out any transactions under a Hedging Agreement in accordance with the terms thereof:

(a) to the extent funded from the proceeds of any Financial Indebtedness, provided that no Event of Default would occur as a result of the incurrence of such Financial Indebtedness;

(b) to the extent not funded pursuant to (a) above, provided that the amount of the Secured Liabilities to be discharged would not exceed the amount that the Issuer or Guarantor (as applicable) would be entitled to pay by way of a Permitted Distribution (or any Permitted Distributions or dividends howsoever described) for the purposes of each applicable Finance Document; or

(c) if such discharge does not require any actual or contingent present or future payment by the Issuer or Guarantor (as applicable),

provided that, such termination or close out does not result in a breach of the terms of the Finance Documents.

If, on termination of any transaction under the Hedging Agreements occurring after the commencement of any Enforcement Action, a settlement amount or other amount falls due from a Hedge Counterparty to the Guarantor, or the Issuer (as applicable) then that amount shall be paid by that Hedge Counterparty to, or to the order of, the Security Trustee, treated as the proceeds of enforcement of the Transaction Security and applied in accordance with the terms of the Intercreditor Agreement.

INTERCREDITOR, ENFORCEMENT AND THE WORKING CAPITAL FACILITY AGREEMENT

The following is a summary of certain terms of the Intercreditor Agreement and the Working Capital Facility Agreement.

Intercreditor Agreement

The Intercreditor Agreement entered into between, amongst others, the Issuer, the Guarantor, the Working Capital Lenders, the Security Trustee, the Note Trustee (on behalf of the Noteholders) and the Issuing and Paying Agent.

The Intercreditor Agreement does not regulate amendments, waivers or releases in respect of the Note Documents, the Finance Documents or any other underlying credit documents that may be entered into from time to time between a Secured Creditor and the Issuer and/or the Guarantor (the Note Documents, the Finance Documents and any other underlying credit documents from time to time being the "**Underlying Credit Documents**"). (See "*Enforcement Action—Entrenched Rights and Reserved Matters*" below).

Other future credit providers, including any Additional Hedge Counterparties, may become Secured Creditors from time to time by acceding to the Intercreditor Agreement as Secured Creditors.

Secured Creditors and Secured Creditor Representatives

All Secured Creditors must be party to the Intercreditor Agreement (either directly, or through, in the case of the Noteholders, Couponholders and Receiptholders, the Note Trustee). The Intercreditor Agreement allows for the following creditors to accede to the Intercreditor Agreement as Secured Creditors by way of an accession deed:

(a) transferees or assignees of the Subordinated Lenders or Secured Creditors;

(b) any person which becomes a Secured Creditor Representative in accordance with the terms of the relevant Transaction Documents;

(c) lenders under any new bank facilities (including transferees); and

(d) Hedge Counterparties.

For the purposes of the Intercreditor Agreement, the Secured Creditors will be represented as follows by:

(a) in respect of the Initial Notes and any Additional Notes, the Note Trustee;

(b) in respect of the Working Capital Finance Documents, the Working Capital Facility Agent;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty (representing itself),

(each, a "**Secured Creditor Representative**").

Claims of the Secured Creditors

The Intercreditor Agreement regulates the claims of the Secured Creditors (which includes the Note Trustee on behalf of the Noteholders). Amounts received or recovered by the Security Trustee (i) from time to time and in ordinary course, pursuant to the terms of any Transaction Document or (ii) in connection with the realisation or enforcement of all or any part of the Transaction Security, are applied in the following order:

(a) **first**, on a pro rata basis:

(i) in payment of all fees, costs, charges, expenses and liabilities (including any taxes required to be paid) incurred by or on behalf of the Security Trustee, any receiver or any delegate appointed by the Security Trustee in connection with carrying out its functions under the Intercreditor Agreement and the other Transaction Documents (including in connection with any realisation or enforcement of the Transaction Security); and

(ii) in payment or satisfaction of the fees, costs, charges, expenses and liabilities (including any taxes required to be paid properly) incurred by the Note Trustee and any other delegate appointed by it or them in carrying out its or their functions under the Intercreditor Agreement and/or the applicable Note Documents;

(b) **second**, on a pro rata basis, in payment or satisfaction of the fees, costs, charges, expenses and liabilities properly incurred by the Working Capital Facility Agent, the Issuing and Paying Agent, the Transfer Agent, the Registrar, the Paying Agent, the Calculation Agent, any other agent in respect of an issue of Notes and any other agent in carrying out its functions under the Intercreditor Agreement and/or the Note Documents, the Agency Agreement, the applicable Additional Note Documents and/or the Finance Documents applicable to it;

(c) **third**, on a pro rata basis in payment to:

(i) the Note Trustee (on behalf of any Noteholders);

(ii) the Working Capital Facility Agent (on behalf of the Working Capital Finance Parties);

(iii) any agent (on behalf of the relevant Additional Finance Parties); and

(iv) each Hedge Counterparty,

for application (in accordance with the terms of the relevant Underlying Credit Documents) towards the discharge of the Secured Liabilities;

(d) **fourth**, if the Security Trustee has received written notice from the Issuer and the Guarantor that none of the Issuer and the Guarantor is under any further actual or contingent liability under any Transaction Document, in payment to any person to whom the Security Trustee is obliged to pay in priority to any of the Issuer and the Guarantor, as notified in writing by any of the Issuer and the Guarantor to the Security Trustee; and

(e) **fifth**, the balance, if any, in payment to the Issuer and the Guarantor (as shall be confirmed in writing to the Security Trustee by either of the Issuer or the Guarantor) for application by the Issuer or, as the case may be, the Guarantor in its discretion, including, if applicable and so decided, towards discharge of the Subordinated Liabilities.

"**Secured Liabilities**" means all the liabilities and all other present and future obligations at any time due, owing or incurred by any of the Issuer or the Guarantor to any Secured Creditor under the Transaction Documents, both actual and contingent and whether incurred solely or jointly and as principal or surety or in any other capacity.

"**Secured Creditors**" means:

(a) the Note Trustee (on its own behalf and on behalf of the Noteholders) and the initial Noteholders;

(b) the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar;

(c) any Additional Note Parties;

(d) the Working Capital Finance Parties;

(e) any Additional Finance Parties;

(f) the Original Hedge Counterparties;

(g) any Additional Hedge Counterparties; and

(h) the Security Trustee,

provided that, for the avoidance of doubt, Noteholders and holders of coupons in respect of Notes may only act through the Note Trustee.

Enforcement Action

No Secured Creditor Representative or the Security Trustee (either in relation to the Transaction Security or under the Intercreditor Agreement) may take Enforcement Action in relation to either the Issuer or the Guarantor other than:

(a) Permitted Enforcement Action; or

(b) following a Special Decision of the Majority Secured Creditors approving such action.

Following any Permitted Enforcement Action being taken, the Security Trustee shall promptly upon receiving instructions from the Secured Creditor Representative who has taken such Permitted Enforcement Action (in accordance with the terms of the relevant Underlying Credit Document), where such Secured Creditor Representative does not represent the Majority Secured Creditors, seek instructions from the other Secured Creditors in relation to taking Enforcement Action (other than Permitted Enforcement Action).

"**Permitted Enforcement Action**" means:

(a) the cancellation of any commitments by a Secured Creditor following the occurrence of an event of default (howsoever described) and/or the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case, in accordance with the terms of the Underlying Credit Documents; and

(b) the suing for, commencing or joining of any legal or arbitration proceedings against any of the Issuer and the Guarantor to recover any Liabilities,

in each case, in accordance with the Underlying Credit Documents.

Following any Enforcement Action being taken (other than Permitted Enforcement Action by any Hedge Counterparty), the liabilities of all Secured Creditors will be automatically accelerated and, subject to receiving instructions from the Majority Secured Creditors (following a Special Decision of the Majority Secured Creditors) and such indemnities, pre-funding or security as it may require, the Security Trustee shall enforce the Security without need for further instruction.

None of the Subordinated Lenders shall be entitled to take any Enforcement Action unless all the Secured Liabilities have been repaid or discharged in full.

Amendments/Waivers and Releases under the Intercreditor Agreement or the Transaction Security Documents

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Majority Secured Creditors and subject to the Entrenched Rights of each Secured Creditor.

No amendments or waivers in respect of the Intercreditor Agreement or in respect of the Transaction Security Documents may be made except with the written agreement of the Issuer and the Guarantor.

Entrenched Rights and Reserved Matters

The Intercreditor Agreement sets out that the following constitute "**Entrenched Rights**" of the Secured Creditors:

(a) any amendment or waiver which would result in an increase in or would adversely modify the obligations or liabilities of a Secured Creditor or materially reduce the rights of a Secured Creditor, in each case under the Intercreditor Agreement;

(b) any amendment or waiver which would result in any release of any of the Transaction Security (unless at least equivalent replacement security is taken at the same time or such release is permitted in accordance with the Intercreditor Agreement or the Security Agreement);

(c) in respect of the Transaction Security, any amendment or waiver which would adversely alter the rights of priority of or enforcement by a Secured Creditor;

(d) any amendment or waiver which would change any of the Entrenched Rights; or

(e) any amendment or waiver which would change the Secured Creditor decision-making process contained in the Intercreditor Agreement.

If an Entrenched Right of a Secured Creditor is affected, the relevant Secured Creditor's approval must be obtained in accordance with the provisions of the relevant Underlying Credit Document before the proposed change can be made. No Entrenched Right will prevent enforcement or acceleration instructions given in accordance with the Intercreditor Agreement or prevent anything expressly permitted by the relevant Underlying Credit Documents.

The relevant Secured Creditors may agree to amend or waive the terms of the Underlying Credit Documents in accordance with the terms of those Underlying Credit Documents without the consent of any Secured Creditors that are not party to such documents.

Voting

The Intercreditor Agreement specifies that Secured Creditor Representatives may give instructions or directions in respect of:

(a) the exercise by the Security Trustee of any of its rights, powers and discretions; and

(b) subject to Entrenched Rights, amendments, waivers and releases under the Intercreditor Agreement and the Transaction Security Documents.

The Security Trustee may request and must act on instructions given by such Secured Creditor Representative or Secured Creditor Representatives representing: (i) at least in aggregate 66 2/3 per cent. of Total Commitments where the instructions relate to a Special Decision; or (ii) greater than in aggregate 50 per cent. of Total Commitments, where the instructions relate to any Ordinary Decision (the "**Majority Secured Creditors**").

“**Total Commitments**” means:

(a) prior to the taking of Enforcement Action: (i) the total commitments under the Finance Documents; plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes issued under the Note Documents; and

(b) following the taking of Enforcement Action: (i) the aggregate principal amount outstanding under the Finance Documents and the Note Documents (including, if applicable, any accretion due to indexation); plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable Exchange Rate.

“**Positive Value**” means in respect of each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantor (as applicable) following termination of the relevant Hedging Agreements.

“**Exchange Rate**” means the spot rate at which any currency is converted to pounds sterling as quoted by certain banks as at 11:00 a.m. on the final Business Day on which Secured Creditors may vote on any matter on which the Security Trustee has sought the instructions of the Majority Secured Creditors pursuant to the Intercreditor Agreement.

In relation to any consent, waiver, approval, discretion, determination, instruction or other decision or any other derivative thereof (the “**decision**”) to be made pursuant to the Intercreditor Agreement, the Security Trustee shall notify the Obligors and each Secured Creditor Representative of the matter in question and shall also inform each Secured Creditor Representative of the date on which it must provide its vote in relation to the relevant decision (being 30 Business Days after the date upon which the Security Trustee gives such notice) (the “Decision Date”).

Each Secured Creditor Representative shall, by the Decision Date, provide to the Security Trustee a certificate setting out directions to the Security Trustee as to the decision of its Secured Creditors, and the certificate shall include the Commitments in respect of the relevant Underlying Credit Document.

“**Commitments**” means:

(a) prior to the taking of Enforcement Action:

  (i) in respect of any Loan Facility, the total commitments under such Loan Facility;

  (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

  (iii) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

  (i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

  (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

  (iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement.

If a Secured Creditor Representative has not notified the Security Trustee of its instructions in relation to a decision by the Decision Date, then in respect of any decision which is required to be made by the

Majority Secured Creditors, the Commitments in respect of the relevant Underlying Credit Document shall be excluded from the Total Commitments to be:

(A) considered as voting in favour of the relevant decision (the numerator); and

(B) used for determining whether the requisite percentage of votes has been cast in favour of the matter in question (the denominator),

for the purpose of determining whether the requisite voting levels have been attained in relation to that decision, provided that such a reduction in voting entitlement shall not apply to any matter where an Entrenched Right is affected.

In respect of Underlying Credit Documents which constitute a series of Notes, the holders of such Notes will be represented in their entirety by the Note Trustee (100 per cent. of principal outstanding will be voted for or against based on the voting mechanics in the Trust Deed).

In respect of Underlying Credit Documents which are bank facilities, the lenders will be represented in their entirety by the agent in respect of the relevant facility (100 per cent. of commitments or principal outstanding (as the case may be) will be voted for or against based on the voting mechanics in the relevant facility agreement).

In respect of the Hedge Counterparties, each Hedge Counterparty will have no vote prior to the taking of Enforcement Action (save in respect of a veto in relation to amendments which would affect the relevant Entrenched Rights). Following the taking of Enforcement Action, each Hedge Counterparty will vote the aggregate Positive Value under the relevant Hedging Agreement.

Prepayments

The Issuer and the Guarantor may make payments (including voluntary prepayments and redemptions in accordance with the terms of the relevant Finance Document) to the Secured Creditors from time to time in respect of the Secured Liabilities then due in accordance with the terms of the relevant Finance Document.

Working Capital Facility Agreement

On 25 October 2018 the Guarantor entered into the Working Capital Facility Agreement. The Working Capital Facility Agreement contains representations and warranties together with covenants and events of default that are, broadly, more extensive than those contained in the terms and conditions of the Notes and in the Trust Deed. The Working Capital Facility Agreement provides a revolving credit facility to finance working capital and the general corporate purposes of the Group.

Events of Default

The events of default in the Working Capital Facility Agreement include:

(a) cross acceleration and non-payment cross default in respect of the Notes; and

(b) a breach of the Intercreditor Agreement (subject to material adverse effect), loss of, or changes to, the Licence and the occurrence of any event or circumstance which has or could reasonably be expected to have, in the reasonable opinion of the majority lenders, a material adverse effect or occur due to a breach by TWUL.

Covenants

The covenants in the Working Capital Facility Agreement include:

(a) restrictions on: (i) acquisitions by either the Issuer or the Guarantor; and (ii) a disposal of TWUL by the Guarantor or any member of the Group; and

(b) restrictions on the incurrence of Financial Indebtedness and the provision of guarantees (subject to certain exceptions).

Negative Pledge

The Working Capital Facility Agreement contains a negative pledge pursuant to which the Issuer and the Guarantor shall not (and the Guarantor must procure that no Intermediate Subsidiary shall), subject to certain exceptions, create or permit to subsist: (i) any Security over any of its assets; or (ii) "*Quasi Security*" (each as defined in the Working Capital Facility Agreement).

Financial Covenants

Each of the Issuer and the Guarantor is required to comply with substantially similar financial covenants to those described in "*Terms and Conditions of the Notes—Events of Default*" above.

Permitted Enforcement Action

As a result of the more extensive representations, warranties, covenants and events of default in the Working Capital Facility Agreement, the agent in respect of the Working Capital Facility Agreement (as a Secured Creditor Representative) may take Permitted Enforcement Action at a time when the Note Trustee may not do so. The taking of any Permitted Enforcement Action by the agent in respect of the Working Capital Facility Agreement will trigger the cross acceleration provision in the Notes which will permit the Note Trustee (subject to approval from the Noteholders) to take Permitted Enforcement Action. See "*Enforcement Action*" above.

TAXATION

UK Tax Considerations

The comments below are of a general nature based on current United Kingdom law as applied in England and Wales and HM Revenue & Customs practice (which may not be binding on HM Revenue & Customs) and are not intended to be exhaustive. Any Noteholders who are in doubt as to their own tax position should consult their professional advisers. In particular, Noteholders should be aware that the tax legislation of any jurisdiction where a Noteholder is resident or otherwise subject to taxation may have an impact on the tax consequences of an investment in the Notes including in respect of any income received from the Notes.

Interest on the Notes

While the Notes are and continue to be listed on a recognised stock exchange within the meaning of Section 1005 Income Tax Act 2007, payments of interest by the Issuer may be made without withholding or deduction for or on account of UK income tax. The London Stock Exchange is a recognised stock exchange for these purposes. Securities will be treated as listed on the London Stock Exchange if they are included in the Official List of the Financial Conduct Authority and are admitted to trading on the London Stock Exchange. In addition, even if the Notes are not so listed, no withholding or deduction for or on account of UK income tax will apply if the relevant interest is not "yearly interest". Interest payable on Notes with a maturity of less than one year from the date of issue and which are not issued under a scheme or arrangement the intention or effect of which is to render such Notes part of a borrowing with a total term of a year or more will not be yearly interest.

In cases falling outside the two exemptions described above, interest on the Notes will generally be paid under deduction of UK income tax at the basic rate (currently 20 per cent.), subject to the availability of other reliefs under domestic law or to any direction to the contrary from HM Revenue & Customs in respect of such relief as may be available pursuant to the provisions of any applicable double taxation treaty.

Payments in respect of the Guarantee

The United Kingdom withholding tax treatment of payments by the Guarantor under the terms of the Guarantee in respect of interest on the Notes (or other amounts due under the Notes other than the repayment of amounts subscribed for the Notes) is uncertain. In particular, such payments by the Guarantor may not be eligible for the exemption from withholding on account of United Kingdom tax in respect of securities listed on a recognised stock exchange described above in relation to payments of interest by the Issuer. Accordingly, if the Guarantor makes any such payments and they have a United Kingdom source, these may be subject to United Kingdom withholding tax at the basic rate (currently 20 per cent.).

Other Rules relating to United Kingdom Withholding Tax

Notes may be issued at an issue price of less than 100 per cent. of their principal amount. Any discount element on any such Notes should not be subject to any UK withholding tax pursuant to the provisions mentioned in the section "*Interest on the Notes*" above.

Where Notes are issued with a redemption premium, as opposed to being issued at a discount, then any element of such premium may constitute a payment of interest. Payments of interest are subject to UK withholding tax as outlined above.

Where interest has been paid under deduction of UK income tax, Noteholders who are not resident in the UK may be able to recover all or part of the tax deducted if there is an appropriate provision in any applicable double taxation treaty.

The references to "interest" above mean "interest" as understood in UK tax law. The above statements do not take any account of any different definitions of "interest" or "principal" which may prevail under any other law or which may be created by the terms and conditions of the Notes or any related documentation.

The above description of the United Kingdom withholding tax position assumes that there will be no substitution of the Issuer and does not consider the tax consequences of any such substitution (notwithstanding that such substitution may be permitted by the terms and conditions of the Notes).

Other tax considerations

Foreign Account Tax Compliance Act ("FATCA")

Pursuant to certain provisions of the U.S. Internal Revenue Code of 1986, commonly known as FATCA, a "foreign financial institution" may be required to withhold on certain payments it makes ("foreign passthru payments") to persons that fail to meet certain certification, reporting, or related requirements. A number of jurisdictions (including the United Kingdom) have entered into, or have agreed in substance to, intergovernmental agreements with the United States to implement FATCA ("IGAs"), which modify the way in which FATCA applies in their jurisdictions. Under the provisions of IGAs as currently in effect, a foreign financial institution in an IGA jurisdiction would generally not be required to withhold under FATCA or an IGA from payments that it makes. Certain aspects of the application of the FATCA provisions and IGAs to instruments such as the Notes, including whether withholding would ever be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, are uncertain and may be subject to change. Even if withholding would be required pursuant to FATCA or an IGA with respect to payments on instruments such as the Notes, proposed regulations have been issued that provide that such withholding would not apply prior to the date that is two years after the date on which final regulations defining foreign passthru payments are published in the U.S. Federal Register. In the preamble to the proposed regulations, the U.S. Treasury Department indicated that taxpayers may rely on these proposed regulations until the issuance of final regulations. Holders should consult their own tax advisors regarding how these rules may apply to their investment in the Notes. In the event any withholding would be required pursuant to FATCA or an IGA with respect to payments on the Notes, no person will be required to pay additional amounts as a result of the withholding.

SUBSCRIPTION AND SALE

Summary of the Dealership Agreement

Subject to the terms and on the conditions contained in a Dealership Agreement originally dated 25 March 2011 and as amended, supplemented, novated and/or restated from time to time (the "**Dealership Agreement**") between the Issuer, the Guarantor and the Permanent Dealers, the Notes will be offered on a continuous basis by the Issuer to the Permanent Dealers or such other Dealers as may be appointed from time to time in respect of any Series pursuant to the Dealership Agreement. The Notes may be resold at prevailing market prices, or at prices related thereto, at the time of such resale, as determined by the relevant Dealer. The Notes may also be sold by the Issuer through the Dealers, acting as agents of the Issuer. The Dealership Agreement also provides for Notes to be issued in syndicated Tranches that are jointly and severally underwritten by two or more Dealers.

The Issuer will pay each relevant Dealer a commission as agreed between them in respect of Notes subscribed by it. The Issuer has agreed to reimburse the Arranger for certain of their expenses incurred in connection with the update of the Programme and the Dealers for certain of their activities in connection with the issuance of Notes under the Programme.

The Issuer has agreed to indemnify the Dealers against certain liabilities in connection with the offer and sale of the Notes. The Dealership Agreement entitles the Dealers to terminate any agreement that they make to subscribe Notes in certain circumstances prior to payment for such Notes being made to the Issuer.

Dealers transacting with the Issuer

Certain of the Dealers and their affiliates have engaged, and may in the future engage, in investment banking and/or commercial banking transactions with and may perform services for the Issuer and its affiliates in the ordinary course of business. Certain of the Dealers and their affiliates may have positions, deal or make markets in the Notes issued under the Programme, related derivatives and reference obligations, including (but not limited to) entering into hedging strategies on behalf of the Issuer and its affiliates, investor clients, or as principal in order to manage their exposure, their general market risk, or other trading activities.

In addition, in the ordinary course of their business activities, the Dealers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or the Issuer's affiliates. Certain of the Dealers or their affiliates that have a lending relationship with the Issuer routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, such Dealers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in securities, including potentially the Notes issued under the Programme. Any such positions could adversely affect future trading prices of Notes issued under the Programme. The Dealers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

Selling and Transfer Restrictions

United States

Selling Restrictions

General

Neither the Issuer, the Guarantor nor any Dealer has made any representation that any action will be taken in any jurisdiction by the Dealers, the Issuer, or the Guarantor that would permit a public offering of the Notes, or possession or distribution of this Prospectus (in preliminary, proof or final form) or any other offering or publicity material relating to the Notes (including roadshow materials and investor presentations), in any country or jurisdiction where action for that purpose is required. Each Dealer has agreed that it will comply to the best of its knowledge and belief in all material respects with all applicable laws and regulations in each jurisdiction in which it acquires, offers, sells or delivers Notes or has in its possession or distributes this Prospectus (in preliminary, proof or final form) or any such other material, in all cases at its own expense. It will also ensure that no obligations are imposed on the Issuer, the Guarantor or any other Dealer in any such jurisdiction as a result of any of the foregoing actions.

United States

The Notes and the Guarantee have not been and will not be registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or the securities laws or "blue sky" laws of any state or any other relevant jurisdiction of the United States and therefore the Notes may not be offered or sold, or in the case of Bearer Bonds, delivered, within the United States or to, or for the account or benefit of, U.S. persons except in accordance with Regulation S under the Securities Act ("**Regulation S**") or pursuant to an exemption from the registration requirements of the Securities Act and applicable state or local securities laws. The Notes may include Bearer Notes that are subject to U.S. tax law requirements. Terms used in this paragraph have the meaning given to them in Regulation S. The Notes and the Guarantee are being offered and sold outside the United States to non-U.S. persons in reliance on Regulation S. The Notes may include Bearer Notes that are subject to U.S. tax law requirements. Each Dealer represents and agrees that it has not offered and sold, or in the case of Bearer Notes, delivered, the Notes and the Guarantee and agrees that it will offer and sell the Notes or the Guarantee: (i) as part of their distribution at any time; and (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, only in accordance with Rule 903 of Regulation S. Accordingly, neither it, its affiliates nor any persons acting on its or their behalf have engaged or will engage in any directed selling efforts with respect to the Notes, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Each Dealer and its respective affiliates agree that, at or prior to confirmation of the sale of the Notes, it will have sent to each distributor, dealer or person receiving a selling concession, fee or other remuneration that purchases Notes from it during the distribution compliance period a confirmation or notice to substantially the following effect:

"The securities covered hereby have not been registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") and may not be offered or sold, or in the case of Bearer Notes, delivered, within the United States or to, or for the account or benefit of, U.S. persons: (i) as part of their distribution at any time; or (ii) otherwise until 40 days after the later of the commencement of the offering and the Closing Date, except in either case in accordance with Regulation S under the Securities Act. Terms used above have the meanings given to them by Regulation S under the Securities Act."

Terms used in the two preceding paragraphs have the meanings given to them by Regulation S.

Until 40 days after the commencement of the offering of any Series of Notes, an offer or sale of such Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

The relevant Final Terms or Drawdown Prospectus will specify whether United States Treasury Regulation §1.163-(c)(2)(i)(C) (or any successor rules in substantially the same form that are applicable for the purposes of Section 4701 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**")) ("**TEFRA C**") or United States Treasury Regulation §1.163-5(c)(2)(i)(D) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of the Code) ("**TEFRA D**") is applicable in relation to the Bearer Notes, or whether the Bearer Notes are issued other than in compliance with TEFRA C or TEFRA D but in circumstances in which the Bearer Notes will not constitute "registration required obligations" under the United States Tax Equity and Fiscal Responsibility Act of 1982 ("**TEFRA**"), which circumstances will be referred to in the relevant Final Terms or Drawdown Prospectus as a transaction to which TEFRA is not applicable.

In addition, solely with respect to the Bearer Notes where TEFRA D is specified in the relevant Final Terms or Drawdown Prospectus:

(a) except to the extent permitted under TEFRA D, each Dealer: (a) represents that it has not offered or sold, and agrees that during a 40-day restricted period it will not offer or sell, Notes to a person who is within the United States or its possessions or to a United States person; and (b) represents that it has not delivered and agrees that it will not deliver within the United States or its possessions definitive Notes that are sold during the restricted period;

(b) each Dealer represents that it has and agrees that throughout the restricted period it will have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling Notes are aware that such Notes may not be offered or sold during the restricted period to a person who is within the United States or its possessions or to a United States person, except as permitted by TEFRA D;

(c) if it is a United States person, each Dealer represents that it is acquiring the Notes for purposes of resale in connection with their original issue and, if it retains Notes for its own account, it will only do so in accordance with the requirements of U.S. Treas. Reg. §1.163-5(c)(2)(i)(D)(6) (or any successor rules in substantially the same form that are applicable for purposes of Section 4701 of Code); and

(d) with respect to each affiliate that acquires from it Notes for the purpose of offering or selling such Notes during the restricted period, each Dealer either: (a) repeats and confirms the representations and agreements contained in clauses (a), (b) and (c) on its behalf; or (b) agrees that it will obtain from such affiliate for the benefit of the Issuer the representations and agreements contained in clauses (a), (b) and (c).

Terms used in clauses (a), (b), (c) and (d) above have the meanings given to them by the Code and U.S. Treasury regulations thereunder, including TEFRA D.

Further, solely with respect to the Bearer Notes where TEFRA C is specified in the applicable Final Terms or Drawdown Prospectus, such Bearer Notes must be issued and delivered outside the United States and its possessions in connection with their original issuance by an issuer that (directly or indirectly through its agents) does not significantly engage in interstate commerce with respect to the issuance. Each Dealer represents and agrees that it has not offered, sold or delivered, and will not offer, sell or deliver, directly or indirectly, such Bearer Notes within the United States or its possessions in connection with their original issuance. Further, each Dealer represents and agrees in connection with the original issuance of such Bearer Notes that it has not communicated, and will not communicate, directly or indirectly, with a prospective purchaser if such purchaser is within the United States or its possessions and will not otherwise involve its U.S. office in the offer or sale of such Bearer Notes. Terms used in this paragraph have the meanings given to them by the Code and Treasury regulations promulgated thereunder, including TEFRA C.

United Kingdom

Each Dealer represented and agreed that, and each further Dealer under the Programme will be required to represent and agree, that:

(a) in relation to any Notes which have a maturity of less than one year: (a) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and (b) it has not offered or sold and will not offer or sell any Notes other than to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses where the issue of the Notes would otherwise constitute a contravention of section 19 of the FSMA by the Issuer;

(b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer or Guarantor; and

(c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

Prohibition of Sales to EEA Retail Investors

Each Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes which are the subject of the offering contemplated by the Prospectus as completed by the Final Terms in relation thereto to any retail investor in the European Economic Area. For the purposes of this provision:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

    (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); or

    (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or

    (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (the "**Prospectus Regulation**") as amended from time to time; and

    the expression "**offer**" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

Prohibition of Sales to UK Retail Investors

Each Dealer has represented and agreed that it has not offered, sold or otherwise made available and will not offer, sell or otherwise make available any Notes to any retail investor in the United Kingdom. For the purposes of this provision:

(a) the expression "retail investor" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the EUWA; or

(ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or

(iii) not qualified investor as defined in the UK Prospectus Regulation, as amended from time to time; and

(b) the expression an "offer" includes the communication in any form and by any means of sufficient information on the terms of the offer and the Notes to be offered so as to enable an investor to decide to purchase or subscribe for the Notes.

FORM OF FINAL TERMS

The form of Final Terms that will be issued in respect of each Tranche, subject only to the deletion of non-applicable provisions, is set out below:

IMPORTANT – PROHIBITION OF SALES TO EEA RETAIL INVESTORS - The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area ("**EEA**") For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, "**MiFID II**"); (ii) a customer within the meaning of Directive (EU) 2016/97 (the "**Insurance Distribution Directive**"), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129. Consequently no key information document required by Regulation (EU) No 1286/2014 (as amended, the "**PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation.

PROHIBITION OF SALES TO UK RETAIL INVESTORS – The Notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom ("**UK**"). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); (ii) a customer within the meaning of the provisions of the FSMA and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA. Consequently no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the "**UK PRIIPs Regulation**") for offering or selling the Notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the Notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation.

[**MiFID II Product Governance–** Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

[**UK MiFIR product governance**– Solely for the purposes of [the/each] manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is only eligible counterparties as defined in the FCA Handbook Conduct of Business Sourcebook, and professional clients as defined in Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**UK MiFIR**"); and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturer['s/s'] target market assessment; however, a distributor subject to the FCA 232 Handbook Product Intervention and Product Governance Sourcebook (the "**UK MiFIR Product Governance Rules**") is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturer['s/s'] target market assessment) and determining appropriate distribution channels.]

Final Terms dated [●]

THAMES WATER (KEMBLE) FINANCE PLC

Issue of [Aggregate Nominal Amount of Tranche] [Title of Notes]
unconditionally and irrevocably guaranteed by Kemble Water Finance Limited
under the £1,000,000,000 Guaranteed Secured Medium Term Note Programme

Part A – Contractual Terms

Terms used herein shall be deemed to be defined as such for the purposes of the Conditions set forth in the Prospectus dated [ ] 2021 which constitutes a prospectus for the purposes of the Prospectus Regulation. [This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with such Prospectus [as so supplemented] in order to obtain all the relevant information.][1] The Prospectus [and the supplemental prospectus] [is] [are] available for viewing [at [www.thameswater.co.uk]] [and] during normal business hours at [Clearwater Court, Vastern Road, Reading RG1 8DB] [and copies may be obtained from [Winchester House, 1 Great Winchester Street, London EC2N 2DB]]. The Prospectus and (in the case of Notes listed and admitted to trading on the main market of London Stock Exchange) the applicable Final Terms will also be available on the website of the Financial Conduct Authority, trading at London Stock Exchange at: [ ].

[Terms used herein shall be deemed to be defined as such for the purposes of the Conditions (the "**Conditions**") set forth in the Prospectus dated [25 March 2011 / 26 June 2015 / 2 April 2020 / 2 September 2020] and incorporated by reference into the Prospectus dated [ ] 2021 [and the supplemental prospectus dated [●]]. [This document constitutes the Final Terms of the Notes described herein for the purposes of the Prospectus Regulation and must be read in conjunction with the Prospectus dated [●] [and the supplemental prospectus dated [●], which [together] constitute[s] a prospectus for the purposes of the Prospectus Regulation in order to obtain all the relevant information].][2] The Prospectuses [and the supplemental prospectus] are available for viewing [at [www.thameswater.co.uk]] [and] during normal business hours at [Clearwater Court, Vastern Road, Reading RG1 8DB] [and copies may be obtained from Clearwater Court, Vastern Road, Reading RG1 8DB]. The Prospectus and (in the case of Notes listed and admitted to trading on the main market of London Stock Exchange) the applicable Final Terms will also be available on the website of the Financial Conduct Authority, trading at London Stock Exchange at: [ ].]

1.	(i)	Issuer:	Thames Water (Kemble) Finance PLC LEI: 213800S7UU2MQXYJQO60
	(ii)	Guarantor:	Kemble Water Finance Limited
2.	(i)	Series Number:	[●]
	(ii)	Tranche Number:	[●]
3.		Specified Currency or Currencies:	[●]
4.		Aggregate Nominal Amount of Notes:	[●]

[1] To be removed in respect of an unlisted issuance.

[2] To be removed in respect of an unlisted issuance.

	(i)	Series:	[●]
	(ii)	Tranche:	[●]
5.	(i)	Issue Price:	[●] per cent. of the Aggregate Nominal Amount [plus accrued interest from [[●]]
	(ii)	Net proceeds:	[●]
6.	(i)	Specified Denominations:	[●] [[●s] and integral multiples of [●] in excess thereof up to and including [●]. No Notes in definitive form will be issued with a denomination above [●].]
	(ii)	Calculation Amount:	[●]
7.	(i)	Issue Date:	[●]
	(ii)	Interest Commencement Date:	[●]
8.	Maturity Date:		[●]
9.	Interest Basis:		[●] per cent. Fixed Rate] [[EURIBOR/SONIA] +/– [●] per cent. Floating Rate] [Zero Coupon]
10.	Redemption/Payment Basis:		[Redemption at par]
11.	Put/Call Options:		[Investor Put] [Issuer Call]
12.	[Date [Board] approval for issuance of Notes obtained:		[●] [and [●], respectively]]

Provisions relating to Interest (if any) Payable

13.	**Fixed Rate Note Provisions**		[Applicable/Not Applicable]
	(i)	Rate[(s)] of Interest:	[●] per cent. per annum [payable [annually/semi-annually/quarterly/monthly/[●]] in arrear]
	(ii)	Interest Payment Date(s):	[●] in each year [adjusted in accordance with [●]/not adjusted]
	(iii)	Fixed Coupon Amounts:	[●] per Calculation Amount
	(iv)	Broken Amounts:	[●] per Calculation Amount payable on the Interest Payment Date falling [in/on] [●]
	(v)	Day Count Fraction:	[Actual/Actual] [Actual/Actual – ISDA] [Actual/365 (Fixed)] [Actual/360] [30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
	(vi)	Determination Dates:	[●] in each year
14.	**Floating Rate Note Provisions**		[Applicable/Not Applicable]

(i)	Interest Period(s):	[●]
(ii)	Specified Interest Payment Dates:	[●]
(iii)	First Interest Payment Date:	[●]
(iv)	Interest Period Date:	[●]
(v)	Business Day Convention:	[Floating Rate Convention/Following Business Day Convention/Modified Following Business Day Convention/Preceding Business Day Convention]
(vi)	Manner in which the Rate(s) of Interest is/are to be determined:	[Screen Rate Determination/ISDA Determination]
(vii)	Party responsible for calculating the Rate(s) of Interest and/or Interest Amount(s) (if not the [Calculation Agent]):	[●]
(viii)	Screen Rate Determination:	
	– Reference Rate:	[EURIBOR] / [SONIA Compounded Daily Reference Rate [with Observation Shift] / [with Lag] where "p" is: [*specify number]* London Business Days [being no less than 5 London Business Days]]
	– Interest Determination Date(s):	[●] / [The last London Business Day of the relevant Observation Period / [2 London Business Days] prior to the first day in each Interest Period]
	– Relevant Screen Page:	[EURIBOR] / / [Bloomberg Screen Page: SONIO/N Index] / SONIA Compounded Daily Reference Rate as applicable]]
	– Relevant Fallback Screen page:	[●]/ [see pages of authorised distributors for SONIA Compounded Daily Reference Rate as applicable]]
(ix)	ISDA Determination:	
	Floating Rate Option:	[●]
	– Designated Maturity:	[●]
	– Reset Date:	[●]
	– ISDA Definitions:	2006
(x)	Linear Interpolation:	[Not Applicable/Applicable – the Rate of Interest for the [long/short] [first/last] Interest Period shall be calculated using Linear Interpolation]
(xi)	Margin(s):	[+/-][●] per cent. per annum
(xii)	Minimum Rate of Interest:	[●] per cent. per annum
(xiii)	Maximum Rate of Interest:	[●] per cent. per annum
(xiv)	Day Count Fraction:	[Actual/Actual] [Actual/Actual- ISDA] [Actual/365 (Fixed)] [Actual/360]

		[30/360][360/360][Bond Basis] [30E/360][Eurobond Basis] [30E/360 (ISDA)] [Actual/Actual-ICMA]
15.	**Zero Coupon Note Provisions**	[Applicable/Not Applicable]
	(i) Amortisation Yield:	[Condition 6(b)(i) (*Zero Coupon Notes*) applies/specify other] per cent. per annum

Provisions relating to Redemption

16.	**Issuer Maturity Call**	[Applicable in accordance with Condition 6(j)/Not Applicable]
	(i) Issuer Maturity Call Period	The period commencing on (and including) the day that is [●] days prior to the Maturity Date to (and excluding) the Maturity Date.
17.	**Call Option**	[Applicable in accordance with Condition 6(i)/Not Applicable]
	(i) Optional Redemption Date(s):	Any Interest Payment Date prior to the first day of the Issuer Maturity Call Period [In the case of Floating Rate Notes, not before [●] and at a premium of [●], if any.]
	(ii) Optional Redemption Amount(s):	[●] per Calculation Amount
	(iii) If redeemable in part:	
	(a) Minimum Redemption Amount:	[●] per Calculation Amount
	(b) Maximum Redemption Amount:	[●] per Calculation Amount
	(iv) Notice period (if other than as set out in the Conditions)	[Not Applicable]/As set out in the Conditions/[●]
	(v) Final Redemption Amount:	[●] per Calculation Amount
18.	**Put Option**	[Applicable/Not Applicable]
	(i) Optional Redemption Date(s):	[●]
	(ii) Optional Redemption Amount(s) of each Note:	[●] per Calculation Amount
	(iii) Notice period (if other than as specified in the Conditions)	[●]
19.	**Final Redemption Amount of each Note**	[●] per Calculation Amount
20.	**Early Redemption Amount**	[●]
	Early Redemption Amount(s) per Calculation Amount payable on redemption for taxation reasons or on event of default:	

General Provisions applicable to the Notes

21.	Form of Notes:	**Bearer Notes:** [Temporary Global Note exchangeable for a Permanent Global Note which is exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] [Temporary Global Note exchangeable for Definitive Notes on [●] days' notice] [Permanent Global Note exchangeable for Definitive Notes in the limited circumstances specified in the Permanent Global Note] **Registered Notes:** [Regulation S Global Note (U.S.$/€[●] nominal amount) registered in the name of a nominee for [a common depositary for Euroclear and Clearstream, Luxembourg/a common safekeeper for Euroclear and Clearstream, Luxembourg (that is, held under the NSS)]]
22.	New Global Note:	[Yes] [No]
23.	Additional Business Day Centre(s):	[Not Applicable/[●]]
24.	Talons for future Coupons or Receipts to be attached to Definitive Notes (and dates on which such Talons mature):	[Yes/No]

Distribution

25.	(i) If syndicated, names of Managers:	[Not Applicable/[●]]
	(ii) Stabilising Manager(s) (if any):	[Not Applicable/[●]]
26.	If non-syndicated, name of Dealer:	[Not Applicable/[●]]
27.	U.S. Selling Restrictions:	[Reg. S Compliance Category; TEFRA C/ TEFRA D/TEFRA Not Applicable]

Third Party Information

[[●] has been extracted from [●]. [Each of the] [The] Issuer [and the Guarantor] confirms that such information has been accurately reproduced and that, so far as it is aware, and is able to ascertain from information published by [●], no facts have been omitted which would render the reproduced information inaccurate or misleading.]

Signed on behalf of the Issuer:

By: ………………………………………………………………….
Duly authorised

Signed on behalf of the Guarantor:

By: ………………………………………………………………….
Duly authorised

Part B – Other Information

1. **Listing**

(i) Listing	[Listed on the Official List of Financial Conduct Authority][Not Applicable]
(i) Admission to trading:	[Application has been made for the Notes to be admitted to trading on Main Market of the London Stock Exchange with effect from [●][Not Applicable]
(ii) Estimate of total expenses related to admission to trading:	[●]

2. **Ratings**

Ratings:	The Notes to be issued have been rated: [Moody's: [●]] [Fitch: [●]] [Need to include a brief explanation of the meaning of the ratings if this has previously been published by the ratings provider]

3. **[Interests of Natural and Legal Persons involved in the [Issue/Offer]]**

   [●]

4. **[Reasons for the Offer, Estimated net Proceeds, Total Expenses and Use of Proceeds**

[(i) Reasons for the offer	[●]]
[(ii)] Estimated net proceeds:	[●]
[(iii)] Estimated total expenses:	[●]
[(iv)] Use of proceeds	[●]

5. **[Fixed Rate Notes only – YIELD**

Indication of yield:	[●] per cent. per annum The yield is calculated at the Issue Date on the basis of the Issue Price. It is not an indication of future yield.]

6. **Operational Information**

ISIN Code:	[●]
Common Code:	[●]
Any clearing system(s) other than Euroclear Bank SA/NV and Clearstream Banking, S.A. and the relevant identification number(s):	[Not Applicable/[●]]
Intended to be held in a manner which would allow Eurosystem eligibility:	[Yes. Note that the designation "yes" simply means that the Notes are intended upon issue to be deposited with one of the ICSDs as common safekeeper[, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes which are to be held under the NSS] and does not necessarily mean that the Notes will be recognised as

	eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem either upon issue or at any or all times during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.] /[No. Whilst the designation is specified as "no" at the date of these Final Terms, should the Eurosystem eligibility criteria be amended in the future such that the Notes are capable of meeting them the Notes may then be deposited with one of the ICSDs as common safekeeper [, and registered in the name of a nominee of one of the ICSDs acting as common safekeeper] [include this text for Registered Notes]. Note that this does not necessarily mean that the Notes will then be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations by the Eurosystem at any time during their life. Such recognition will depend upon the ECB being satisfied that Eurosystem eligibility criteria have been met.]
Delivery:	Delivery [against/free of] payment
Names and addresses of initial Paying Agent(s):	[●]
Names and addresses of additional Paying Agent(s) (if any)	[●]

GENERAL INFORMATION

The listing of Notes on the Official List will be expressed as a percentage of their nominal amount (exclusive of accrued interest). It is expected that each Tranche of the Notes which is to be admitted to the Official List and to trading on the Main Market will be admitted separately as and when issued, subject only to the issue of a temporary Global Note or permanent Global Note (or one or more Certificates) in respect of each Tranche. The listing of the Programme in respect of the Notes is expected to be granted on or about 26 October 2021. Prior to official listing and admission to trading, however, dealings will be permitted by London Stock Exchange in accordance with its rules. Transactions will normally be effected for delivery on the third working day after the day of the transaction.

Each of the Issuer and the Guarantor has obtained all necessary consents, approvals and authorisations in England and Wales in connection with the establishment and update of the Programme and the Guarantee. The establishment of the Programme was authorised by a resolution of the board of directors of the Issuer and passed on 24 March 2011 and the giving of the Guarantee by the Guarantor was authorised by a resolution of the board of directors of the Guarantor and passed on 24 March 2011 and the update of the Programme was authorised by further resolutions of the board of directors of the Issuer passed on 2 July 2021 and 1 October 2021 and the resolution of the board of directors of the Guarantor passed on 1 October 2021.

There has been no significant change in the financial performance of: (i) the Issuer; (ii) the Guarantor; or (iii) the Group since 31 March 2021. There has been no material adverse change in the financial position or prospects of: (a) the Issuer; (b) the Guarantor; or (c) the Group, since 31 March 2021. There has been no significant change in the financial position of: (a) the Issuer; (b) the Guarantor; or (c) the Group, since 31 March 2021.

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Issuer or Guarantor is aware) during the 12 months preceding the date of this Prospectus which may have or have had in the recent past significant effects on the financial position or profitability of the Issuer, the Guarantor or the Group. Each Bearer Note having a maturity of more than one year, Receipt, Coupon and Talon will bear the following legend: “Any United States person who holds this obligation will be subject to limitations under the United States income tax laws, including the limitations provided in Sections 165(j) and 1287(a) of the Internal Revenue Code”.

The Notes have been accepted for clearance through the Euroclear and Clearstream, Luxembourg systems (which are the entities in charge of keeping the records). The Common Code, the International Securities Identification Number (ISIN) and (where applicable) the identification number for any other relevant clearing system for each Series of Notes will be set out in the relevant Final Terms or Drawdown Prospectus.

The address of Euroclear is 1 Boulevard du Roi Albert II, B-1210 Brussels, Belgium and the address of Clearstream, Luxembourg is 42 Avenue JF Kennedy, L-1855 Luxembourg. The address of any alternative clearing system will be specified in the applicable Final Terms or Drawdown Prospectus.

There are no material contracts entered into other than in the ordinary course of the Issuer’s or Guarantor’s business which could result in either being under an obligation or entitlement that is material to the Issuer’s or Guarantor’s ability to meet its obligations to Noteholders in respect of the Notes being issued.

Certain information in the TWUL Prospectus incorporated by reference into this Prospectus has been sourced from Ofwat. All such information has been accurately reproduced and, as far as the Issuer is aware and is able to ascertain from information published by Ofwat no facts have been omitted which would render the reproduced information inaccurate or misleading. The Issuer has also identified the source(s) of such information.

The issue price and the amount of the relevant Notes will be determined, before filing of the relevant Final Terms or Drawdown Prospectus of each Tranche, based on the prevailing market conditions. The Issuer does not intend to provide any post-issuance information in relation to any issues of Notes.

For so long as Notes may be issued pursuant to this Prospectus, the following documents will be physically available, during usual business hours on any weekday (Saturdays and public holidays excepted), for inspection at the registered office of the Issuer and at the specified offices of the Paying Agents for the time being and, in the case of items (i) and (v) only, at the Issuer's website at www.thameswater.com:

(i) the Trust Deed (which includes the form of the Global Notes, the definitive Bearer Notes, the Certificates, the Coupons, the Receipts and the Talons);

(ii) the Agency Agreement;

(iii) the Intercreditor Agreement;

(iv) the Security Agreement;

(v) the Memorandum and Articles of Association of the Issuer and the Guarantor;

(vi) the latest published annual report and audited financial statements of the Issuer and the Guarantor;

(vii) each Final Terms or Drawdown Prospectus;

(viii) a copy of this Prospectus together with the documents, or sections of documents incorporated by reference in this Prospectus, any supplement to this Prospectus or further Prospectus; and

(ix) all reports, letters and other documents, balance sheets, valuations and statements by any expert any part of which is extracted or referred to in this Prospectus.

This Prospectus and the Final Terms or Drawdown Prospectus for Notes that are listed on the Official List and admitted to trading on the Main Market will be available on the website of the London Stock Exchange at: https://www.londonstockexchange.com/.

The Issuer has prepared and delivered to the Registrar of Companies financial statements for the financial year ended 31 March 2020. Financial statements for 31 March 2021, are available on the Thames Water website, and will be delivered to the Registrar of Companies. Both the Guarantor and the Issuer produce interim primary financial statements.

PricewaterhouseCoopers LLP, a member firm of the Institute of Chartered Accountants in England and Wales and Registered Auditors of 3 Forbury Place, 23 Forbury Road, Reading, Berkshire, RG1 3JH have audited, and issued unqualified audit reports on, the financial statements of the Guarantor for the years ended 31 March 2020 and 31 March 2021, and the financial statements of the Issuer for the financial years ended 31 March 2020 and 31 March 2021 which were prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

The Dealers and the Arranger and their respective affiliates: (i) have provided, and may in the future provide, investment banking, commercial lending, consulting and financial advisory services to; (ii) have entered into and may, in the future enter into, other related transactions with; and (iii) have made or assisted or advised any party to make, and may in the future make or assist or advise any party to make, acquisitions and investments in or related to, the Issuer or the Guarantor and their respective subsidiaries and affiliates or other parties that may be involved in or related to the transactions contemplated in this Prospectus, in each case in the ordinary course of business.

FINANCIAL INFORMATION

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Registered number 05819317 (England and Wales)

Kemble Water Finance Limited

Annual report and consolidated financial statements

For the year ended 31 March 2021

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Introduction

Kemble Water Finance Limited ("the Company" or "KWF") is an intermediate holding company of the Kemble Water Holdings Limited Group of companies ("the KWH Group"). The Kemble Water Finance Limited Group of companies ("the Group") represents the consolidated results of Kemble Water Finance Limited and its subsidiaries. These consolidated financial statements are prepared as a requirement of the Kemble Water Finance Limited covenants, which govern the way the Group borrows funds.

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary Thames Water (Kemble) Finance plc ("TW(K)F") for use within the wider Group. Under these arrangements the Group has at 31 March 2021, £1,464.9 million of external debt, £949.8 million (£938.8 million book value) of which has been raised directly by the Group and £515.1 million (£513.2 million book value) has been raised by its financing subsidiary TW(K)F and lent to the Group. This structurally subordinated secured debt is issued outside of the whole business securitisation group comprising the operating subsidiary, Thames Water Utilities Limited (TWUL), its financing subsidiary Thames Water Utilities Finance plc (TWUF) and its parent, Thames Water Utilities Holdings Limited (TWUHL). The KWF Group has £14,105.0 million of external debt at 31 March 2021 (excluding intercompany loan from parent).

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"), in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relates to the activities of the Group including TWUL.

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall Group.

The Group's management structure separates the Directors of the Company, who are all Non-Executives, and have no role to play in the day-to-day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group.

Unless otherwise stated; all current year data included in this report is for the year ended 31 March 2021 ("2020/21").

Directors and Advisors

Directors

M McNicholas
S Deeley
J Divoky
G Lambert
A Hall
P Noble
S Obozian
G Pestrak
C Schmidt
F Sheng
M Bloch-Hansen
C Pham
P McCosker
H De Run
M Wang
G Tucker

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

Company secretary and registered office

D J Hughes
S Billet
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their strategic report of the Kemble Water Finance Limited Group ("the Group") for the year ended 31 March 2021. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which can be found at https://www.thameswater.co.uk/about-us/investors/our-results and provides a more detailed insight into the regulated business.

Business review

Principal Activities

The principal activity of the Group is the appointed supply of water and wastewater services through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL"). The Company's principal activity is to act as the holding company of the Group.

The main functional areas to the TWUL business are:

Customer experience: comprises the household business segment and provides certain customer-facing activities, billing and revenue collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business segment is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT which is shown separately in the financial statements;

Capital delivery: comprises the management of water network assets, as well as the investment in and maintenance of the business' water and wastewater infrastructure to ensure it is sufficiently resilient to continue customer delivery, whilst also meeting the challenges of population growth and climate change.

Operations: responsible for all aspects of raw water abstraction, treatment as well as the distribution of high quality drinking water and wastewater collection, treatment and safe disposal for household and non-household customers; and

Support services: responsible for other areas including digital, regulation, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 98% of the Group's appointed gross revenue; TWUL also manages certain non-appointed activities including:

- property searches, including the provision of information required by property developers; and
- treatment of trade effluent and other septic waste.

In addition, outside of TWUL, the Group operates a property business to manage and optimise the value of the Group's property portfolio.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, to deliver life's essential service, so our customers, communities and the environment can thrive. This means keeping customers' bills as low as possible whilst investing efficiently in assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they expect and require.

- Outside of the appointed business, the Group continues to provide property search services to conveyancers and homebuyers. The Group also retains a property services arm which focuses on the development and enhancement of the value of land and sites that are no longer required for the appointed business, including disposal to third parties.

Principal risks and uncertainties

Changes to risk landscape

Over the course of 2020/21 internal and external factors have influenced the risk agenda:

Covid-19: many risks were compounded by the impact of Covid-19, with a focus on ensuring our workforce have the equipment and working environment they need; health, safety and wellbeing is maintained at home or in the field; our supply chain is able to consistently deliver and maintain the standard we expect of them; and we maintain sufficient money to operate alongside reduced revenue.

Brexit: There was a minor impact on the supply chain following the introduction of border controls and the Group is preparing for full controls at the border in July.

Pollutions /river water quality: we no longer accept the discharge of untreated sewage into rivers, even when legally permitted. We will need to work with stakeholders to accelerate work to stop them being necessary.

Cyber security: There has been an increase in targeted cyber security attacks on water and regulated industries internationally.

Principal risks and uncertainties (continued)

Changes to risk landscape (continued)

Quantum of change: The Group needs to increase the pace of change to deliver our turnaround plan and meet challenging transformation and performance targets at a time of significant further change in senior leadership.

Emerging risks
There are several emerging risks which we will be a focus for further analysis in 2021/22:

- Longer term impact of Covid-19 and the changing distribution of service demand.
- Maintaining good mental health whilst transitioning to new ways of working.
- Continued pressure internally and externally to improve the environment.
- Transitional climate change risks.
- Capacity in sector to deliver capital programmes.
- Ongoing supply of chemicals due to dependency on a small number of suppliers and reduced availability of specific critical chemicals in the long term.

Changes to principal risks

The Group has updated its principal risks model to reflect our internal priorities and revised accountabilities:

Business planning and delivering transformational change: This reflects the scale of transformation needed to achieve the AMP7 business plan and to prepare a robust PR24 business plan.

Health, safety and wellbeing: The Group has included wellbeing to reflect the importance of, and potential challenges around mental health.

People: The Group has emphasised embedding the right behaviours and culture.

We also added a new principal risk:

Understanding our assets: this considers the importance of robust, accurate and reliable asset information to make informed asset investment decisions, maintain the asset base and effectively respond to incidents. The principal risks have been used as the basis for the downside events and scenarios in the Viability Statement on page 17.

Principal risks and uncertainties

<table>
<tr><td colspan="2">1. Environmental protection and climate change</td></tr>
<tr><td colspan="2">We may cause damage to/pollute the natural environment through our operations, be unable to deal with the physical impacts of climate change (e.g. extreme weather events and temperature rise) or fail to meet our zero carbon targets and commitments.</td></tr>
<tr><td>Trend
⇧</td><td>Explanation of trend

• Increased scrutiny from stakeholders on river water quality and use of combined sewer overflows with commitment to preventing discharges of untreated sewage which requires broad stakeholder support to deliver.
• Preparing for increase in reporting to align with the requirements of Climate Change (TCFD).</td></tr>
<tr><td colspan="2">Risk impact

Short to long-term environmental damage, increased disruption and cost to maintain our operational service due to extreme weather and temperature rise, and reputational damage if we fail to make sufficient progress.</td></tr>
<tr><td colspan="2">How we are managing the risk

• Working with stakeholders to accelerate work to stop discharges of untreated sewage being necessary, as a result of wet weather.
• Implementing our Pollution Incident Reduction Plan focusing on prevention through proactive sewer cleaning, infrastructure upgrades, improved monitoring, enhanced training and behaviour and improved response when pollutions happen.
• Working with local partners on Smarter water catchments initiatives to nurture the water cycle, improve river quality and enhance ecosystems.
• Trialling the monitoring of river quality, at agreed pilot locations, for the purposes of establishing designated bathing rivers.
• Increasing resilience of our waste network to wet weather through catchment infiltration reduction plans.
• Net Zero Carbon Taskforce and development of our Net Zero Carbon Route Map to achieve net zero operational carbon by 2030 and to go further by 2040.
• Reviewing physical and transitional climate change risks, in particular, preparing our Climate Change Adaptation Report for Defra and reviewing our financial reporting on climate matters as set out in our TCFD report.</td></tr>
</table>

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

2. Political, regulatory, legislative, and societal changes	
We may be unable to effectively anticipate and/or influence future developments in wider society and/or the political, regulatory or legislative environment.	
Trend ⇔	Explanation of trend • Overall, this risk has remained stable, with political, regulatory and societal changes aligning with our own strategies and objectives to protect the environment, contribute to wider society, innovate and plan for the long term. • Covid-19 has influenced how we've collaborated with stakeholders with an increase in digital communication and higher expectations from us as stakeholders balance competing priorities.
Risk impact Our operations might be impacted by changes to the regulatory framework or legislation which influence how we govern ourselves or require significant investment over what we anticipated in our business plan.	
How we are managing the risk • Ongoing monitoring of the political and regulatory environment. • Active and ongoing engagement and consultation with regulators, politicians and regional and local stakeholders on a broad range of issues, particularly those of high concern such as resilience, river water quality and the impact of Covid-19. • Facilitating discussion and collaborative work on matters of policy. • Working in partnership with other organisations such as Water UK, other water companies and industry bodies to inform the public policy debate around the water sector.	

3. Maintaining the trust and confidence of stakeholders	
Failure to secure the trust and confidence of our stakeholders (regulators, investors, communities, pressure groups, etc.), if we fail to meet their expectations or deliver on our promises and commitments.	
Trend ⇔	Explanation of risk trend • Remains a challenging environment with continued external scrutiny driven by our poor operational performance and customer service. • We have new leadership in place, are increasing our level of transparency and openness and have overhauled our communications and engagement during incidents.
Risk impact We may be unable to secure the necessary engagement, support and investment necessary to deliver our long-term ambitions.	
How we're managing the risk • Extensive engagement with stakeholders at national, regional and local levels to understand their needs, expectations and preferences. • Implementing our turnaround plan to improve our performance. • Public value programme to support wider community engagement and environmental improvement. • Implemented robust 24/7 communication and engagement with stakeholders during incidents. • Proactive engagement with impacted customers and stakeholders to support delivery of our AMP7 Capital Delivery programme. • Proactive consultation with stakeholders on key business plans, 2050 Vision, Water Resources Management plan (WRMP) and Drainage and Wastewater Management Plan (DWMP). • Introduced new structures and processes to support stakeholder engagement across the business to support a more coordinated approach internally. • Working to ensure all commitments have been properly thought through and are tracked through to completion.	

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

4. Business planning and delivering transformational change	
We may be unable to effectively plan, deliver and embed the scale of change necessary to achieve our AMP7 business plan and prepare for PR24 and beyond.	
Trend ⇔	Explanation of risk trend • We have a clear view of where we need to focus to deliver and embed transformational change and recognise the scale of transformation required in key areas of our operations, particularly water networks and customer service. • We are insourcing capability in our Capital Delivery model and transition to an Intelligent Client to help deliver our £3.1bn capital programme for AMP7.
Risk impact We may fail to allocate funds appropriately or deliver the scale of transformation needed to meet our customers and stakeholders needs, or fail to achieve the necessary confidence to secure a PR24 plan which enables us to deliver our long-term ambitions.	
How we're managing the risk • Implementing our turnaround plan to improve our performance with targeted business wide transformation programmes for customer, operations, people, strategic planning, and understanding our assets. • Robust investment governance process in place to ensure we're being efficient and optimising our activities. • Enhancing established business planning process to ensure we're doing the right thing at the right time. • Developing our Vision 2050 plan to guide long term long-term decision making. • Improving our decision making around assets by developing an asset management system that is ISO 55001 certified. • During the Covid-19 pandemic, we have continued to monitor decisions which impact our performance targets and have postponed some non-essential projects, and have assessed the impact of these to our business.	

5. Supply of enough 'wholesome' water	
We may be unable to provide a reliable supply of 'wholesome' water and maintain a robust water network	
Trend ⇔	Explanation of risk trend • Leakage and mains repairs have been higher than forecast due to the cold winter and the impact of a freeze thaw event in February. Over the year we've invested at a number of water treatment works, improving their reliability, and have increased our understanding of our water supply resilience and worked with customers and stakeholders to identify areas for improvement.
Risk impact We may impact business, domestic customers and communities due to interruptions to water supply or cause danger to public health due to poor water quality.	
How we're managing the risk • Reducing water demand through improvements in customer water efficiency, installing digital water meters and addressing customer side leakage. • Proactively maintaining our network through leakage detection and trunk main monitoring, and undertaking repair and replacement programmes. • Increasing our use of data through monitoring across key water quality processes and improving real-time awareness of our network and calming pressure across our system to prevent bursts and reduce leakage through our Smart Metering rollout and Smart Water programme which have allowed us to meet unprecedented demand for water during Covid-19. • Refurbishing critical water assets such as our ring main and several water treatment works. • Enhancing the competency of our staff to minimise water quality failures and supply interruptions. • Enhanced incident management arrangements to reduce response times and developed playbooks for critical systems to maintain supply. • Undertaken Water supply system resilience assessments, with active engagement from customers and stakeholders, to prioritise future resilience investment. • Our Water Resource Management Plan sets out how we will manage the water supplies in our region to meet current and future needs up to 2100.	

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

6. Collection, treatment and recycling of wastewater	
We may be unable to collect and treat wastewater and safely return clean water to the environment or recycle sludge.	
Trend ⇔	Explanation of risk trend • Overall this risk has been stable with ongoing focus on enhancing our wastewater systems to prevent spills, responding to wet weather due to infiltration, improving the resilience at a number of sewage treatment works, and preparing for evolving bioresources and sludge treatment markets.
Risk impact We may disrupt business and domestic customers due to interruption to drainage services and sewer flooding.	
How we're managing the risk • Working with the government, Ofwat, the Environment Agency and others to accelerate work to stop discharges of untreated sewage being necessary. • Implementing our Pollution Incident Reduction Plan focusing on prevention through proactive sewer cleaning, infrastructure upgrades and improved monitoring. • Improved response when pollutions happen and enhanced training programmes. • Increasing our use of data through the installation of sewer depth monitors across our network to enable intelligence-based proactive maintenance and targeted interventions. • Increasing resilience of our waste network to wet weather through catchment infiltration reduction plans. • Developing our Drainage and Wastewater Management Plan which sets out how we will manage the waste service in our region to meet current and future needs. • Continuing our network enforcement activity to reduce fats, oils and grease being disposed to sewers, whilst campaigning for the "fine to flush" standard to be adopted by all manufacturers. • Engaging with WaterUK regarding the future of sludge recycling and developing long term strategy for sludge to land. • Developing wastewater resilience assessment, based on good practice in water supply, to prioritise future resilience investment.	

7. Physical and cyber security	
We may be unable to protect our sites, systems, and assets (incl. data) from internal, or increasingly sophisticated malicious, external threats such as a targeted cyber-attack.	
Trend ⇔	Explanation of risk trend • No material increases in vulnerability. • Close monitoring of targeted cyber-attacks on utilities and government bodies internationally.
Risk impact May result in data loss, damage to property or infrastructure or disruption to operational and customer services. This may cause reputational harm, regulatory investigations or penalties.	
How we're managing the risk • Clear policies and procedures and mandatory security awareness training and communications. • Technological security measures, including effective modern firewalls, patching policies, threat/vulnerability monitoring, identity management controls, multifactor authentication and encryption of information. • Increasing the use of incident alerting tools, and tools to prevent the deliberate and accidental loss of data. • Regular risk assessments of physical security threats and measures. • Physical and electronic site security controls, including site alarms and CCTV that are actively monitored with programme of maintenance and improvement. • Improving the quality and accuracy of user information in our systems. • Incident response process.	

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

8. Information and operational technology

We may be unable to prevent service interruptions or become blind to the actual state of critical assets due to information (IT) or operational (OT) failures.

Trend

⇔

Explanation of risk trend

- IT systems have coped well with significant shifts in homeworking during 2020-21.
- Reduction in system outages demonstrating impact of continued investment in IT infrastructure resilience
- Increased focus on improving operational technology.

Risk impact

May result in disruption to our corporate, operational and customer systems and services.

How we're managing the risk

- Continuous improvement of the stability of our IT systems.
- Migration of applications to cloud platforms to improve accessibility, application rationalisation and cessation of grey IT.
- Standardisation of agreements with IT providers to increase reliability and consistency of service provision.
- Replacement of operational field devices to enhance staffs' working experience, reduce hardware failures and address security risks.
- Improvements to continuity planning and recovery plans for key systems including regular testing.
- We have successfully replaced the legacy RTAP system in London with a modern SCADA system to oversees the production, treatment and delivery of drinking water.
- Operational technology lease line upgrade programme.

9. Customer service

We may be unable to improve and then maintain the levels of customer service necessary to deliver what our customers tell us they want.

Trend

⇔

Explanation of risk trend

- Remains a challenging environment with high, but improving, level of complaints received, particularly for charging and billing.

Risk impact

If we are unable to deliver the levels of customer service expected by our customers we may experience an increase in complaints, perform relatively poorly on C-MeX and D-MeX measures and fail to achieve the necessary customer advocacy and support to secure a PR24 plan which enables us to deliver our long-term ambitions.

How we're managing the risk

Stabilise, optimise and transform customer service with a consistent and low effort customer experience by:

- End-to-end customer intent led transformation in retail (around billing and metering journeys) and operations (water and waste) that enables improved satisfaction, reduced complaints and channel shift to digital.
- Introduction and optimisation of next generation contact centre and workforce management systems, improving the interface and interaction with all our other back-end systems (including billing and website).
- Transform data quality by focussing on data completeness, accuracy and integration of property, asset and customer data.
- Continued focus on driving inclusive service by actively seeking data sharing with third parties to drive up reach of priority services and affordability as well as maintain our certification of BSI 18477 (inclusive service provision).
- Continue to build and develop a customer-centric culture where everyone feels responsible and empowered to deliver for our customers.

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

10. People

We may be unable to attract, develop and retain an appropriately skilled, diverse, and engaged workforce and leadership team that demonstrate standards of behaviour, attitudes and actions that make for a positive workplace culture.

Trend

Explanation of risk trend

- Risk trend is improving demonstrated by increasing employee engagement, and continued improvements in diversity and the competency of our workforce.

Risk impact

Without an appropriately skilled, diverse, and engaged workforce and leadership team we may be unable to deliver the transformational change necessary to deliver our AMP7 plan and long-term ambitions.

How we're managing the risk

- People strategy based on engagement, equality, diversity, talent attraction and development, training, reward and recognition.
- Talent and succession planning and leadership development programmes in place with increased investment in Graduate and Apprenticeship schemes to promote emerging talent.
- Learning management and mandatory training programmes in place supported by developing competency framework.
- Ongoing monitoring of employee engagement and targeted response plans.
- Strategic workforce plan in place to identify short, medium and long-term resourcing requirements.
- Investment in recruitment and on-boarding systems to ensure a positive hiring and induction experience.
- Working with EU Skills to understand where the workforce is today and where it needs to be for the future.
- Developing future ways of working to ensure we implement a flexible and efficient hybrid working model.
- Engaging on how we pay and contract in the future.
- Implementing a robust Licence to Operate programme to further develop technically competent colleagues and demonstrate competency to our regulators.
- Focus in the coming year on 'behavioural re-set' programme to underpin an inclusive culture.

11. Health, safety, and wellbeing

We may endanger the health, safety or wellbeing of our people, operating partners and/or members of the public.

Trend

Explanation of risk trend

- Risk is stable with ongoing monitoring of the effect of Covid-19 and new ways of working on the physical and mental health and wellbeing of our people.
- Over the year there has been a significant reduction in lost time and RIDDOR notifiable incidents, including a significant reduction in the number of incidents where electrical, telecom and gas pipes and cables were struck during road excavations.

Risk impact

Physical or psychological harm to members of the public and our people, damage to property and third-party infrastructure including disruption to our operations.

How we're managing the risk

- Strong health and safety and wellbeing culture throughout the business.
- Robust health and safety management system externally accredited to ISO 45001.
- Board Health, Safety and Environment Committee monitors performance and oversees and reviews health and safety risks
- Robust mental and physical health strategies alongside health and safety advisers, in-house occupational health team and mental health first aiders.
- During the Covid-19 pandemic, measures undertaken include the provision of appropriate PPE to frontline staff, modifying work practices to maintain social distancing and enhanced resources to ensure our employees are kept up to date with company activity and evolving protocols.
- External risk-based audits of critical operational areas.
- Focus in the coming year on everyone understanding the basics of health and safety management whilst raising the bar through peer-to-peer inspections and focus on behaviours.

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

12. Supply chain management

We may be unable to source high-calibre suppliers/ expertise, and manage contracts and supplier relationships to deliver innovation and best value services in a sustainable and ethical way.

Trend	Explanation of risk trend
⇔	Explanation of risk trend • Our position has stabilised following an initial negative outlook as a result of Covid-19, with no major supplier failures or supply chain driven failures in critical service. • Looking forward, there is uncertainty about potential import difficulties post Brexit and the impact on our supply chain following the closure of the government Furlough scheme. • We are anticipating a significant scale up in our capital programme.

Risk impact

Failure to effectively engage our supply chain may result in under delivery of our performance commitments, services to customers and transformation objectives or increases in totex expenditure. Failure to manage our contracts effectively may result in a reduced pool of suppliers that are willing and able to work with the water sector and company. Failure of suppliers for critical goods and services may result in operational disruption.

How we're managing the risk

- Enhanced monitoring of supply chain health in face of Covid-19 economic fallout.
- Active participation with Water UK and the government on resilience in the chemical supply chain.
- Improved approach to supplier management including centralised governance, improved visibility and management of suppliers and understanding of early warning signs.
- Enhancing market knowledge and engagement to make better and more informed decisions creating further optionality in sources of goods or services.
- Embedding an Intelligent Client Model including in enhancing capability and capacity.
- Collaborating with our supply chain to deliver innovations that drive towards a more sustainable service, including mitigating single source supply.

13. Understanding our assets

We may be unable to optimise delivery of water / wastewater services, prevent H&S incidents, invest effectively for the long-term, or miss our performance commitments if we don't fully understand our assets – their condition, performance and risk.

Trend	Explanation of risk trend
NEW	Explanation of risk trend • Asset data and insight is one of our top five transformation priorities with increasing internal and external focus on asset health and improving our understanding and visualisation of assets. This is a long-term area for development to understand the condition, performance and risk of our assets.

Risk impact

If we don't have a comprehensive understanding of our assets, we may fail to deliver our transformation plans and achieve the necessary confidence in our PR24 plan to enable us to build resilience for the long-term.

How we're managing the risk

- Maintain an asset risk register which is used to define targeted maintenance programmes.
- Asset standards in place with monitoring and continual improvement.
- Developing a long-term plan to enhance our understanding of the data we hold, identify where there may be gaps and opportunities to enhance monitoring and real time data collection and visualisation.
- Developing how we raise and manage asset risk and visualise risk to inform investment planning.
- Building smart platforms to improve our visualisation of water and wastewater system performance.
- Implementing an asset management system that is ISO 55001 certified to maximise the value from our assets.

Principal risks and uncertainties (continued)

Principal risks and uncertainties (continued)

14. Legal and regulatory compliance

We may fail to comply with legal and regulatory obligations and responsibilities.

Trend	
⇧	Explanation of risk movement • Risk has increased as we continue to face the risk of prosecution for historic pollution incidents and have also seen an increase in the size and complexity of material litigations, including a recent class action.

Risk impact

Failure to comply with legal and regulatory obligations could lead to financial penalties, reputational harm and loss of customer and investor confidence. We could be subject to lengthy investigations and resultant fines linked to company turnover, particularly in the areas of environmental, health and safety, competition and data protection.

How we're managing the risk

- The Executive, with oversight from the Board, promotes high ethical standards of behaviour and ensures the effective contribution of all Directors.
- Horizon scanning for changes to the legal and regulatory environment.
- An embedded policy framework to understand and meet legal and regulatory compliance obligations.
- Documented processes and controls for key activities, together with a compliance programme.
- Active monitoring of consent and permit compliance.
- Robust health and safety culture and audit and review programme.
- Mandatory training programmes.

15. Financing our business

We may be unable to fund the business sufficiently to meet our liabilities as they fall due.

Trend	
⇔	Explanation of risk trend • Despite the economic uncertainty caused by Covid-19 and certain periods of market volatility, we continue to have efficient access to debt capital markets. Furthermore, we have ready access to significant credit facilities.

Risk impact

If we are unable to fund the business sufficiently this may trigger a deterioration in credit ratings which could potentially give rise to increases in associated funding costs and/or reduced access to debt capital markets. This, in turn, may adversely impact our ability to deliver transformational change.

How we're managing the risk

- Focus on cashflow management to maintain a strong liquidity position supported by available committed banking facilities.
- Ongoing focus on credit ratings and financial covenant headroom in budget setting.
- Treasury strategy covering funding, hedging and cash management in place.
- Tailored bad-debt recovery alongside financial assistance to household customers affected by Covid-19.
- Robust investment governance process in place.
- Regular communication with key stakeholders (e.g. lenders and credit rating agencies).

See the Viability Statement on page 17 for further details on financial resilience.

Financial review

Key financial performance indicators

	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue (£m)	**2,033.0**	**73.8**	**2,106.8**	2,108.6	64.3	2,172.9
Operating expenses (£m)	**(1,764.1)**	**(0.2)**	**(1,764.3)**	(1,694.9)	(0.2)	(1,695.1)
Operating profit (£m)	**391.1**	**73.6**	**464.7**	493.1	64.1	557.2
Net finance expense (£m)	**(890.3)**	**-**	**(890.3)**	(1,012.4)	-	(1,012.4)
Net (losses)/gains on financial instruments (£m)	**(524.9)**	**-**	**(524.9)**	190.8	-	190.8
Loss before tax (£m)	**(1,024.1)**	**73.6**	**(950.5)**	(328.5)	64.1	(264.4)
Loss after tax (£m)	**(831.3)**	**59.6**	**(771.7)**	(389.7)	58.0	(331.7)
Capital expenditure (£m)	**1,105.0**	**-**	**1,105.0**	1,223.0	-	1,223.0
Statutory net debt (£m)	**(20,593.9)**	**-**	**(20,593.9)**	(19,676.7)	-	(19,676.7)
Post maintenance interest cover ratio (PMICR) *	**1.6**	**n/a**	**n/a**	1.7	n/a	n/a
Gearing (%) **	**91.0**	**n/a**	**n/a**	89.6	n/a	n/a
Credit rating ***	**n/a**	**n/a**	**Baa2 stable**	n/a	n/a	Baa2 stable

* As defined on page 55.
** Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 55.
*** Representing the Corporate Family Rating ("CFR") assigned by Moody's for the operating subsidiary, TWUL. Separately during April 2021, Moody's reaffirmed ratings of KWF guaranteed debt as B1, with stable outlook. During April 2021 Fitch reaffirmed KWF's rating as B+ with negative outlook.

Overall performance

Revenue

The bills we send our customers for the essential water and wastewater services we provide make up our revenue. Our economic regulator, Ofwat, determines the amounts we charge in our bills every five years through a price review process, which is driven by the costs we expect to incur to invest in and operate our business over that five-year regulatory period. Our current regulatory period covers 1 April 2020 to 31 March 2025 ("AMP7").

Our total revenue for the year end 31 March 2021 decreased by £66.1 million to £2,106.8 million (31 March 2020: £2,172.9 million). The decrease was driven by the combination of lower allowed revenue set by Ofwat in AMP7, the adverse impact of Covid-19 on the nonhousehold market with many business premises being empty or at reduced capacity throughout the period and the impact of Covid-19 on household bad debt (see below note).

Decreases in revenue have been partly offset by an increase in household water consumption due to warm weather and home working. BTL revenue increased by £9.5 million to £73.8 million (31 March 2020: £64.3 million) due to the phasing of construction works.

Our revenue is generated from the bills we send our customers for the essential water and wastewater services we provide.

Capital expenditure

During the year, we invested £1,105.0 million (31 March 2020: £1,223.0 million) in our assets, of which £69.7 million related to capitalised borrowing costs. This investment is down on last year due to transitioning into a new AMP with the associated supply chain engagement and mobilisation. In addition to this, Covid-19 has had an impact on delivery over the year. Excluding capitalised borrowing costs from the table below, key projects within capital expenditure include:

- £167.0 million through our Infrastructure Alliance on our Water Network (Water) to reduce leakage and improve our trunk main network
- £44.0 million on our metering programme (water)
- £23.0 million on connecting our network to the Thames Tideway Tunnel
- £8.0 million on Beckton STW for future population growth and readiness to receive flow from the Thames Tideway Tunnel

Financing our investment

As we are investing heavily in the business, we continue to focus on the importance of ongoing investor engagement to support our strategy of diversifying our sources of funding and maintaining a balanced debt maturity profile. Our strategy of adopting a prudent approach to liquidity has continued given the ongoing uncertainty that the Covid-19 pandemic has introduced. Our statutory net debt (as defined in the accounting policies section) has increased by £917.2 million to £20,593.9 million (2020: £19,676.7 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £296.0 million to £15,025.3 million (2020: £14,729.3 million). Overall gearing (on a covenant basis), was 91.0% (2020: 89.6%), below the permitted maximum of 95.0%. Additionally, our Post Maintenance Interest Cover Ratio (PMICR) in the current year is 1.6 x (2020: 1.7x) and is above the permitted minimum of 1.05x.

Overall performance (continued)

Financing our investment (continued)

In anticipation of our 2020 to 2025 investment programme, during the year ended 31 March 2019 TWUL Group increased the size of its Revolving Credit Facility (RCF) from £950.0 million to around £1.65 billion, and in November 2020 extended the maturity of £1.44 billion of that facility by one year from 2024 to 2025. Throughout the year, total new debt issuance and facilities of £1,187 million equivalent were completed in TWUL Group, as follows:

- £350 million bond due 2040 issued in April 2020;
- £40 million of privately placed debt due 2050 was issued in May 2020, along with a £110 million term loan maturing in 2023, which was subsequently cancelled in line with other financing initiatives;
- £612 million equivalent of debt was issued through a series of privately placed transactions (£84.7 million due 2023; €500m due 2023; $57 million due 2030 and $40 million due 2027) between October and December 2020; and
- £75 million Class B revolving credit facility commencing in April 2021 and maturing in April 2024 was entered into in November 2020.

Since 31 March 2021, TWUL Group has further strengthened its financing position, entering into a £180.0 million Class B loan facility due June 2026, which is currently undrawn. Since 31 March 2021, £525.0 million of the Class A RCF has been drawn and the following debt has been repaid:

- £214.3 million Class B RCF
- £225.0 million Class A bond due April 2021
- £300.0 million Class B term loan due June 2023

The Company raised £100 million of new debt through two £50 million privately placed transactions in July and August 2020 respectively. In September 2020, £80 million of this was down-streamed through intercompany loans and loan repayments to enable TWUL to repay debt. A further £380 million of loan repayments by the holding companies to TWUL are planned during AMP7, to enable TWUL to repay debt. In November 2020, Thames Water (Kemble) Finance plc, the Company's financing subsidiary, raised £250 million due 2026 through a public bond issue, which was increased by £150 million to £400 million in February 2021. The proceeds were used in November 2020 to repurchase, through a public tender, £60 million of the issuer's bond debt due in 2022, and in December 2020 for the early repayment by the Company of a £75 million loan due in 2022. We currently expect to have in excess of 18 months of liquidity.

The associated net finance expense has decreased by £122.1 million to £890.3 million (2020: £1,012.4 million), which has been driven primarily by higher interest income on swaps. Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects. Under the IFRS accounting framework we capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £69.7 million this year (2020: £97.6 million).

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. We offer a range of support for people in financially vulnerable circumstances. We are working hard to reduce bad debt and we have started to see the impact of a number of new initiatives implemented during the prior year.

During the year ended 31 March 2021, we have seen an increase in our overall bad debt cost of £12.7 million to £86.6 million (31 March 2020: £73.9 million). The increase is primarily due to the impact of Covid-19 on our current year cash collections, offset by the initiatives implemented in the prior year to reduce the bad debt.

These initiatives have allowed our prior year collection rates to increase compared to comparative prior periods. The current year charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £49.9 million (31 March 2020: £33.1 million), which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £36.7 million (31 March 2020: £40.8 million), which is shown within operating expenses. Our total bad debt charge equates to 4.1% (31 March 2020: 3.4%) of total gross revenue.

Operating expenses

Total operating expenses have increased by £72.0 million increase in total.

The increase in operating expenses is primarily driven by:

- £30.7 million increase in depreciation and amortisation, as we continue with our significant investment programme;
- £27.8 million increase in our employment costs, arising from additions to our team to improve our service to customers;
- £23.3 million increase in our rates costs following the receipt of a one-off rebate in the prior period;
- £1.7 million increase in other operating expense, relating to increase professional fees and research and development expenditure;
- Offset by a decrease in 'exceptional' costs of £11.4 million relating to a significant restructuring of the business that primarily occurred in the previous period.

Overall performance (continued)

Financial instruments

Our borrowings, revenue and total expenditure (“totex”) (as defined in the alternative performance measures section) are exposed to fluctuations in external market variables 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 £9.7 billion of derivative financial instruments (face value). A total loss on financial instruments of £524.9 million was recognised in the income statement during the year (2020: gain of £190.8 million). This is driven by £630.4 million net fair value loss on swaps, a £37.5 million loss on cash flow hedge transferred from reserves and £2.7 million loss on part repayment of debt, partially offset by £145.7 million net foreign exchange gain on foreign currency loans. Note 7 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments

Credit rating

We retain investment grade credit ratings for TWUL Group, that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers. In April 2021, Moody’s reaffirmed the Corporate Family Rating (“CFR”) for TWUL as Baa2 with a stable outlook (2020: Baa2 with stable outlook). Moody’s also reaffirmed our securitisation group companies’ senior secured (Class A) debt rating as Baa1 with stable outlook (2020: Baa1 with stable outlook) and subordinated (Class B) debt rating as Ba1 with stable outlook (2020: Ba1 with stable outlook). In January 2021, S&P reaffirmed our securitisation group companies' credit ratings of BBB+ and BBB- (2020: BBB+ & BBB-) in relation to our senior secured (Class A) debt and our subordinated (Class B) debt respectively, both with negative outlook (2020: negative outlook).

In April 2021, Fitch affirmed the KWF’s senior secured debt rating at B+ (2020: BB-) and KWF’s Long-Term Issuer Default Rating at B+ with negative outlook (2020: BB- rating watch negative). In April 2021 Moody’s reaffirmed the rating of Thames Water (Kemble) Finance plc’s senior secured debt at B1 with stable outlook (2020: B1 with stable outlook).

Dividends

The Company’s dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business’s current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financability of the Company’s business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat’s 4% dividend yield guidance, applied to Ofwat’s notional company, the Thames Water Utilities Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

No dividends or interest on shareholder debt was paid to external shareholders in 2020/21 The shareholders of the Company have supported the operating Company Board’s decision to not pay dividends over and above those required by the Kemble Water Holdings Limited Group to service group debt obligations and working capital requirements during the 2015-2021 regulatory period, while investment is prioritised to improve service to customers.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During 2020/21, we contributed £15.2 million (2020: £13.1 million) to the defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2021 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net retirement benefit obligation for the three schemes as at 31 March 2021 was £ 226.8 million (2020: net retirement benefit obligation of £121.6 million).This comprises a £277.1m net deficit (2020: £209.1m net deficit) in the Thames Water Pension Scheme (TWPS), (which was closed to accrual during the year, a further net deficit of £7.6m (2020: £7.0 million net deficit) in the SUURBS pension scheme, and a surplus of £57.9m (2020: surplus of £94.5 million) for the Thames Water Mirror Image Pension Scheme (TWMIPS). We have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. The increase in the deficit is mostly driven by a change in actuarial assumptions primarily driven by external market factors, such as an increase in the discount rate.

Capital, financial and actuarial risk management policies and objectives

The Group's operations expose it to a variety of capital, financial and actuarial risks.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The key objectives of the funding strategy are to maintain customer bills at a level which is both affordable and sustainable, retain the Group's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations.

The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The capital structure of the Group consists of net debt and equity as disclosed in note 19. The Group's net debt is comprised of cash and cash equivalents, short-term investments, bank loans and intercompany loans from subsidiary undertakings that issue secured bonds.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used, where appropriate, to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. Financial instruments entered into by the Group include RPI linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The principal operating company of the Group, TWUL, is a regulated water company with RPI linked revenues. Therefore the Group's index-linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Group also uses derivatives to manage inflation risk on non-index-linked borrowings.

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Group. Further disclosures regarding financial instruments can be found in note 19

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

TWUL has a statutory obligation to provide water and wastewater services to customers within its region. Due to the large area served by TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, TWUL's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings and other financial instruments are disclosed in note 18 and 19, respectively.

Actuarial risks

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 23.

The trustees continue to control the level of investment risk within the schemes by reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees also review the risk exposures taking into consideration the longer term objectives of the respective schemes.

Viability statement

The Directors have assessed the longer-term viability of the Group over a ten year period to 31 March 2031. Due to the prolonged look-forward period, the level of certainty of the assumptions used reduces the further into the future we look. The high degree of confidence for the first few years of AMP7, is followed by moderate confidence in the remaining years of AMP7 and a lower level of confidence for AMP8 and AMP9. In spite of the reduced confidence levels in the later years of the look forward period, the Directors continue to consider the ten year period to be appropriate given the long term nature of the business, and the necessity to adopt a sustainable approach.

The Directors have considered the current position of the Group, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and its ability to maintain a strong investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 4 to 12.

The performance of the Group is mainly dependent on the appointed activities of TWUL which is responsible for the supply of water and wastewater services to customers in London, the Thames Valley and surrounding area. As such, this assessment takes into account the long-term viability of TWUL where the Directors of TWUL have a reasonable expectation that TWUL will be able to operate within its financial covenants and maintain sufficient liquidity facilities to meet its funding needs over the same ten year assessment period.

As part of the Group's financial resilience assessment, management has designed a number of 'stress tests' which subject the Group's existing model, that underlies the Group's planning processes, to a number of severe but plausible scenarios and tests its sensitivity to these. The stress tests consider factors, both individually and in combination. These include:

- Fluctuations in interest rates, which could affect the cost of financing the business;
- Fluctuations in inflation rates, which could affect the cost of investment and day-to-day operations, in addition to impacting amounts we bill our customers;
- Increase in operating and capital expenditure, which would increase costs and reduce cash flows;
- Operational underperformance and the crystallisation of certain regulatory risk events leading to regulatory and legal penalties / fines; and
- Inability to secure new finance and/or delays in raising finance, reducing the cash available to deliver our investment programme.

The assessment showed, in the absence of any mitigating actions, that there are severe but plausible downsides which indicated the need to undertake mitigating actions to avoid non-compliance of financial covenants. It should be recognised that such pressure on the Group's viability is based on hypothetical sensitivities where the probability of these scenarios occurring is uncertain. The analysis showed pressures crystallising at a point in time well into the assessment period, thereby providing sufficient time to implement any mitigating actions if so required. As part of its risk management, the Directors regularly monitor compliance of financial covenants, so as to ensure any issues are appropriately addressed to avoid or reduce the impact of occurrence of the underlying risk.

The Directors believe there are a number of options available, these include but are not limited to the following:

- Modifying or temporarily waiving existing financial covenants and debt amortisations;
- Improving liquidity by increasing the size of its existing £110 million bank facility. This would extend the period over which the Company is able to meet the interest payments of its external debt in the event that there are no distributions from TWUL or when the Company exceeds certain financial covenants. Currently the facility is expected to cover more than 18 months of interest payments; and
- Raising additional capital in the form of deeply subordinated instruments and / or equity from shareholders.

The viability of the Group is heavily influenced by the Company's ability to service external (non-shareholder) debt. Noticeably, these costs have been met by distributions from TWUL. In circumstances where distributions were not made available by TWUL, the Company, as mentioned above, has access to a £110 million bank facility which is sufficient to cover more than 18 months of interest payments. In the event where the absence period of such distributions exceeded that provided by the bank facility, the Company would be reliant on additional support from its shareholders to meet its obligations. The Directors of the Company have discussed this matter with the shareholders, whom they represent, and are confident that support would be available if required.

Taking account of the range of scenarios, the Directors consider that the Group has sufficient mitigating actions available to address particular circumstances and events, should they arise. The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. This conclusion has been made assuming capital markets continue to operate under normal market conditions and that no renationalisation of the water sector take place over the assessment period.

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

> "A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
>
> (a) the likely consequences of any decision in the long term;
>
> (b) the interests of the Company's employees;
>
> (c) the need to foster the Company's business relationships with suppliers, customers and others;
>
> (d) the impact of the Company's operations on the community and the environment;
>
> (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
>
> (f) the need to act fairly as between members of the Company."

On appointment, as part of their induction of becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group's main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as an intermediate holding company within the Kemble Water Holdings Limited group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited. During the year updates of debt issuance programme documentation and renewal of facilities, reviewing the impact of the price control review, and the approval of the Company's annual report and financial statements. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Likely consequences of decisions in the long term

Much of the Board's decision making is focussed around ensuring that the Group's business is sustainable in the long term. The consideration of the impact to Ofwat's price control review and the Group's response is consistent with that objective.

Stakeholder management

The Company's stakeholders are considered to be external debt investors, shareholders and other companies within the Kemble Water Holdings Limited Group. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Group's Head of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and Environment

The Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 29.

Approved by the Board of Directors on 5 July 2021 and signed on its behalf by:

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8D

Directors' report

The Directors present their annual report and the audited financial statements of Kemble Water Finance Limited (the "Company") and the audited consolidated financial statements of its Group ("the Group") for the year ended 31 March 2021. These are the Group and Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures required under the Companies Act 2006.

The Directors consider that the annual report and audited financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess both the Group's and Company's position and performance, business model and strategy.

The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 4 to 12.

The registered number of the Company is 05819317 (England and Wales).

Principal activity

The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Details of the associated and subsidiary undertakings of the Group at 31 March 2021 has been provided in the notes to these financial statements.

Future outlook

The future outlook of the Group is discussed in the strategic report.

Directors

The Directors who held office during the year ended 31 March 2021 and to the date of this report were:

M McNicholas	
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
S Obozian	(appointed 16 November 2020)
G Pestrak	
C Schmidt	(appointed 30 November 2020)
G Tucker	(appointed 21 May 2020)
M Bloch-Hansen	
E Howell	(resigned 8 April 2020)
C Pham	
F Sheng	
J Cogley	(resigned 21 May 2020)
B Moncik	(resigned 21 May 2020)
I Grund	(resigned 16 November 2020)
P McCosker	
M Wang	
H De Run	(appointed 8 April 2020)
Y Deng	(appointed 21 May 2020)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2020: none). Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	**Alternate Director**
C Pham	J Divoky
P Noble	H De Run
A Hall	S Obozian
M Bloch-Hansen	S Obozian
G Lambert	P McCosker
M McNicholas	S Obozian
G Tucker	C Schmidt

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval the Group has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies of the Group and these remain in force at the date of this report.

Share capital

As at 5 July 2021, the Company's issued share capital was 1,000,001 ordinary shares of £1 each amounting to £1,000,001. There were no movements in the Company's share capital during the year. Further details of the Company's share capital can be found in note 22.

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom.

Going concern

The Group is in a net current liabilities position of £188.3 million as at 31 March 2021. The viability of the Group beyond the going concern assessment period of 12 months from the signing of the financial statements, is considered in the Long-Term Viability Statement on page 17.

The consolidated financial statements for the year ended 31 March 2021 have been prepared on the going concern basis. In forming this assessment the Directors have considered the Group's liquidity position, cashflow, profitability, compliance with covenants and the potential impact of Covid-19 on financial performance.

The Directors believe, after due and careful enquiry, that the Group has sufficient resources to meet its present obligations as they fall due for a period of at least 12 months from the date of approval of the consolidated financial statements. For this reason, the Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Although in a net current liabilities position, the Group has considerable financial resources and a strong liquidity position for at least the 12 months from the signing of these financial statements. The Group has cash and cash equivalents of £806.8 million. It also has ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the strategic report. As a consequence of these factors and having accepted the five year plan for 2021-2025 (the Final Determination), the Directors believe that the Group is well placed to manage its business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

The Directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position as at the year end, that both the Group and Company have sufficient resources for their present requirements and are able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. This is based upon a review of the Group's and Company's financial forecasts for the forthcoming financial year, consideration of the Group's compliance with its covenants, and the cash, current asset investments and available facilities of the Group and Company.

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Corporate Governance

The Kemble Water Holdings Board is responsible for the long-term success of the Kemble Water Finance Limited Group by providing leadership and strategic direction on the Group's culture, values and purpose. It provides governance oversight and ensures effective management of risk. It balances the interests of our shareholders with those of our wide range of other stakeholders including customers, employees, and suppliers and the impact on local communities and the environment. The Board also serves as an Audit Committee for all entities with listed private placements that are not overseen by the TWUL Audit Risk and Reporting Committee. This includes Kemble Water Finance Limited. The Board is made up of Non-Executive Directors (NEDs), who are nominated and appointed by the Group's external shareholders, which is why they are not classified as independent. They provide strong experience of financial asset management and value creation, and constructively challenge and monitor the performance and delivery of the Group's strategy, as well as that of the TWUL Executive Board. The Kemble Board is not deemed to require a committee for Director Remuneration, Nomination, Regulatory Strategy, Customer Service, or the Health, Safety and Environment, as all such matters are closely monitored by committees reporting into the TWUL Board.

The Board's system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for remainder of the asset management plan ("AMP").
- Performance reporting – the Board and shareholders receive monthly management reports, including an overview of key performance metrics.
- System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk;
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

Our Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks.

Financial risk management

During the period the Company had access to the Chairman and the Executive Team of TWUL, who also manage the wider Kemble Water Holdings Limited group ("KWH Group") on a day-to-day basis on behalf of the Directors of individual group companies. The Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Group's operations expose it to a variety of financial risks and information on the use of financial instruments by the Group to manage these risks is disclosed in the strategic report.

Political donations

No political donations were made by the Group or Company during the current or preceding year.

Charitable donations

Charitable donations of £3.8 million were made by the Group during the year (2020: £0.3 million).

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business.

The development and application of new techniques and technology is an important part of the Group's activities. The Group is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management. In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements.

Expenditure on research and development totalled £11.2 million for the year (2020: £3.8 million).

Employee engagement

Over 80% of employees took part in our annual survey (2019/20: 84%) with an overall engagement score of 75% (2019/20: 64%). This demonstrates that our employees are willing to express how they are feeling about working at Thames – both the good aspects and what we can do to improve. Employees commented favourably on health and safety, diversity and inclusion and work/ life balance as well as the fact that they are proud to work for Thames Water.

We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year. Ian Pearson continues to act as designated Non-Executive Director for workforce engagement – to take accountability for ensuring that workforce issues are appropriately considered by the Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities. This year, Ian held 11 virtual employee engagement sessions with across the business, providing employees with informal opportunities to meet with and be listened to by Board members.

Our Executive team reviews feedback from a variety of sources including our 'Hear For You' survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as internal Yammer communications and local feedback channels.

Recruitment, employment and training of disabled people

We are proud to be the first water company to be awarded Disability Confident Leader status, which we achieved in July 2019. This is a testament to our approach to attracting and retaining people with disabilities and long-term health conditions. We provide an automatic interview for people with disabilities who meet the essential criteria and utilise alternative formats and reasonable adjustments at every stage, such as the use of British Sign Language interpreters.

Throughout 2020/21 we have continued to raise awareness, educate, improve accessibility and nurture a culture of inclusion. This has included adaptation to deliver training virtually, using auto captions, voice overs and alternative formats. We have additionally updated our access to work standards to make the process more seamless for employees.

As a result, we have achieved a 16% increase in employee engagement among those with disabilities or long-term health conditions, and 77% of people with a disability or long-term health condition state that we are an inclusive equal opportunity employer.

Operational Greenhouse Gas Emissions and Energy Management

Our net operational emissions fell from 290.5 $kTCO_2e$ in 2019/20 to 268.2 $kTCO_2e$ in 2020/21, a reduction of 22.3 $kTCO_2e$ or 8%, when compared using a like-for-like methodology. Our total energy consumption fell from 1,879 GWh in 2019/20 to 1,618 GWh. We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department for Environment, Food and Rural Affairs (Defra). Emissions of greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO_2e"). For 2020/21 the Water Industry updated its carbon accounting methodology and Thames Water updated its reporting approach. Using the newer methodology in 2019/20 would have resulted in higher reported operational emissions last year: 290.5 $ktCO_2e$ rather than our previously reported 257.9 $ktCO_2e$.

Key trends

In 2020/21 we made significant progress reducing our greenhouse gas emissions and improving our energy performance:

- We have achieved a reduction in our gross operational emissions of 7% since last year, based on a like-for-like methodology.
- We reduced our use of fossil fuels from 37.2 $kTCO_2e$ to 29.9$kTCO_2e$, a reduction of 20%.
- We reduced our total energy consumption by 61GWh, from 1,679 GWh to 1,618 GWh.
- Our total electricity consumption reduced by 40 GWh from 1,305 GWh to 1,265 GWh.
- We generated 23% of our electricity needs from on-site renewables.
- Covid lockdown restrictions impacted our renewable generation from sludge and resulted in a reduction of 12 GWh to 301 GWh.
- At the same time, we have increased our renewable heat generation by 15 GWh to 159 GWh.
- Together with our other renewables (wind and solar photovoltaics) we have increased our energy generation by 3GWh.

Where we're not able to produce our own renewable electricity, we continue to source Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity through contracts with our suppliers.

Our carbon targets

We have made a commitment to reduce our net carbon emissions from our operations to zero by 2030 and to then become net negative. We have already reduced our emissions by 68% compared to our 1990 baseline level, a 577.6 $ktCO_2e$ absolute reduction. A taskforce has been created to work towards our target of being a net negative carbon business. Some of the key aims as part of this target include maximising the energy and resource recovery from our sewage sludge, the electrification of our fleet of vehicles, and the increased efficiency of our assets.

Operational Greenhouse Gas Emissions and Energy Management (continued)

Emissions

During 2020/21, we reduced our gross operational emissions by 20.9 $kTCO_2e$ to 275 $kTCO_2e$, including 7.4 $kTCO_2e$ through reduced consumption of fossil fuels (decarbonisation) and 11.2 $kTCO_2e$ from reductions to our Wastewater and Sludge Process and Fugitive emissions.

Our net operational emissions reduced by 22.3 $kTCO_2e$ to 268.2 $kTCO_2e$, a fall of 8%. We have achieved numerous successes, realising emissions reductions through a combination of actions including:

- A 97% reduction in our emissions from fossil fuel use in combined heat and power ("CHP") engines, saving 1.8 $kTCO_2e$ – the equivalent of 5,000 flights from London to New York.
- Our CHP engines have also exported more renewable electricity when we did not need it ourselves, which has generated an additional 1.3 $kTCO_2e$ carbon offset.
- A 5% reduction in fossil fuel use in outsourced activities, saving 1.7$kTCO_2e$.
- Covid restrictions have also impacted the business, and we have seen a sharp 64% decrease, or 1.4 $kTCO_2e$ reduction, in emissions from business travel on public transport and private vehicles used for Company business.
- As a result of the decrease in the amount of sludge being received around London – caused largely by the impact of Covid-19 on working locations, usual residence and tourism – we focused on stabilising our digestion processes and switched off our Sludge Powered Generator at Beckton (which is a less efficient process), resulting in a 0.6 $kTCO_2e$ reduction in fossil fuel usage.

We have also reduced the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat, and our emissions intensity.

Water:	18.8 $kgCO_2e$ per Ml	down 1.6 $kgCO_2e$ per Ml
Wastewater:	121.4 $kgCO_2e$ per Ml	down 12.1 $kgCO_2e$ per Ml

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions).
- Scope 2 (Indirect energy use emissions).
- Scope 3 (Emissions from outsourced services and business travel).
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

	FY2021 $kTCO_2e$	**FY2020 $kTCO_2e$** (like for like methodology)
Scope 1	225.0	242.7
Scope 2[1]	-	-
Scope 3	50.1	53.4
Gross	**275.1**	**296.1**
Net offs	(6.9)	(5.6)
Net	**268.2**	**290.5**

[1] Scope 2 – Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity purchased.

Energy

Supported by our ISO50001-certified Energy Management System, we have delivered energy efficiency improvements across both Water and Wastewater business units. We have reduced the net electricity intensity for each megalitre of water and wastewater we supply and treat.

Water:	523 kWh/Ml	down 0.4%
Wastewater:	249 kWh/Ml	down 2%

This was achieved through a series of actions including efficiencies and generation increases at several sites, notable examples being:

- At Maple Lodge STW, in April 2020 (despite Covid) we commissioned two brand-new CHP engines replacing the four very old, smaller and less efficient dual-fuel engines. This has enabled us to generate 6.8 GWh more renewable electricity, cutting fossil fuel use by 6.9 GWh and our carbon emissions by over 1.8 kTCO2e in the last year.

- At Crossness STW, we have reconfigured the sludge treatment process to produce more of the steam we need from renewables. Steam is used to heat and help break down sludge, creating sewage gas during the digestion process. Sewage gas is then re-used in the THP boilers to produce heat and in the CHP engines to produce heat and electricity. This has helped us reduce our fossil fuel use at process level by 49% and save over 3.6 kTCO2e carbon emissions.

- At Turnford Borehole, we have installed a new electrical system – Variable Speed Drive (VSD) – on the pump. VSD allows better control of pump flowrate, allowing site to cope with a dynamic demand more efficiently. The delivery of this investment saved approximately 320 MWh per year, which equates to the annual consumption of nearly 100 homes.

Funding

In anticipation of our 2020 to 2025 investment programme, during the year ended 31 March 2019 TWUL Group increased the size of its Revolving Credit Facility (RCF) from £950.0 million to around £1.65 billion, and in November 2020 extended the maturity of £1.44 billion of that facility by one year from 2024 to 2025. Throughout the year, total new debt issuance and facilities of £1,187 million equivalent were completed in TWUL Group, as follows:

- £350 million bond due 2040 issued in April 2020;
- £40 million of privately placed debt due 2050 was issued in May 2020, along with a £110 million term loan maturing in 2023, which was subsequently cancelled in line with other financing initiatives;
- £612 million equivalent of debt was issued through a series of privately placed transactions (£84.7 million due 2023; €500m due 2023; $57 million due 2030 and $40 million due 2027) between October and December 2020; and
- £75 million Class B revolving credit facility commencing in April 2021 and maturing in April 2024 was entered into in November 2020

Since 31 March 2021, TWUL Group has further strengthened its financing position, entering into a £180.0 million Class B loan facility due June 2026, which is currently undrawn. Since 31 March 2021, £525.0 million of the Class A RCF has been drawn and the following debt has been repaid:

- £214.3 million Class B RCF
- £225.0 million Class A bond due April 2021
- £300.0 million Class B term loan due June 2023

The Company raised £100 million of new debt through two £50 million privately placed transactions in July and August 2020 respectively. In September 2020, £80 million of this was down-streamed through intercompany loans and loan repayments to enable TWUL to repay debt. A further £380 million of loan repayments by the holding companies to TWUL are planned during AMP7, to enable TWUL to repay debt. In November 2020, Thames Water (Kemble) Finance plc, the Company's financing subsidiary, raised £250 million due 2026 through a public bond issue, which was increased by £150 million to £400 million in February 2021. The proceeds were used in November 2020 to repurchase, through a public tender, £60 million of the issuer's bond debt due in 2022, and in December 2020 for the early repayment by the Company of a £75 million loan due in 2022.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 5 July 2021 and signed on its behalf by

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The group and company have also prepared financial statements in accordance with and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations
In the case of each director in office at the date the directors' report is approved:

- so far as the director is aware, there is no relevant audit information of which the group's and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group's and company's auditors are aware of that information.

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Kemble Water Finance Limited

Report on the audit of the financial statements

Opinion

In our opinion, Kemble Water Finance Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2021 and of the group's loss and the group's and company's cash flows for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2021; the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Kemble Water Holdings Board.

Separate opinion in relation to international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union

As explained in the accounting policies to the financial statements, the group and company, in addition to applying international accounting standards in conformity with the requirements of the Companies Act 2006, have also applied international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In our opinion, the group and company financial statements have been properly prepared in accordance with international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the company or its controlled undertakings in the period under audit.

Our audit approach

Overview

Audit scope

- Two significant components within the group are subject to a full scope audit; Thames Water Utilities Limited and Thames Water Utilities Finance Plc.
- Two additional entities, Kemble Water Finance Limited and Thames Water (Kemble) Finance Plc, were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group.
- For the company only accounts and the significant components we tested both the design and operation of relevant business process controls and performed substantive testing over material financial statement line items.

Key audit matters

- Valuation of financial derivatives (group)
- Provision for bad and doubtful debts (group)
- Valuation of retirement benefit obligation (group)
- Classification of costs between capital and operating expenditure (group)
- Impact of COVID-19 (group and parent)
- Investment in Subsidiaries (parent)
- Recoverability of Goodwill (group)

Materiality

- Overall group materiality: £30m (2020: £30m) based on 0.14% of total assets.
- Overall company materiality: £53.5m (2020: £49.1m) based on 1% of total assets.
- Performance materiality: £22.5m (group) and £40.1m (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

The key audit matters below are consistent with last year.

Key audit matter	**How our audit addressed the key audit matter**
Valuation of financial derivatives (group) The group derivative position as at 31 March 2021 was an asset of £163m (2020: £374m) and liability of £1,470m (2020: £1,061m). The net derivative fair value as at 31 March 2021 was a liability of £1,307m (2020: £687m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to note 19 of the financial statements.	Our procedures included: Obtaining independent confirmations from the external counterparties and contracts to confirm the existence and terms of all derivative contracts held. Engaging with our valuations team who have performed independent testing of the pre-credit risk adjusted valuations for a sample of the derivative population. Performing procedures to assess the validity of assumptions and calculations management have made in performing the credit risk component of fair value. Performing an analysis of the directional movement in the derivative position relative to movements in inflation, exchange rates and interest rates. Testing management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation methodology and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Provision for bad and doubtful debts (group) The recoverability of customer debts is always a key issue for water companies. The company uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £146m (2020: £188m). Management makes key assumptions based on historical trends relating to non-payment of invoices including	We evaluated the model used to calculate the provision and confirmed its consistency with prior years (excluding the COVID-19 overlay) and the appropriateness of the model in line with requirements of IFRS 9. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year.

comparisons of the relative age of the individual balance and consideration of the actual write-off history. These historical trends are used as a basis to assess expected credit losses in the future. These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions. The provision includes an additional overlay in the current year, consistent with prior year, to reflect the potential impact of the COVID-19 pandemic, which involves a high degree of estimation uncertainty. Management have also considered plausible downside scenarios in assessing the impact of COVID-19 on the receivable balance. Refer to note 15 of the financial statements.	We re-performed the calculations used in the model and ensured accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to ensure appropriateness of the aging classifications used in the model. We assessed the various downside scenarios considered by management on account of COVID-19 and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of COVID-19 on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis on the downside scenarios considered by management. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on management's assessment. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for bad and doubtful debts and the impact of COVID-19 on trade receivables. Overall we consider that the provision and disclosure for bad and doubtful debts is reasonable as at 31 March 2021.
Valuation of retirement benefit obligation (group) Valuation of total scheme liabilities £2,729m (2020: £2,523m). The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders; this is especially so in the current year in light of the COVID-19 crisis and the new triennial valuations completed. Refer to note 23 of the financial statements.	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme liabilities. We benchmarked the various assumptions used (e.g. discount, inflation rates and mortality assumptions) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The last formal triennial valuation took place as at 31st March 2019 and this has been used in the calculation of the defined benefit obligation although the actuary has refined their calculation for information received from the scheme actuary. This information comes in the form of the underlying cashflows from the triennial valuation. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results and were able to agree to within materiality levels. We assessed the impact on COVID-19 on the scheme assets to ensure that the scheme assets were able to be valued accurately at the balance sheet date based on current valuations. The impact of COVID-19 on the financial assumptions has been included in the bond yields and inflation curves used as they are based on market conditions at the reporting date so include the impact of the pandemic. We note the TWPS closed to future accrual during the year. We have assessed the actuary's treatment of the closure and have been able to conclude it as reasonable. Overall, we concur that the methodology and assumptions used by management at 31 March 2021 are reasonable.
Classification of costs between capital and operating expenditure (group) Additions to Assets under construction (AUC) during the period amounted to £1,021bn (2020: £1,105bn). Within this is £220m (2020:£183m) of own works capitalised and £70m (2020: £94m) of borrowing costs incurred with the remainder being external costs incurred.	We have tested the controls regarding the assessment by management of each project as being either operating or capital in nature.

There is a high degree of judgement applied when allocating costs to operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to note 12 of the financial statements.	For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. We tested the borrowing costs calculation and the qualifying projects involved. Our procedures over own works capitalised included: - Testing the control process over assessing the level of spend incurred by each cost centre that should be capitalised. - Obtaining management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. - Performing sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria. Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2021 and estimates used in calculating relevant costs to be capitalised to be appropriate.
Impact of COVID-19 (group and parent) The company is an intermediate parent company to Thames Water Utilities Limited ('TWUL') which is the main trading entity of the Kemble Water Holdings Limited Group ('Group'). The impact of COVID-19 on the Group is therefore principally driven by the impact to TWUL. Relative to companies in other industries the impact to TWUL whilst signfiicant, has not resulted in a shut down of operations as the company continued to fulfil its primary responsibility to provide water and waste water services (aided by its employees being deemed essential workers) throughout the year. It has also not made direct use of any COVID-19 relief schemes. COVID-19 has had an impact on the group's cash flows (receivables from household customers having a significant impact) specifically in relation to variances in consumption levels compared to pre pandemic levels with increased demand from householders as its customers worked from home, and decreased demand in its Non-household business as offices and retailers closed or operated at reduced capacity for much of the financial year. The pandemic has also seen increased pressure on customers ability to pay their bills and operational cost changes as the company responded to geographical changes in demand, with increased pressure on water treatment sites outside of London as demand patterns changed. Considering the above the specific areas of the financial statements where we have assessed the impact of COVID-19 are as below: • Going concern- As the company is reliant on a letter of support from Kemble Water Holdings Limited ('KWH'), which in turn is reliant on the performance of its main trading subsidiary TWUL, our work has considered the impact of COVID-19 on TWUL and the KWH Group and the impact the pandemic has had on the Group to	Our response to the risk arising from the impact of COVID-19 is set out below: • Going concern: Refer to our procedures in respect of going concern as set out below. • Investment in subsidiaries (Parent)- Refer to Key Audit Matter 'Investment in subsidiaries' • Recoverability of Goodwill (Group)- Refer to Key Audit Matter 'Recoverability of Goodwill) In addition, we have considered other impacts of COVID-19 on the Company and specifically the increased level of remote working, on the Company's internal control environment, including fraud risk, business process control activities, IT general controls and cyber risk. We performed all of our standard walkthrough procedures via video conference. Based on the inquiries performed and the results of our audit procedures, we did not identify any evidence of a significant deterioration of the control environment. Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.

remain compliant with financial covenants and its ability to refinance its debt. Refer to the Accounting policies of the financial statements for more information. • Investment in subsidiaries (Parent). Refer to Accounting Policies and Note 32 of the financial statements. • Recoverability of Goodwill (Group) Refer to Accounting Policies and Note 9 of the financial statements.	
Investment in Subsidiaries (parent) Investments at 31 March 2021 is £4,292.3m (2020: £4,292.3m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to Note 32 of the financial statements.	Our procedures included: We have obtained management's model and verified the mathematical accuracy of calculations used. We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable. We have traced net debt used in management's assessment at 31 March 2021 to the audited financial statements. We have verified the RCV used by management to the latest Ofwat publication. Overall, we concur with the assessment that management have made and that there is no impairment at 31 March 2021.
Recoverability of Goodwill (group) Goodwill at 31 March 2021 is £1,468.1m (2020: £1,4681.1m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to note 9 of the financial statements.	Our procedures included: We have obtained management's model and verified the mathematical accuracy of calculations used. We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable. We have agreed the net debt used in management's assessment at 31 March 2021 to the audited financial statements. We have also verified the RCV used by management to the latest Ofwat publication. Overall, we concur with the assessment that management have made and that there is no impairment at 31 March 2021.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. Two legal entities in the group were considered financially significant and therefore subject to full scope audits for group purposes; Thames Water Utilities Limited due to holding the significant proportion of the group's total assets and all its trade and Thames Water Utilities Finance Plc due to holding a significant amount of the group's external debt.

Two additional entities, Kemble Water Finance Limited and Thames Water (Kemble) Finance Plc, were considered in scope for certain financial statement line items, in order to obtain sufficient coverage of the cash, borrowings and finance expenses of the group. We additionally obtained full coverage over the consolidation journal entries for the group.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£30m (2020: £30m).	£53.5m (2020: £49.1m).
How we determined it	0.14% of total assets	1% of total assets
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore group materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.14% of total group assets was deemed to be most appropriate.	Total assets has been determined to be the appropriate benchmark for the company as it is a holding company with no revenue of its own. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was £25.5 million and £28.5 million. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% of overall materiality, amounting to £22.5m for the group financial statements and £40.1m for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with the Kemble Water Holdings Board that we would report to them misstatements identified during our audit above £3.0 million (group audit) (2020: £3.0million) and £2.9million (company audit) (2020: £2.9million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the group's and the company's ability to continue to adopt the going concern basis of accounting included:

- Assessing the ability of management to rely on the letter of support it has obtained from KWH through assessing the ability of the KWH group to remain compliant with the various financial covenants that the group is subject to. In addition we have assessed the group's ability to meet its liabilities as they fall due and what financial support the wider group may require and whether this would impact the ability of KWH to support the company.
- Obtaining covenant compliance certificates and verifying the mathematical accuracy and testing inputs back to either the year end financial numbers or for forecasted information to the Board approved budget.
- Assessing the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the group's and the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Ofwat Regulations including licence conditions, Environmental regulations, Listing rules, Pension legislation and Tax legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to the posting of journal entries to manipulate the financial results in the year, specifically journals to increase revenue, to reclassify costs from the income statement to Property Plant and Equipment or to conceal the misappropriation of cash. We have also considered the risk of management bias in forming its significant accounting judgements or estimates and in the related disclosures. Audit procedures performed by the engagement team included:

- Discussions and inquiries of management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions made by management in determining significant accounting estimates and judgments. In particular in relation to the Key Audit Matters as set our in our report along with provisions and contingent liabilities as detailed in notes 21 and 25 respectively. We have tested significant accounting estimates and judgements to supporting documentation, considering alternative information where appropriate along with considering the appropriateness of the related disclosures in the financial statements;
- Identifying and testing a sample of journal entries throughout the whole year, which met our pre-determined fraud risk criteria;
- Reviewing minutes of meetings of those charged with governance and reviewing internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Kemble Water Holdings Board, we were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 3 years, covering the years ended 31 March 2019 to 31 March 2021.

Katharine Finn (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Reading

5 July 2021

Consolidated income statement

For the year ended 31 March

		2021			2020		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue	1	**2,033.0**	**73.8**	**2,106.8**	2,108.6	64.3	2,172.9
Operating expenses excluding net impairment losses on financial and contract assets [1]	2	**(1,727.6)**	**-**	**(1,727.6)**	(1,654.3)	-	(1,654.3)
Net impairment losses on financial and contract assets	2	**(36.5)**	**(0.2)**	**(36.7)**	(40.6)	(0.2)	(40.8)
Total operating expenses	2	**(1,764.1)**	**(0.2)**	**(1,764.3)**	(1,694.9)	(0.2)	(1,695.1)
Other operating income	4	**122.2**	**-**	**122.2**	79.4	-	79.4
Operating profit		**391.1**	**73.6**	**464.7**	493.1	64.1	557.2
Finance income	5	**174.7**	**-**	**174.7**	73.2	-	73.2
Finance expense	6	**(1,065.0)**	**-**	**(1,065.0)**	(1,085.6)	-	(1,085.6)
Net (losses)/gains on financial instruments	7	**(524.9)**	**-**	**(524.9)**	190.8	-	190.8
(Loss)/profit on ordinary activities before taxation		**(1,024.1)**	**73.6**	**(950.5)**	(328.5)	64.1	(264.4)
Taxation on loss/(profit) on ordinary activities	8	**192.8**	**(14.0)**	**178.8**	(61.2)	(6.1)	(67.3)
(Loss)/profit for the year		**(831.3)**	**59.6**	**(771.7)**	(389.7)	58.0	(331.7)

[1] Underlying operating expenses for the year ended 31 March 2021 includes £16.3 million (31 March 2020: £27.7 million) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 3.

The Group activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 43.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	**2021** Underlying £m	**2021** BTL £m	**2021** Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
(Loss)/profit for the year		**(831.3)**	**59.6**	**(771.7)**	(389.7)	58.0	(331.7)
Other comprehensive (loss)/income							
Will not be reclassified to the income statement:							
Net actuarial (loss)/gain on pension schemes	23	**(195.6)**	**-**	**(195.6)**	168.9	-	168.9
Deferred tax credit/(charge) on net actuarial (loss)/gain including impact of deferred tax rate change in prior year		**43.2**	**-**	**43.2**	(27.0)	-	(27.0)
May be reclassified to the income statement:							
Losses on cash flow hedges	19	**-**	**-**	**-**	(4.1)	-	(4.1)
Cash flow hedge transferred to income statement	19	**37.5**	**-**	**37.5**	34.9	-	34.9
Deferred tax charge on cash flow hedge gain including impact of deferred tax rate change in prior year		**(7.1)**	**-**	**(7.1)**	(3.0)	-	(3.0)
Other comprehensive (loss)/income for the year		**(122.0)**	**-**	**(122.0)**	(169.7)	-	(169.7)
Total comprehensive (loss)/income for the year		**(953.3)**	**59.6**	**(893.7)**	(220.0)	58.0	(162.0)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on pages 43.

Consolidated statement of financial position

As at 31 March

	Note	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Non-current assets							
Goodwill	9	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Intangible assets	11	**276.5**	**-**	**276.5**	273.7	-	273.7
Property, plant and equipment	12	**16,796.7**	**-**	**16,796.7**	16,328.7	-	16,328.7
Right of use asset	13	**41.6**	**-**	**41.6**	52.3	-	52.3
Trade and other receivables	15	**51.4**	**228.9**	**280.3**	71.1	159.0	230.1
Pension asset TWMIPS	23	**57.9**	**-**	**57.9**	94.5	-	94.5
Derivative financial assets	19	**151.1**	**-**	**151.1**	374.3	-	374.3
		18,843.3	**228.9**	**19,072.2**	18,662.7	159.0	18,821.7
Current assets							
Inventories and current intangible assets	14	**14.9**	**-**	**14.9**	13.6	-	13.6
Contract assets	15	**240.0**	**5.8**	**245.8**	235.4	1.5	236.9
Trade and other receivables	15	**635.3**	**(7.3)**	**628.0**	484.9	5.1	490.4
Short term investments	19	**-**	**-**	**-**	300.0	-	300.0
Cash and cash equivalents	16	**803.2**	**3.6**	**806.8**	815.2	2.6	817.8
Derivative financial assets	19	**12.3**	**-**	**12.3**	-	-	-
		1,705.7	**2.1**	**1,707.8**	1,849.1	9.6	1,858.7
Current liabilities							
Contract liabilities	17	**(121.9)**	**(2.1)**	**(124.0)**	(123.8)	(0.3)	(124.1)
Trade and other payables	17	**(607.1)**	**(11.4)**	**(618.5)**	(661.1)	(10.3)	(671.4)
Lease liabilities	13	**(7.5)**	**-**	**(7.5)**	(7.9)	-	(7.9)
Borrowings	18	**(1,146.1)**	**-**	**(1,146.1)**	(1,814.9)	-	(1,814.9)
Derivative financial liabilities	19	**-**	**-**	**-**	(15.0)	-	(15.0)
		(1,882.6)	**(13.5)**	**(1,896.1)**	(2,622.7)	(10.6)	(2,633.3)
Net current liabilities		**(176.9)**	**(11.4)**	**(188.3)**	(773.6)	(1.0)	(774.6)
Non-current liabilities							
Contract liabilities	17	**(757.3)**	**-**	**(757.3)**	(707.3)	-	(707.3)
Lease liabilities	13	**(52.9)**	**-**	**(52.9)**	(62.4)	-	(62.4)
Borrowings	18	**(20,191.9)**	**-**	**(20,191.9)**	(18,906.7)	-	(18,906.7)
Derivative financial liabilities	19	**(1,469.9)**	**-**	**(1,469.9)**	(1,045.9)	-	(1,045.9)
Deferred tax	20	**(1,033.6)**	**-**	**(1,033.6)**	(1,120.8)	-	(1,120.8)
Provisions for liabilities and charges	21	**(145.0)**	**-**	**(145.0)**	(145.6)	-	(145.6)
Pension deficit	23	**(284.7)**	**-**	**(284.7)**	(216.1)	-	(216.1)
		(23,935.3)	**-**	**(23,935.3)**	(22,204.8)	-	(22,204.8)
Net (liabilities)/assets		**(5,268.9)**	**217.5**	**(5,051.4)**	(4,315.7)	158.0	(4,157.7)
Equity							
Called-up share capital	22	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	22	**(59.8)**	**-**	**(59.8)**	(90.2)	-	(90.2)
(Accumulated losses) / retained earnings	22	**(5,210.1)**	**217.5**	**(4,992.6)**	(4,226.5)	158.0	(4,068.5)
Total deficit		**(5,268.9)**	**217.5**	**(5,051.4)**	(4,315.7)	158.0	(4,157.7)

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the statement of financial position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The consolidated financial statements (which include the accompanying accounting policies and notes) for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 5 July 2021 and signed on its behalf by:

P Noble
Director

Company statement of financial position
As at 31 March

	Note	**2021 £m**	2020 £m
Non-current assets			
Investment in subsidiaries	32	**4,292.3**	4,292.3
Trade and other receivables	33	**0.5**	0.6
Intercompany receivables	33	**417.0**	366.4
Deferred tax asset	34	**6.7**	8.4
		4,716.5	4,667.7
Current assets			
Intercompany receivables	33	**352.1**	208.3
Cash and cash equivalents	35	**286.5**	28.7
		638.6	237.0
Current liabilities			
Trade and other payables	36	**(1.7)**	(0.1)
Borrowings	38	**(21.0)**	(17.0)
		(22.7)	(17.1)
Net current assets		**615.9**	219.9
Non-current liabilities			
Trade and other payables	36	**(0.3)**	(0.3)
Borrowings	38	**(8,607.1)**	(7,605.7)
		(8,607.4)	(7,606.0)
Net liabilities		**(3,275.0)**	(2,718.4)
Equity			
Called-up share capital		**1.0**	1.0
Accumulated losses		**(3,276.0)**	(2,719.4)
Total equity		**(3,275.0)**	(2,718.4)

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent Company. For the year ended 31 March 2021 the Company generated a loss after taxation of £556.6 million (2020: loss after taxation of £533.6 million)

The financial statements (which include the accompanying accounting policies and notes) for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 5 July 2021 and signed on its behalf by:

P Noble
Director

Consolidated statement of changes in equity

For the year ended 31 March

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2019	1.0	(118.0)	(3,878.1)	**(3,995.1)**
Loss for the year	-	-	(331.7)	**(331.7)**
Loss on cash flow hedges	-	(4.1)	-	**(4.1)**
Cash flow hedges transferred to income statement	-	34.9	-	**34.9**
Deferred tax charge on cash flow hedge losses including impact of deferred tax rate change	-	(3.0)	-	**(3.0)**
Actuarial gain on pension schemes	-	-	168.9	**168.9**
Loss on disposal of pension assets	-	-	(0.6)	**(0.6)**
Deferred tax charge on actuarial gain	-	-	(34.7)	**(34.7)**
Impact of deferred tax rate change on pension schemes	-	-	7.7	**7.7**
At 31 March 2020	**1.0**	**(90.2)**	**(4,068.5)**	**(4,157.7)**
Loss for the year	-	-	(771.7)	**(771.7)**
Cash flow hedges transferred to income statement	-	37.5	-	**37.5**
Deferred tax charge on cash flow hedge gain	-	(7.1)	-	**(7.1)**
Actuarial loss on pension schemes	-	-	(195.6)	**(195.6)**
Deferred tax credit on actuarial loss	-	-	43.2	**43.2**
At 31 March 2021	**1.0**	**(59.8)**	**(4,992.6)**	**(5,051.4)**

Company statement of changes in equity
For the year ended 31 March

	Called-up share capital £m	Accumulated losses £m	**Total equity £m**
At 1 April 2019	1.0	(2,185.8)	**(2,184.8)**
Loss for the year	-	(533.6)	**(533.6)**
At 31 March 2020	1.0	(2,719.4)	**(2,718.4)**
Loss for the year	-	(556.6)	**(556.6)**
At 31 March 2021	1.0	(3,276.0)	**(3,275.0)**

Consolidated statement of cash flows
For the year ended 31 March

	Note	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Cash generated from operations	28	**929.4**	**1.0**	**930.4**	1,153.1	(0.6)	1,152.5
Group relief received / (paid)		**-**	**-**	**-**	455.0	(4.4)	450.6
Overseas tax paid		**(0.5)**	**-**	**(0.5)**	(0.9)	-	(0.9)
Net cash generated by/(used in) operating activities[1]		**928.9**	**1.0**	**929.9**	1,607.2	(5.0)	1,602.2
Investing activities:							
Interest received		**178.8**	**-**	**178.8**	56.6	-	56.6
Decrease/(increase) in current asset investments		**300.0**	**-**	**300.0**	(300.0)	-	(300.0)
Purchase of property, plant and equipment		**(1,050.2)**	**-**	**(1,050.2)**	(1,137.9)	-	(1,137.9)
Purchase of intangible assets		**(54.8)**	**-**	**(54.8)**	(86.1)	-	(86.1)
Proceeds from sale of property, plant and equipment		**10.6**	**-**	**10.6**	-	-	-
Net cash used in investing activities		**(615.6)**	**-**	**(615.6)**	(1,467.4)	-	(1,467.4)
Financing activities:							
New loans raised		**2,071.6**	**-**	**2,071.6**	3,481.6	-	3,481.6
Repayment of borrowings		**(1,981.0)**	**-**	**(1,981.0)**	(2,366.5)	-	(2,366.5)
Interest paid		**(376.5)**	**-**	**(376.5)**	(807.7)	-	(807.7)
Fees paid		**(12.7)**	**-**	**(12.7)**	(11.6)	-	(11.6)
Repayment of lease principal		**(11.4)**	**-**	**(11.4)**	(11.0)	-	(11.0)
Derivative accretion settlement[2]		**(15.3)**	**-**	**(15.3)**	(123.2)	-	(123.2)
Net cash generated by financing activities		**(325.3)**	**-**	**(325.3)**	161.6	-	161.6
Net increase/(decrease) in cash and cash equivalents		**(12.0)**	**1.0**	**(11.0)**	301.4	(5.0)	296.4
Net cash and cash equivalents at beginning of year		**815.2**	**2.6**	**817.8**	513.8	7.6	521.4
Net cash and cash equivalents at end of year		**803.2**	**3.6**	**806.8**	815.2	2.6	817.8

[1] Net cash generated by operating activities for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying net cash generated by operating activities would be £999.1 million for the year ended 31 March 2021 (31 March 2020: £1,153.1 million).
[2] Derivative accretion settlement includes £15.3 million (2020: £123.2 million) relating to index-linked swaps where accretion is payable periodically.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to the arrangement with BTL and therefore our underlying amounts are disclosed separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 43.

Company statement of cash flows
For the year ended 31 March

	Note	2021 £m	2020 £m
Cash generated used in operations	40	**33.2**	41.0
Group relief received		**4.2**	465.8
Net cash generated by operating activities		**37.4**	506.8
Investing activities:			
New loans issued		**(82.0)**	(249.8)
Interest received		**0.1**	0.3
Net cash (used in)/generated by investing activities		**(81.9)**	(249.5)
Financing activities:			
New loans raised		**497.2**	339.8
Repayment of borrowings		**(134.9)**	(399.3)
Interest paid		**(55.2)**	(515.9)
Fees paid		**(4.8)**	(2.4)
Net cash (used in)/generated by financing activities		**302.3**	(577.8)
Net (decrease)/increase in cash and cash equivalents		**257.8**	(320.5)
Net cash and cash equivalents at beginning of the year		**28.7**	349.2
Net cash and cash equivalents at end of the year		**286.5**	28.7

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Kemble Water Holdings Limited ("the Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose principal activity is to act as the holding company for the Kemble Water Holdings Limited group of companies ("the Group"). The trading address and the address of the registered office of both the Company and the Group is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Group's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Statement of compliance with International Financial Reporting Standards ("IFRS")

The policies applied in these consolidated and Company financial statements for the year ended 31 March 2021 are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 5 July 2021, the date that the Board of Directors approved these financial statements.

Basis of preparation

The consolidated and Company financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 as applicable to companies using IFRS and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Going concern

The consolidated and company financial statements for the year ended 31 March 2021 have been prepared on the going concern basis. In forming this assessment the Directors have considered the Group's liquidity position, cashflow, profitability, compliance with covenants and the potential impact of Covid-19 on financial performance.

The Directors believe, after due and careful enquiry, that the Group has sufficient resources to meet its present obligations as they fall due for a period of at least 12 months from the date of approval of the consolidated financial statements. For this reason, the Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

The consolidated financial statements for the year ended 31 March 2021 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 assessing the appropriateness of the going concern basis, the Directors have considered the following factors.

The Group is the monopoly provider of the public water supply and wastewater treatment to areas including most of London and the Thames Valley. The regulatory regime in England and Wales provides water companies with stable and predictable revenues over an AMP. The framework ensures protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of Covid-19 on the Group's ability to provide essential water and wastewater services has been mitigated through the Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment.

The Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The Group has significant financial resources in the form of cash and committed bank facilities. Furthermore, during the pandemic, the Group has continued to efficiently access capital markets. The potential impact of Covid-19 on the Group's financial performance has been assessed with a particular focus on operational cashflows and capital expenditure.

Various scenarios have been assessed, all of which show the Group having significant liquidity headroom and compliant with covenants for a period of at least 12 months from the signing of these financial statements.

Based on the above, the Board is satisfied that the Group has adequate resources, for a period of at least 12 months from the date of approval of the condensed financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

Accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of joint ventures using equity accounting. Associates are accounted for on an equity basis either where the Group's holding exceeds 20% or the Group has the power to exercise significant influence. Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments have been made to the financial statements of subsidiaries to align the accounting policies used under the relevant IFRS standards into line with those used by the Group.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Bazalgette Tunnel Limited ("BTL") arrangement

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

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. 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, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, 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, against which this prepayment will be utilised.

As part of the construction of the Thames Tideway Tunnel, buildings are acquired by the Group and will be recognised within Land and Buildings within Property, Plant and Equipment. These will be disposed of in future financial periods once construction is completed.

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. The Company has a variety of customers including, household customers (Directly billed or Indirectly billed by other Water Only Companies ("WOCS")) and non-household customers (retailers and NAVs "New appointments and Variations").

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 at the time of billing based on historical experience is excluded from revenue, as it does not fall within the IFRS 15 criteria, to ensure that revenue is recorded at the amount which the Company expects to receive for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions. For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the performance obligation is satisfied. When the Company identifies the occupants, the bill is sent out in the customer's name if known or if not in the name of the occupier. If the Company has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled, and the property is classified as empty.

Revenue includes amounts that the Company billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the previous BTL arrangement section on this page.

Refer to page 57 and 58 for significant accounting estimates and judgements concerning revenue recognition.

Accounting policies (continued)

Other operating income

The Company considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. The service connections charge levied includes the cost of excavating, connecting and reinstating (if needed) the new supply, including the installation of a stop valve, boundary box and external water meter as well as any associated pipework between the connection and the boundary box. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Deferred service connections income is recorded within contract liabilities (deferred income). Typically amounts received will be fully recognised within a year following receipt.

Requisitions & Diversions income is recognised over time in other operating income using the input method by estimating complete satisfaction of the performance obligation and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions and diversions income is recorded within contract liabilities (deferred income). These income streams encompass a wide variety of schemes, from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

Contributions received for infrastructure charges (which meet the extra demands which new connections put on existing water mains, sewers and other network infrastructure) are initially held within contract liabilities (deferred income). The Company considers 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. The investment in the network from the infrastructure charges enables the Company to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore the Company recognises infrastructure charges in other operating income on a straight-line basis over the life of the associated asset. Notwithstanding the length of time between when the Company performs its obligations and when the customer pays, infrastructure charges are not adjusted for the time value of money given the trivial monetary impact.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group’s right to consideration is met in advance of billing. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the “Trade and other receivables (excluding prepayments)” section for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects, infrastructure charges, diversions and service connections.

Accounting policies (continued)

Net gains/(losses) on financial instruments

The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses / gains on financial instruments. The following are also recognised in the income statement as net losses / gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/ (losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on pages 51 and 52 for more details.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the consolidated statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome. As at 31 March 2021, there are no uncertain tax positions (2020: none).

Investments in subsidiary undertakings

Investment in subsidiary undertaking is stated at cost, less any provision for impairment. This impairment would be recognised within the Company income statement only. An impairment review is performed on an annual basis.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, the carrying value of goodwill acquired in a business combination is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense within the income statement and is not subsequently reversed.

Accounting policies (continued)

Intangible assets (excluding goodwill)

Separately acquired intangible assets, and internally generated intangible assets once commissioned, are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets in development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Within Land and Buildings are assets acquired in relation to the Thames Tideway Tunnel project. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed in line with the agreement with Ofwat.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in contract liabilities (deferred income) and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value on a straight-line basis over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
Land and buildings:	
Buildings	15-60
Operational structures	30-100
Plant and equipment:	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

Accounting policies (continued)

BTL arrangement

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at fair value, being the BTL prepayment plus the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs are recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable where those assets may be subject to significant increase in credit risk for example due to the impact of Covid-19. The Group's assessment for calculating expected credit losses is explained below. In addition, Management has considered the continued impact of Covid-19, and has increased the provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills, than otherwise would be the case.

(i) Directly billed
A bad debt model is used to calculate the provision for directly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by a bad debt provision. Debt that is older than 5 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling and a bad debt provision against unbilled debtors i.e., debts that have not been billed yet but are part of the metered sales accrual. Using the output of the model together with management's judgement of expected performance in the future, a management judgement is formed regarding the level of provision required for future credit losses. Refer to pages 57 and 58 for significant judgement.

Accounting policies (continued)

Non-derivative financial instruments (continued)

Expected credit losses (continued)

Directly Billed Write Off Policy

The bad debt write off policy has remained unchanged and has been consistently applied in the current year. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted.
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution.
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off.
- Where the age of the debt exceeds the statute of limitations – all debts of greater than 6 years old are written off, taking into account usual business rules.
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets/has insufficient assets on which to levy execution.
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor and no reasonable expectation of recovery; and disclosure of information regarding financial assets that are written off but are still subject to enforcement activity.

(ii) WOCs
A provision is also made against debts held by Water Only Companies (WOCs) who bill their customers for sewerage services on behalf of the Group. Since detailed information about the debt held on our behalf by the WOCs is limited, we provide for the debt with a rate calculated using the bad debt provision applied by the WOCs in their most recent statutory accounts, as a percentage of their billed and unbilled debts. We consider current performance and any information available to create the provision we then make management judgements in respect of future credit losses, in accordance with the requirements of IFRS 9.

(iii) BTL
The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognising revenue within the Group and associated bad debt. The bad debt methodology is consistent with directly billed customers.

(iv) Non-Household
The Group has assessed the risk of credit losses for non-household customers to be low and therefore no bad debt provision has been made. The Group has assessed specific debts held in respect of non-household customers which are subject to query by those customers, and made a revenue loss provision on those debts within accrued income based on historical collections experience.

Intercompany loans receivable

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

For loans repayable on demand, expected credit losses are based on the assumption that repayment of the loan is demanded in full at the reporting date. This is because Paragraph B5.5.38 of IFRS 9 states the maximum period over which expected impairment losses should be measured is the longest contractual period where an entity is exposed to credit risk. The Group has considered the recoverability of the intercompany receivables as part of the Kemble Group's annual impairment assessment of all intercompany balances under IFRS 9. Various scenarios were considered in a

multiple factor analysis performed at the reporting date with no expected credit loss on these loans identified. As such there is no concern over the recoverability of intercompany receivables, the Directors do not consider that there is any need to book an impairment provision and expect to materially recover the intercompany amount.

Accounting policies (continued)

Non-derivative financial instruments (continued)

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents

Cash and cash equivalents are held at either amortised cost or fair value through profit or loss and include cash on hand, deposits held at call with financial institutions, money market funds, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Included within cash and cash equivalents are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Short-term investments

Short-term investments are held at amortised cost and include term deposits which are not readily convertible into cash.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest-bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. In case of exchange or modification of interest-bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories and current intangible assets

Inventories are stated at the lower of cost and net realisable value (“NRV”).

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use.

Retirement and other employment benefits

Defined benefit schemes

The Group operates three, independently administered, defined benefit pension schemes, all of which are closed to new employees. One of these schemes, Thames Water Pension Scheme (“TWPS”), was closed to future accrual as of 31 March 2021. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard

IFRIC 14 IAS 19 ‘The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’ is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit) / surplus.

Accounting policies (continued)

Retirement and other employment benefits (continued)

Defined benefit schemes (continued)

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

Defined contribution schemes

The Group operates a Defined Contribution Stakeholder Pension Scheme (“DCSPS”) managed through Aon MasterTrust from October 2020. Prior to that, DCSPS was managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Group are eligible. The assets of the DCSPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Long-term incentive plans (“LTIP”) and bonus

LTIP
Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company’s performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company’s performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

LTIP 2021/24 is a three-year LTIP scheme with a performance period from 1 April 2021 to 31 March 2024. The targets for the LTIP have been set to deliver critical elements of the Company’s stretching business plan. 50% of the targets are focused on the delivery of an overarching “Integrated Performance Assessment” measured using the Return on Regulated Earnings (RORE). This assessment provides a measure of successful delivery for customer, the environment and shareholders since it is impacted by all aspects of our business plan. To provide increased focus on customer and the environment, the LTIP includes additional elements targeting delivery of business plans for customer service, leakage, water quality and pollutions. This management incentive was accrued during the period based on management’s assessment of performance against the targets set.

The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP 2019/20 is a three-year LTIP scheme with a performance period from 1 April 2019 to 31 March 2022. The targets for the LTIP have been set to deliver critical elements of the Company’s stretching business plan and 80% of the targets are focused on delivery of key customer outcomes including the delivery of leakage and environmental targets. This management incentive was accrued during the period based on management’s assessment of performance against the targets set. This management incentive was accrued during the period based on management’s assessment of performance against the targets set. The on target pay out for eligible senior management is an amount of up to 100% of their salary with a maximum payment of 200% of salary for delivery of stretch targets.

LTIP impacting previous period only
The transformation incentive was based on performance over a 2-year period from 1 April 2018 to 31 March 2020. The targets were focused on critical customer, environmental, operational and regulatory outcomes. The transformation incentive was accrued during the prior period based on management’s assessment of performance against the targets set. This incentive entitled the eligible senior management to an amount of up to 100% of their salary following the end of the performance period.

Bonus
Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set and approved by the Remuneration Committee.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme’s performance period ran from April 2017 to March 2020 and was open to all non-manager grade employees. The scheme entitled eligible employees to earn an amount of up to 5% of their salary following the end of the performance period. All payments related to this scheme were made in the prior period.

Accounting policies (continued)

Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. The timing for the insurance claims is uncertain and therefore both the liability and receivable have been recognised as non-current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

Outcome delivery incentives

The Asset Management Plan (“AMP”) is the five-year period covered by a water company’s business plan. The current period 1 April 2020 to 31 March 2025 is known as AMP7, and the prior period 1 April 2015 to 31 March 2020 was known as AMP6.

The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

Outcome delivery incentives (“ODIs”) introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value (“RCV”) adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

The majority of our AMP7 performance commitments (PCs) have financial ODIs, and are subject to either an in-period or an end-of-AMP revenue adjustment. For PCs with an in-period adjustment, the eligible outperformance or underperformance payment will be assessed during the annual reconciliation process and applied to the revenue allowance with a two-year lag. For PCs with an end-of-AMP adjustment, the eligible payment will be assessed at the next price review and applied to the revenue allowance for the next price review period.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 19.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as forward starting interest rate swaps to hedge its interest rate risks. At the inception of each hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedge item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The Group uses the hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

Accounting policies (continued)

Derivative financial instruments and hedging (continued)

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the host contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the host contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

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.

Financial guarantees

The Group is part of a Whole Business Securitisation (“WBS”) group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee and the amount can be reliably measured.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group’s presentational currency, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement.

IFRS 16: Leases

Recognition of Right of use assets and lease liabilities

IFRS 16 Leases sets out the principles for the classification, measurement, presentation and disclosure of lease arrangements. Under the provisions of IFRS 16, most leases are 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.

Accounting policies (continued)

IFRS 16: Leases (continued)

Recognition of Right of use assets and lease liabilities (continued)

At the transition date from IAS 17 Leases in the previous period (1 April 2019) the following practical expedients permitted by the standard were applied:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics;
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review;
- accounting for operating leases with a remaining lease term of less than 12 months as short-term leases;
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application and using hindsight in determining the lease term where the contract contains options to extend or terminate the lease;
- contracts of low value (£5,000 as determined by the Group) were not considered as leases; and
- the Group was not required to reassess whether a contract is, or contains, a lease at the date of initial application (1 April 2019). The Group therefore only applied IFRS 16 principles to contracts that were previously identified as leases under IAS 17 and IFRIC 4 at the date of initial application, and all subsequent leases entered into or modifications made after the initial application date.

Recognition of leases

As a lessee

The Group’s leasing activities consist of rentals payable for office properties and other land and buildings. Other rentals are short term or of low value. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components.

Right-of-use asset

Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Lease liability

Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate “IBR”. The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within ‘finance expenses’ so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the Group has the ability to mutually agree changes to the arrangement with the lessor.

Accounting policies (continued)

IFRS 16: Leases (continued)

Recognition of leases (continued)

Lease liability (continued)

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 of 0.8% as a percentage of RCV. However, leases that would have been identified as operating leases prior to the IFRS 16 transition (1 April 2020) do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2%.

Short-term leases and leases of low-value assets

The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

As a lessor

The Group has one material lease for which it is a lessor, which relates to the acquisition of a long leasehold of an office building, Camelford House. The primary purpose of acquiring the building was to provide access to a construction site as part of the construction of the Thames Tideway Tunnel. It is incidental to our business that the Group is acting as a lessor with income received. The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other operating income'.

New accounting policies and financial reporting changes

The accounting policies adopted in the preparation of these financial statements are consistent with those of the previous financial year.

Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be unusual by the Directors, either by nature or by scale and that are of material significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

Exceptional items recognised in the consolidated and Company only financial statements relate to transformation expenditure incurred from restructuring the business. This commenced in the previous financial year and concluded in the current financial year. These costs significantly changed how the Company operates and therefore are considered to be exceptional in nature and outside the ordinary course of business. The Group has additionally made a pension deficit repair payment of £69.7 million covering the financial periods from 2021/22 to 2024/25. This has been treated as an exceptional cash flow in the current year since this deficit repayment over the remaining AMP period is unusual by scale and of such significant that it would be beneficial to users of the financial statements to be disclosed separately in order to ensure our reporting cash flow movement reflects our ordinary business.

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained in the notes of the accounts on a case-by-case basis where relevant.

IBOR reform

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

We cannot rely on GBP LIBOR being published after the end of 2021 and the industry-led Working Group on Sterling Risk-Free Reference Rates is supporting the transition from GBP LIBOR to SONIA (Sterling Overnight Index Average). There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

Accounting policies (continued)

IBOR reform (continued)

Industry working groups have published documentation regarding methodologies for calculating adjustments between GBP LIBOR and SONIA. The Company has established a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Company currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps, both for external and intercompany contracts, which it plans to implement prior to the end of 2021.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2021, the Company had no designated hedge relationship and hedge accounting was not applied.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for financial years beginning on or after 1 January 2021 and addresses issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark. We have not early adopted the standard for the current year.

IAS 12 – Income Taxes

Amendments have been proposed by the IASB to clarify how companies account for deferred tax on leases and decommissioning obligations. This is not effective until 2023. We are considering the implications of these amendments.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Company, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes11 and 12 respectively) and capital accruals.

Net debt

Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the whole business securitisation covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 19.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt. Refer to note 19 for more information.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Company needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Company's covenant net debt to RCV and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Company, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Accounting policies (continued)

Alternative performance measures (continued)

Credit rating

The Company must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement.

As required by some of our financial covenants, we disclose our underlying performance separately.

BTL

BTL represents the financial performance of the Group from the arrangement with BTL. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance. Refer to page 43 for more information on the BTL arrangement.

EBIT

Earnings before interest and taxation ("EBIT") is a key performance metric used by management. As the Company has significant capital investment it is necessary that amounts relating to depreciation and amortisation are included in this metric. However, as interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBIT as a key performance metric.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual 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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2021 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in revenue for the current year of £49.9 million (2020: £33.1 million), with a corresponding decrease in receivables as shown in note 15.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2021 was £75.4 million (2020: £78.2 million).

Connections, requisitions and diversions

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

The performance obligation is to install/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 the Group 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.

Accounting judgement and estimation – provision for expected credit losses

As part of our future consideration, management has considered the impact of Covid-19 on customers' ability to pay their water and wastewater bills and has increased the provision by £9.0 million (2020: £15.2 million) across directly billed customers and WOCs. No adjustment has been made for non-household customers as management have assessed the future cash flows and the risk of non-payment was considered to be not material. The accounting treatment of revenue has also been unchanged by Covid-19 since it has not impacted how the performance obligations are measured.

For Directly billed customers the judgement was based on an average of three scenarios:

- Higher write-offs as a result of uncollected debt due to Covid-19 from 2020/21 billing being carried into the following year, which had an impact of £8.5 million on the provision;
- As above, but with the added expectation that reduced collections work in 2020/21 should therefore attribute a higher level of collectability to this debt in the following year since this contained debt of customers who have the ability to pay but have not been engaged with through collections activity yet, albeit not to the level expected in the year of billing. Therefore. this had an impact of £6.3 million on the provision; and
- As above, but with the added expectation that reduced collections work in 2020/21 should therefore attribute a higher level of collectability to this debt in the following year; which had a reduced impact of £6.3m on the provision; and
- Ongoing challenges causing collection rates to be worse than expected by 2%, which had an impact of £8.0 million on the provision.

Significant accounting judgements and key sources of estimation uncertainty (continued)

Revenue recognition (continued)

Accounting judgement and estimation – provision for expected credit losses (continued)

The average impact of these scenarios was £7.6 million.

For WOCs the judgement was based on an average of two scenarios:

- The budgeted Covid-19 percentage impact proposed for 2021/22 by the WOCs to their cash collection forecasts, applied to debt in proportion to the overall bad debt provision rate, which had an impact of £1.0 million on the provision; and
- The Covid-19 percentage impact used by the WOCs in 2020/21 and applied to all debt, which had an impact of £1.8 million on the provision.

The average impact of these scenarios was £1.4 million.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2021 was £146.3 million (2020: £187.8 million). The decrease was due to write offs in the year, primarily related to legacy debt, and a reduction in the total household provision due to an improvement in prior year debt collection rates following successful execution of our debt transformation programme.

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers is based on cash collection rates; for the WOCs it is the information from their statutory accounts in relation to the level of bad debt provision held for billed and unbilled debtors. The sensitivity analysis is summarised below:

Directly Billed

Scenario	£m	Outcome
Current year cash collection rates increase by 1%	3.3	Increase in charge
Current year cash collection rates reduce by 1%	(3.3)	Reduction in charge

WOCs

Scenario	£m	Outcome
Reduction in WOC provision rates by 1%	(0.9)	Reduction in charge
Increase in WOC provision rates by 1%	0.9	Increase in charge

Non-Household customers

Queries relating to de-registration of properties are provided for in full. We performed sensitivity analysis on the revenue loss provision based on the % of payments made on all remaining queries from the non-household market, held at year end.

Scenario	£m	Outcome
Increase in payment % by 10%	0.3	Increase in charge
Decrease in payment % by 10%	(0.3)	Reduction in charge

Significant accounting judgements and key sources of estimation uncertainty (continued)

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2021 were £1,050.2 million (2020: £1,136.3 million). Intangibles additions for the year ended 31 March 2021 were £54.8 million (2020: £86.7 million). Both figures include capitalised overheads and capitalised borrowing costs.

Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently management judgement is applied concerning whether those costs represent costs related to capital programs, following which management then apply a management estimate by calculating the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangible assets for the year ended 31 March 2021, net of commissioning, were £69.7 million (2020: £97.6 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods. The total depreciation charge for the year ended 31 March 2021 was £559.3 million (2020: £547.6 million) and the total amortisation charge for the year was £52.0 million (2020: £32.8 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could increase or decrease the charge to the income statement. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome
5 year increase in average remaining useful life	£75.0	Decrease in total depreciation and amortisation charge in the year ended 31 March 2021
5 year decrease in average remaining useful life	£99.8	Increase in total depreciation and amortisation charge in the year ended 31 March 2021

Provisions for other liabilities and charges

Accounting judgement – recognition of other provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are related to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 21, total £46.4 million as at the year ended 31 March 2021 (2020: £32.0 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2021 totalled £145.0 million (2020: £145.6 million). There is a risk that the final outcome of commercial and legal cases could be materially different to amounts provided.

Significant accounting judgements and key sources of estimation uncertainty (continued)

Investment in subsidiaries and goodwill

Accounting estimation – impairment of investments in subsidiaries and goodwill

Determining whether the Group's investments in subsidiaries or the carrying value of goodwill have been impaired requires estimations of the investment or cash generating unit's net realisable value. An enterprise valuation is derived through the application of an observable market multiplier uplift to the underlying entities' Regulatory Capital Value ("RCV"). The recoverable amount is thus most sensitive to the uplift multiplier used in the valuation model. See notes 9 and 32 for the net carrying value of goodwill investments and associated impairment provision.

Retirement benefit obligations

Accounting judgement – IFRIC 14 'IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Accounting estimate – actuarial valuations

The Group operates three defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. In June 2019, the latest triennial valuations of these two defined benefit pension schemes as at 31 March 2019, were signed off by the actuary appointed by the scheme trustees, David Gardiner of Aon. The pension liability and net cost recognised under IAS 19 *Employee Benefits* are assessed using the advice of an actuary appointed by the Group, based on the latest actuarial valuation and assumptions determined by the scheme actuary. These assumptions are based on information supplied to the Group actuary, supplemented by discussions between the Group actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the income statement and the net asset figure in the statement of financial position and together represent a key source of estimation uncertainty. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- inflation.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the two schemes as at 31 March 2021 was £219.2 million (2020: £114.6 million), which includes a pension deficit of £277.1 million (2020: £209.1 million) for the TWPS scheme, offset by a pension surplus of £57.9 million (2020: £94.5 million) for the TWMIPS scheme. Refer to note 23 for more information on the key assumptions and sensitivities of the pension schemes.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

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. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable.

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

Significant accounting judgements and key sources of estimation uncertainty (continued)

Derivative financial assets and liabilities (continued)

Accounting estimate – valuation of derivatives (continued)

Unless otherwise stated, all of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. In case where unobservable inputs are used and such use does not significantly impact the result, the relevant derivative instruments are classified as level two. The net total of derivative financial assets and liabilities as at 31 March 2021 was a liability of £1,306.5 million (31 March 2020 a liability of: £686.6 million). Refer to Note 19 for more information on the key assumptions and sensitivities of the financial instruments.

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change on the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative. During the prior year, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2021, £35.3 million (31 March 2020: £37.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2020: £0.7 million). See note 19 for more information.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

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 in customer bills.

Additionally, the Group, as the sole future 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.

Notes to the Group financial statements

1. Revenue

	2021 Underlying £m	**2021 BTL £m**	**2021 Total £m**	2020 Underlying £m	2020 BTL £m	2020 Total £m
Gross revenue	**2,082.6**	**74.1**	**2,156.7**	2,141.4	64.6	2,206.0
Charge for bad and doubtful debts	**(49.6)**	**(0.3)**	**(49.9)**	(32.8)	(0.3)	(33.1)
Net revenue	**2,033.0**	**73.8**	**2,106.8**	2,108.6	64.3	2,172.9

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. 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 has been disclosed separately to the Group's underlying performance in the table above, which is consistent with our financial covenants. The primary reason for the increase in BTL revenue is driven by the phasing of construction works.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2021 £m	2020 £m
Contract assets		
Current		
Accrued revenue for services provided to metered customers	**176.7**	173.5
Accrued income for other activities[1]	**68.6**	62.9
Total current contract assets	**245.3**	236.4
Contract liabilities		
Non-current		
Deferred revenue from infrastructure charges	**517.3**	511.9
Deferred revenue from other activities[2]	**240.0**	195.4
Total non-current contract liabilities	**757.3**	707.3
Current		
Advance payments received from unmeasured customers	**75.4**	78.2
Deferred revenue from infrastructure charges	**5.3**	5.3
Deferred revenue from other activities[2]	**43.3**	40.6
Total current contract liabilities	**124.0**	124.1
Total contract liabilities	**881.3**	831.4

[1] Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 43).
[2] Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities and how much relates to performance obligations that were satisfied in a prior period.

	2021 £m	2020 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received from unmeasured customers	**78.2**	75.6
Deferred revenue from infrastructure charges	**5.2**	5.1
Deferred revenue from other activities	**40.6**	33.3
Total	**124.0**	114.0

Notes to the Group financial statements (continued)

1. Revenue (continued)

Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

	2021 £m	2020 - Restated £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Service connections	**6.0**	7.4
Requisitions and diversions[1]	**206.6**	175.6
Infrastructure charges	**522.8**	517.1
Other	**4.3**	3.6
Total	**739.7**	703.7

[1] The prior year restatement is to disclose future income we are contracted to receive related to diversions, which was not disclosed in the previous financial year. The amount previously stated was £16.4m which has been restated to £175.6m as at 31 March 2020. The restated amount of £175.6 million includes £7.7million for High Speed 2, which relates to the relocation of assets to allow for the ongoing construction of this rail project. In the current year the amount relating to High Speed 2 is £41.0 million.

The Group considers the combination of activities comprising a Service Connection to represent a distinct performance obligation to the customer. This income is recognised within other operating income at the point in time that the service is complete, as no continuing obligation remains once the connection has been made. Typically amounts received in respect of service connections will be fully recognised within a year following receipt.

The Group considers the performance commitment associated with Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

Notes to the Group financial statements (continued)

2. Operating expenses

	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Wages and salaries	**302.0**	**-**	**302.0**	280.2	-	280.2
Social security costs	**33.3**	**-**	**33.3**	30.7	-	30.7
Severance costs	**0.9**	**-**	**0.9**	-	-	-
Pension costs – defined benefit schemes	**24.4**	**-**	**24.4**	26.8	-	26.8
Pension costs – defined contribution schemes	**15.2**	**-**	**15.2**	13.1	-	13.1
Apprenticeship Levy	**1.5**	**-**	**1.5**	1.3	-	1.3
Total employee costs	**377.3**	**-**	**377.3**	352.1	-	352.1
Power	**132.0**	**-**	**132.0**	129.0	-	129.0
Carbon reduction commitment	**-**	**-**	**-**	(1.1)	-	(1.1)
Raw materials and consumables	**53.0**	**-**	**53.0**	53.9	-	53.9
Rates[1]	**121.5**	**-**	**121.5**	98.2	-	98.2
Research and development expenditure	**11.2**	**-**	**11.2**	3.8	-	3.8
Insurance	**40.2**	**-**	**40.2**	39.8	-	39.8
Legal and professional fees	**41.8**	**-**	**41.8**	28.2	-	28.2
Other operating costs[2]	**513.3**	**-**	**513.3**	495.6	-	495.6
Own work capitalised	**(219.8)**	**-**	**(219.8)**	(183.0)	-	(183.0)
Net operating expenses before depreciation and amortisation	**1,070.5**	**-**	**1,070.5**	1,016.5	-	1,016.5
Depreciation of property, plant and equipment	**580.8**	**-**	**580.8**	569.0	-	569.0
Depreciation of right-of use assets	**8.0**	**-**	**8.0**	8.2	-	8.2
Amortisation of intangible assets	**52.0**	**-**	**52.0**	32.9	-	32.9
Net operating expenses excluding exceptional items	**1,711.3**	**-**	**1,711.3**	1,626.6	-	1,626.6
Exceptional costs[3]						
Company reorganisation - severance	**0.1**	**-**	**0.1**	12.2	-	12.2
Associated programme management costs	**16.2**	**-**	**16.2**	15.5	-	15.5
Operating expenses excluding impairment losses on financial and contract assets	**1,727.6**	**-**	**1,727.6**	1,654.3	-	1,654.3
Impairment losses on financial and contract assets[4]	**36.5**	**0.2**	**36.7**	40.6	0.2	40.8
Total operating expenses	**1,764.1**	**0.2**	**1,764.3**	1,694.9	0.2	1,695.1

[1] Rates expense in the current period include £nil rebates (2020: £23.0 million relating to reassessment of the business rates expense in the period 2005-2015).

[2] Other operating costs primarily relate to costs for 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*.

[3] Exceptional costs of £16.3 million (2020: £27.7 million) relate to transformation expenditure incurred as a result of the significant restructuring of the business that commenced in the previous financial year and continued into this financial year. These costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructure of the business involved significant changes in the way that the Company operates and therefore this transformation expenditure is deemed exceptional by nature. The tax impact of exceptional items is an increase in the tax credit in the income statement of £3.1 million (2020: £5.3 million) applying the 19% corporation tax rate.

[4] Impairment loss for the prior year is net of £5.1 million relating to excess payments received from customers in the past and recognised during the year. In the current year, £14.6 million is recognised in other income.

Notes to the Group financial statements (continued)

2. Operating expenses (continued)

Auditors remuneration

Amounts payable to the Group's auditor are shown below in respect of the following services to the Group:

	2021 £'000	2020 £'000
Fees payable to the Group's auditor:		
Fees payable for the audit of the Company's financial statements	**40.0**	41.0
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	**1,470.8**	1,215.0
Fees payable to the Group's auditor for other services:		
Audit related assurance services	**765.5**	823.0
Other	**224.5**	146.0
Total aggregate remuneration	**2,500.8**	2,225.0

Fees payable for the audit of the Group's financial statements in the current financial year exclude £3,000 (2020: £10,000) for out of pocket expenses incurred for delivery of the audit.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements to Ofwat.

No fees, other than those disclosed, were payable to PricewaterhouseCoopers LLP in respect of the Company, or Group, in the current or preceding financial year.

3. Employees and Directors

Employees

All Group employees are based in the United Kingdom. The average number of persons employed by the Group during the year (including Executive Directors), analysed by category, was as follows:

	2021 Number	2020 Number
Employed by Thames Water Utilities Limited:		
Operations	**3,420**	3,313
Customer experience	**1,452**	1,456
Support services	**1,139**	1,099
Digital, strategy and transformation	**379**	300
Delivery office	**135**	128
	6,525	6,296
Employed by other group companies:		
Property services	**4**	5
Total	**6,529**	6,296

The Company has no employees (2020: none).

Directors

The Directors' emoluments were as follows:

	2021 £'000	2020 £'000
Salary and fees	**2,599.9**	566
Pension and pension allowances	**159.0**	35
Bonus	**510.0**	234
Payment on loss of office	**-**	787
Other benefits	**481.0**	5
Total	**3,749.9**	1,627

Notes to the Group financial statements (continued)

3. Employees and Directors (continued)

Included in the table above, is £1.5 million (2020: £3.6 million) for the Executive Directors for their services to Thames Water Utilities Limited. In addition, the Executive Directors received total remuneration of £0.5 million (2020: £1.2 million) for their services to other companies within the Kemble Water Holdings Group.

In the current and preceding financial years no amounts were accruing to any Directors under the Company's defined benefit scheme in respect of services to the Company. The Company contributed cash of £119,000 (2020: £106,000) as a pension supplement for two Directors (2020: two Directors). In the current and preceding years the Company made no contributions into the Company's defined contribution pension scheme in relation to the Directors.

Other benefits includes medical benefits, car allowances and other incentives.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Remuneration Committee Report in the financial statements of Thames Water Utilities Limited. Refer to note 30 for disclosure on key management personnel.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Group during the year were £921,351 (2020: £743,187).

4. Other operating income

The Group has recognised the following amounts relating to other operating income in the income statement since they are separate to our ongoing obligation to provide water and wastewater services to customers:

	2021 £m	2020 £m
Power income[1]	**10.9**	12.1
Requisitions and diversions charges	**27.0**	29.4
Service connection charges	**18.2**	18.9
Amortisation of deferred income recognised on adoption of assets at nil cost	**3.7**	3.1
Release from deferred income – infrastructure charges	**5.3**	5.1
Gain/(loss) on sale of PPE	**8.3**	(4.1)
Rental income[2]	**31.7**	3.3
Other income[3]	**17.1**	4.6
Total	**122.2**	79.4

[1] Power income comprises income from the sale of internally generated electricity.
[2] In the current year we recognise £27.7 million of rental income relating to previous years which was previously held on the Balance Sheet. The rental income relates to a property purchased for the delivery of the Thames Tideway Tunnel. This building was acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed.
[3] Other income includes £14.6 million relating to excess payments received from customers in the past and recognised during the current year. In the prior year, £5.1 million is recognised in impairment losses on financial and contract assets. See note 2 'Operating expenses' for further detail.

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

5. Finance income

During the year ended 31 March 2021, the Group recognised finance income of £174.7 million (Year ended 31 March 2020: £73.2 million) relating mainly to interest on swaps and interest on bank deposits.

	2021 £m	2020 £m
Interest income on bank deposits	**1.3**	2.2
Interest income on swaps	**171.8**	65.2
Other finance income on swaps	**0.9**	0.2
External trading interest income	**0.7**	5.6
Total	**174.7**	73.2

Notes to the Group financial statements (continued)

6. Finance expense

The Group also recognised finance expenses of £1,065.0 million (2020: £1085.6 million) relating mainly to interest and accretion on loans and other borrowings, interest on intercompany borrowings, leases and defined benefit pension obligations.

	2021 £m	2020 £m
Interest in relation to bank and other loans:		
Interest expense	**(474.0)**	(467.0)
RPI accretion on loans	**(50.2)**	(105.1)
Interest in relation to intercompany borrowings:		
Interest expense	**(633.2)**	(613.2)
Interest in relation to leases:		
Leases	**(3.4)**	(3.7)
Interest in relation to defined benefit obligation:		
Net interest expense on defined benefit obligation	**(2.1)**	(6.3)
Fees:		
Other finance (fees)/credit[1]	**(1.8)**	0.5
Gross finance expense	**(1,164.7)**	(1,194.8)
Amortisation	**30.0**	11.6
Capitalised borrowing costs	**69.7**	97.6
Total finance expense	**(1,065.0)**	(1,085.6)

[1]For the prior year ended 31 March 2020, fees of £0.3 million and a credit of £0.8 million related to a reversal of fee accrual was disclosed separately; in the table above a net amount of £0.5 million has been disclosed.

7. Net (losses)/gains on financial instruments

	2021 £m	2020 £m
Net exchange gains/(losses) on foreign currency borrowings	**145.7**	(52.1)
Net (loss)/gain arising on swaps where hedge accounting is not applied [1]	**(630.4)**	277.8
Loss on cash flow hedge transferred from equity [2]	**(37.5)**	(34.9)
Loss on part repayment of debt [3]	**(2.7)**	-
Total	**(524.9)**	190.8

[1] Loss arising on swaps where hedge accounting is not applied primarily reflects higher RPI expectations and appreciation of GBP against USD and EUR. This excludes interest which is disclosed in note 5 finance income and note 6 finance expense.

[2] Refer to Note 19 Financial Instruments on pages 88 and 89 for more information on the loss on cash flow hedge transferred from equity.

[3] In November 2020, the Group repurchased £59.9 million debt (out of the £175.0 million external debt due 2022) at a £2.7 million premium, with the tender price taking into account the above market interest rate on the bond and its trading price prior to the announcement of the tender. The £2.7 million premium was recognised as a loss on part settlement of debt.

Notes to the Group financial statements (continued)

8. Taxation

Tax charge/(credit) in the income statement

	2021			2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Current tax:						
Current year amounts payable/(receivable) in respect of group relief	**(141.1)**	**14.0**	**(127.1)**	(125.9)	6.1	(119.8)
Overseas tax payable	**0.5**	**-**	**0.5**	1.7	-	1.7
Adjustment in respect of prior periods	**(1.1)**	**-**	**(1.1)**	(0.6)	-	(0.6)
	(141.7)	**14.0**	**(127.7)**	(124.8)	6.1	(118.7)
Deferred tax:						
Origination and reversal of timing differences	**(52.1)**	**-**	**(52.1)**	68.1	-	68.1
Adjustment in respect of corporation tax rate change	**-**	**-**	**-**	117.1	-	117.1
Adjustment in respect of prior periods	**1.0**	**-**	**1.0**	0.8	-	0.8
	(51.1)	**-**	**(51.1)**	186.0	-	186.0
Tax (credit)/charge on (loss)/profit on ordinary activities	**(192.8)**	**14.0**	**(178.8)**	61.2	6.1	67.3

The total tax credit for the year ended 31 March 2021 is lower (2020: higher charge) than the standard rate of corporation tax in the UK. The differences are explained below:

	2021				2020			
	Underlying £m	**BTL £m**	**Total £m**	Effective tax rate %	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	**(1,024.1)**	**73.6**	**(950.5)**	**-**	(328.5)	64.1	(264.4)	
Current tax at 19% (2020: 19%)	**(194.6)**	**14.0**	**(180.6)**	**19.0%**	(62.4)	12.2	(50.2)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.4**	**-**	**4.4**		4.3	-	4.3	
Disallowable expenditure [1]	**2.8**	**-**	**2.8**		0.5	-	0.5	
Non-taxable income [2]	**(4.5)**	**-**	**(4.5)**		(4.6)	-	(4.6)	
Property disposals [3]	**(0.8)**	**-**	**(0.8)**		(0.1)	-	(0.1)	
Tax differential on profits and losses of overseas subsidiaries	**0.4**	**-**	**0.4**		0.1	-	0.1	
Group relief not paid at standard rate	**-**	**-**	**-**		6.1	(6.1)	-	
Tax as adjusted for recurring items	**(192.3)**	**14.0**	**(178.3)**	**18.8%**	(56.1)	6.1	(50.0)	18.9%
Non-recurring items:								
Tax rate change on temporary timing differences[4]	**(0.4)**	**-**	**(0.4)**		117.1	-	117.1	
Adjustments to tax charge in respect of prior periods – group relief [5]	**(1.1)**	**-**	**(1.1)**		(0.6)	-	(0.6)	
Adjustments to tax charge in respect of prior periods – deferred tax	**1.0**	**-**	**1.0**		0.8	-	0.8	
Total tax charge/(credit)	**(192.8)**	**14.0**	**(178.8)**	**18.8%**	61.2	6.1	67.3	(25.5%)

[1] Disallowable expenditure includes fines included in operating expenses.
[2] Non-taxable income relates primarily to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while cost of the new service connections fixed assets is not eligible for capital allowances.
[3] Tax arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.
[4] The deferred tax rate changed in the prior year from 17% to 19%. A one-off charge of £117.1 million arose in that year on the restatement of deferred tax balances to 19%.
[5] The current tax credit in respect of prior periods of £1.1 million is in respect of group relief receivable from the Company's immediate parent company. The effective tax rate, as adjusted for recurring tax items, of 18.8% is slightly lower than the standard rate of corporation tax for the year of 19.0%.

Notes to the Group financial statements (continued)

8. Taxation (continued)

Tax charge/(credit) in the income statement (continued)

The Group is not currently in a tax paying position with HMRC (although companies within the Group do pay for group relief), primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs. The differences between (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

	2021			2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation	**(1,024.1)**	**73.6**	**(950.5)**	(328.5)	64.1	(264.4)
Tax at 19% (2020: 19%)	**(194.6)**	**14.0**	**(180.6)**	(62.4)	12.2	(50.2)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.4**	**-**	**4.4**	4.3	-	4.3
Disallowable expenditure	**2.8**	**-**	**2.8**	0.5	-	0.5
Non-taxable income	**(4.5)**	**-**	**(4.5)**	(4.6)	-	(4.6)
Property disposals	**(0.8)**	**-**	**(0.8)**	(0.1)	-	(0.1)
Tax differential on profits and losses of overseas subsidiaries	**0.4**	**-**	**0.4**	0.1	-	0.1
Capital allowances for the year (in excess of)/less than depreciation	**(12.7)**	**-**	**(12.7)**	(3.3)	-	(3.3)
Capitalised borrowing costs allowable for tax [6]	**(13.3)**	**-**	**(13.3)**	(18.5)	-	(18.5)
Taxable profit on IFRS 16 and other restatements	**-**	**-**	**-**	5.5	-	5.5
Losses/(profits) on financial derivatives [7]	**89.9**	**-**	**89.9**	(48.8)	-	(48.8)
Pension cost charge higher than/(lower than) pension contributions [8]	**(17.1)**	**-**	**(17.1)**	(1.9)	-	(1.9)
Other short term timing differences	**4.9**	**-**	**4.9**	(1.1)	-	(1.1)
Group relief not paid at standard rate	**-**	**-**	**-**	6.1	(6.1)	-
Adjustments in respect of prior periods	(1.1)	-	(1.1)	(0.6)	-	(0.6)
Current tax (credit)/charge for the year	(141.7)	14.0	(127.7)	(124.8)	6.1	(118.7)

[6] Capitalised borrowing costs are eligible for a full tax deduction in the year.
[7] Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.
[8] The Group made higher pension contributions in the year as a result of the additional pension deficit repair payment, which will receive tax relief. The Group reduced its claim for capital allowances accordingly so that current tax was not affected; as a result, no amounts have been booked to OCI in respect of the pension deficit repair payment.

Uncertain tax positions

At 31 March 2021 the total value of provisions for uncertain corporation tax positions was £nil (2020: £nil).

Notes to the Group financial statements (continued)

8. Taxation (continued)

Tax credited/(charged) directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

	2021 £m	2020 £m
Deferred tax:		
Tax (charge)/credit on net actuarial (gain)/loss in year	**43.2**	(34.7)
Impact of deferred tax rate change on net actuarial (gains)/losses	**-**	7.7
	43.2	(27.0)
Deferred tax:		
Tax (charge)/credit on cash flow hedges in year	**(7.1)**	(5.2)
Impact of deferred tax rate change on cash flow hedges	**-**	2.2
	(7.1)	(3.0)
Total (charged)/credited directly to other comprehensive income	**36.1**	(30.0)

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change for the Group, had it been substantively enacted by the balance sheet date, would be to increase the net deferred tax liability by £314.1m, comprising an increase of £402.2m in the liability for accelerated depreciation, less a £88.1m increase in the assets for pensions, derivatives and other timing differences. The tax expense for the period would increase by £351.1m and the credit to reserves would increase by £37.0m.

9. Goodwill

The Directors have reviewed the carrying value of goodwill in line with the accounting policy on page 45 and do not consider there to be any impairment to this carrying value for the year ended 31 March 2021 (2020: £nil).

All purchased goodwill, which arose on acquisition of the Thames Water Utilities Limited in 2006, has been allocated to the regulated water and wastewater business. Impairment of this purchased goodwill occurs where the carrying value is in excess of the net realisable value, the expected sales value of the regulated business.

An equity valuation model has been used which takes an external, observable, market multiplier uplift to the Regulatory Capital Value (“RCV”) of the regulated business. This model has also been informed by recent equity transactions, involving the sale of shares in KWH by existing shareholders. Ofwat, an external regulator, have developed the RCV as a measure of the capital value of the business, and the use of a multiplier reflects any premium to which the equity of publicly listed water utilities is being traded.

The critical assumption is thus the multiple of RCV used. As at 31 March 2021, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 27.0% (2020: 22.8%) to the multiplier used would be required.

10. Interests in joint venture

Thames Water Limited, a wholly owned subsidiary of the Group, controls 50% of the share capital of Foudry Properties Limited (“Foudry”), a property company incorporated in the United Kingdom. Foudry made a loss in 2021 of £0.3 million (2020: £0.5 million) and has net liabilities of £12.3 million (2020: £12.1 m). The Group’s share of these losses relate solely to loan and associated interest balances owed to the Group, which have been fully provided for, and consequently no separate provision in respect of these losses has been recognised.

As at 31 March 2021 the joint venture did not have any significant contingent liabilities to which the Group was exposed and the Group did not have any significant contingent liabilities in relation to its interests in the joint venture (2020: £nil). The Group had no capital commitments in relation to its interests in the joint venture as at 31 March 2021 (2020: £nil).

Notes to the Group financial statements (continued)

11. Intangible assets

	Software £m	Other £m	Assets in development £m	**Total £m**
Cost:				
At 1 April 2019	240.9	1.3	154.4	**396.6**
Additions	-	-	86.7	**86.7**
Transfers	(4.1)	-	-	**(4.1)**
Transfers between categories and from PPE	222.5	-	(214.3)	**8.2**
Disposals	(0.6)	-	-	**(0.6)**
At 31 March 2020	458.7	1.3	26.8	**486.8**
Additions	-	-	54.8	**54.8**
Transfers between categories	35.9	-	(35.9)	**-**
Disposals	(89.0)	-	-	**(89.0)**
At 31 March 2021	405.6	1.3	45.7	**452.6**
Amortisation:				
At 1 April 2019	(177.4)	(1.0)	-	**(178.4)**
Amortisation charge	(32.8)	(0.1)	-	**(32.9)**
Transfers from PPE	(2.2)	-	-	**(2.2)**
Disposals	0.4	-	-	**0.4**
At 31 March 2020	(212.0)	(1.1)	-	**(213.1)**
Amortisation charge	(51.9)	(0.1)	-	**(52.0)**
Disposals	89.0	-	-	**89.0**
At 31 March 2021	(174.9)	(1.2)	-	**(176.1)**
Net book value:				
At 31 March 2021	230.7	0.1	45.7	**276.5**
At 31 March 2020	246.7	0.2	26.8	**273.7**

Additions in the previous financial year relate to IT projects undertaken including the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. No borrowing costs were capitalised during the year (31 March 2020: £3.4 million). The write offs are included under operating expenses in the income statement. The effective rate of borrowing costs for 2020 was 4.55%.

During the previous financial year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangible assets. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

During the current financial year we disposed of £89.0 million of assets. These wholly relate to assets with a nil NBV on our fixed asset register and were removed as they are now obsolete.

The gross carrying amount of intangible assets that was fully depreciated at 31 March 2021 amounted to £60.9 million (31 March 2020: £141.4 million).

Notes to the Group financial statements (continued)

12. Property, plant and equipment

	Land & buildings	Plant & equipment	Network assets	Assets under construction	**Total**
	£m	£m	£m	£m	**£m**
Cost:					
At 1 April 2019	3,850.7	8,191.1	7,363.8	2,627.8	**22,033.4**
Additions	-	0.4	30.9	1,105.0	**1,136.3**
Transfers between categories	62.3	379.8	428.5	(878.8)	**(8.2)**
Write-offs	-	(5.1)	-	(0.7)	**(5.8)**
Disposals	(2.0)	(8.2)	(0.1)	-	**(10.3)**
At 31 March 2020	3,911.0	8,558.0	7,823.1	2,853.3	**23,145.4**
Additions	-	0.2	28.6	1,021.4	**1,050.2**
Transfers between categories	125.1	482.9	548.1	(1,156.1)	**-**
Disposals	-	(184.5)	-	-	**(184.5)**
At 31 March 2021	4,036.1	8,856.6	8,399.8	2,718.6	**24,011.1**
Depreciation:					
At 1 April 2019	(1,078.1)	(4,550.8)	(627.7)	-	**(6,256.6)**
Depreciation charge	(59.1)	(371.5)	(138.4)	-	**(569.0)**
Transfers to IA	-	2.2	-	-	**2.2**
Disposals	0.5	6.2	-	-	**6.7**
At 31 March 2020	**(1,136.7)**	**(4,913.9)**	**(766.1)**	**-**	(6,816.7)
Depreciation charge	(64.0)	(379.5)	(137.3)	-	**(580.8)**
Disposals	-	183.1	-	-	**183.1**
At 31 March 2021	**(1,200.7)**	**(5,110.3)**	**(903.4)**	**-**	**(7,214.4)**
Net book value:					
At 31 March 2021	2,835.4	3,746.3	7,496.4	2,718.6	**16,796.7**
At 31 March 2020	2,774.3	3,644.1	7,057.0	2,853.3	**16,328.7**

£69.7 million of borrowing costs were capitalised in the period (2020: £94.2 million). The effective annual capitalisation rate for borrowing costs was 3.3% (2020: 4.55%).

In the prior year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2021 amounted to £2,557.9 million (31 March 2020: £2,485.1 million).

Land and Buildings include purchases made in relation to the Thames Tideway Tunnel project; an element of which will not be capitalised when the asset is brought into use. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed.

Land and Buildings includes a balance relating to the lease of a property leased in connection with the construction of the Thames Tideway Tunnel. This lease meets the definition of an Investment Property and is therefore accounted for under the cost method of IAS 40 with a carrying value of £113.1m. The fair value of this property at 31 March 2021 and 31 March 2020 is assessed by the Company to be materially the same as its carrying value. The rental income earned by the Company in relation to this property in the year ended 31 March 2021 is £5.8 million (31 March 2020: £5.7 million).

During the current financial year we disposed of £184.5 million of property, plant and equipment assets. £181.4 million relate to assets with a nil NBV on our fixed asset register and were removed since being obsolete. We have also had business-as-usual disposals of £3.1 million relating to fleet and property as they are now obsolete.

Notes to the Group financial statements (continued)

13. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets		
As at	**31 March 2021**	31 March 2020
	£m	£m
Land and buildings	**41.6**	52.3
Total	**41.6**	52.3

Additions to right-of-use assets during the year ended 31 March 2021 were £ 0.7 million (31 March 2020: £ £6.3 million).

Lease liabilities		
As at	**31 March 2021**	31 March 2020
	£m	£m
Current	**(7.5)**	(7.9)
Non-current	**(52.9)**	(62.4)
Total	**(60.4)**	(70.3)

(ii) Amounts recognised in the income statement

For the year ended	**31 March 2021**	31 March 2020
	£m	£m
Depreciation charge of right-of-use assets	**8.0**	8.2
Interest expense included in finance costs	**3.4**	3.7
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	**6.6**	5.0
Total	**18.0**	16.9

The total cash outflow for leases during the year ended 31 March 2021 was £10.9 million (31 March 2020: £11.0 million).

The Group’s leasing activities consist of rentals payable for office properties and other land and buildings.

14. Inventories and current intangible assets

	2021	2020
	£m	£m
Raw materials and consumables	**14.9**	13.6
Total	**14.9**	13.6

Notes to the Group financial statements (continued)

15. Trade and other receivables

	2021			2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments and accrued income	**-**	**228.9**	**228.9**	-	159.0	159.0
Insurance claims receivable	**45.1**	**-**	**45.1**	64.4	-	64.4
Other receivables	**6.3**	**-**	**6.3**	6.7	-	6.7
	51.4	**228.9**	**280.3**	71.1	159.0	230.1
Current:						
Gross trade receivables	**441.2**	**15.2**	**456.4**	475.9	13.5	489.4
Less doubtful debt provision	**(143.1)**	**(3.2)**	**(146.3)**	(185.1)	(2.7)	(187.8)
Net trade receivables	**298.1**	**12.0**	**310.1**	290.8	10.8	301.6
Amounts owed by associated undertakings	**0.4**	**-**	**0.4**	0.1	-	0.1
Amounts receivable/(payable) in respect of group relief	**268.5**	**(20.1)**	**248.4**	126.4	(6.1)	120.3
Prepayments and accrued income	**38.4**	**-**	**38.4**	32.0	-	32.0
Other receivables	**29.9**	**0.8**	**30.7**	35.6	0.8	36.4
	635.3	**(7.3)**	**628.0**	484.9	5.5	490.4
Current:						
Contract assets	**240.0**	**5.8**	**245.8**	235.4	1.5	236.9
Total	**926.7**	**227.4**	**1,154.1**	791.4	166.0	957.4

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties in the economy as a result of Covid-19.

Non-current prepayments at 31 March 2021 includes £228.9 million (2020: £159.0 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. The 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, against which this prepayment will be utilised.

Contract assets at 31 March 2021 includes £176.7 million (2020: £173.5 million) of services provided to metered customers. Included within this amount is £7.1 million of bad debt (31 March 2020: £5.9 million). The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Expected credit loss provision

Movements in the expected credit losses provision were as follows:

	2021 £m	2020 £m
At 1 April	**(187.8)**	(176.6)
Charge for bad and doubtful debts – charged against revenue	**(41.0)**	(33.1)
Charge for bad and doubtful debts – included within operating expenses	**(36.7)**	(40.8)
Excess credits recognised during the year	**-**	(5.1)
Amounts written off (utilised)	**119.2**	67.8
Total at 31 March	**(146.3)**	(187.8)

[1] included within this is a £8.9 million reduction in the cancel rebill provision. This covers amounts which have been billed, but will be cancelled at a later date and then not rebilled. The decrease of the provision in the current financial year is credited to gross revenue. The remaining amount pertains to the £49.9m charge for bad and doubtful debts against revenue as seen in note 1.

Ageing of gross receivables is as follows:

	2021 £m	2020 £m
Up to 365 days	**318.3**	274.3
1 – 2 years	**73.0**	78.5
2 – 3 years	**33.6**	94.4
More than 3 years	**31.5**	42.2
Total	**456.4**	489.4

Notes to the Group financial statements (continued)

15. Trade receivables (continued)

The ageing of gross BTL receivables[1] is as follows:

	2021 £m	2020 £m
Up to 365 days	**11.4**	8.3
1 – 2 years	**2.6**	2.4
2 – 3 years	**1.2**	2.8
Total	**15.2**	13.5

[1]This relates to the amount of receivables collected from other parties and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and what might happen in the future.

Expected credit loss split by ageing is as follows:

	2021 £m	2020 £m
Up to 365 days	**74.5**	82.1
1 – 2 years	**29.5**	32.4
2 – 3 years	**15.4**	44.4
More than 3 years	**26.9**	28.9
Total	**146.3**	187.8

The ageing of impaired BTL receivables[1] is as follows:

	2021 £m	2020 £m
Up to 365 days	**2.0**	1.4
1 – 2 years	**0.8**	0.6
2 – 3 years	**0.4**	0.7
Total	**3.2**	2.7

[1]This relates to the amount of receivables collected from other parties and passed on to BTL

16. Cash and cash equivalents

	2021			2020		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Cash at bank and in hand	**6.4**	**-**	**6.4**	16.7	-	16.7
Money market funds	**796.8**	**3.6**	**800.4**	798.5	2.6	801.1
Total	**803.2**	**3.6**	**806.8**	815.2	2.6	817.8

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid at the reporting date.

Notes to the Group financial statements (continued)

17. Trade and other payables

	2021 Underlying £m	2021 BTL £m	2021 Total £m	2020 Underlying £m	2020 BTL £m	2020 Total £m
Non-current:						
Contract liabilities	**757.3**	**-**	**757.3**	707.3	-	707.3
Current:						
Trade payables – operating	**196.2**	**-**	**196.2**	229.7	-	229.7
Amounts owed to Bazalgette Tunnel Limited	**-**	**11.4**	**11.4**	-	10.3	10.3
Accruals and deferred income	**370.5**	**-**	**370.5**	341.4	-	341.4
Other taxation and social security	**8.3**	**-**	**8.3**	7.2	-	7.2
Other payables	**32.1**	**-**	**32.1**	82.8	-	82.8
	607.1	**11.4**	**618.5**	661.1	10.3	671.4
Current:						
Contract liabilities	**121.9**	**2.1**	**124.0**	123.8	0.3	124.1
Total	**1,486.3**	**13.5**	**1,499.8**	1,492.2	10.6	1,502.8

Current contract liabilities at 31 March 2021 includes £75.4 million (2020: £78.2 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2021 includes £522.7 million (2020: £511.9 million) of deferred infrastructure charges, £227.8 million of deferred income for nil cost “adopted” assets (2020: £179.7 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 within the scope of IFRS 7 is approximately equal to their fair value.

18. Borrowings

	2021 £m	2020 £m
Secured bank loans and private placements	**4,443.0**	5,563.5
Bonds	**9,737.2**	8,642.5
Amounts owed to group undertakings	**3,100.6**	3,100.6
	17,280.8	17,306.6
Interest payable on secured bank loans, private placements and bonds	**192.0**	183.0
Interest payable on amounts owed to group undertakings	**3,865.2**	3,232.0
	4,057.2	3,415.0
Total	**21,338.0**	20,721.6
Disclosed within current liabilities	**1,146.1**	1,814.9
Disclosed within non-current liabilities	**20,191.9**	18,906.7

Secured bank loans refers to (i) the Company’s secured bank loans under an Intercreditor Deed with the holding company’s Security Trustee; and (ii) the secured bank loans under 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 operating company’s Security Trustee. Pursuant to this arrangement, TWUHL has guaranteed the obligations of each other Obligor (TWUL and TWUF) under the finance agreement. Additionally, TWUL and TWUF have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Notes to the Group financial statements (continued)

18. Borrowings (continued)

Breakdown of secured bank loans and private placements:

	2021 £m	2020 £m
Thames Water Utilities Limited:		
£75.0m 1.350% index linked loan due 2021 (e), (h)	**92.9**	91.6
£215.0m 0.460% index-linked loan due 2023 (a), (h)	**258.4**	254.8
£215.0m 0.380% index-linked loan due 2032 (a), (b), (h)	**195.0**	209.5
£100.0m 3.261% index-linked loan due 2043 (a), (d), (h)	**135.0**	133.1
£100.0m 0.790% index-linked loan due 2025 (a), (e), (h)	**114.4**	112.8
£125.0m 0.598% index-linked loan due 2026 (a), (e), (h)	**142.3**	140.4
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	50.0
£20.0m Class B floating rate loan due 2026 (a)	**20.0**	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.6**	38.5
$55.0m 3.380% private placement due 2023 (a), (f)	**39.9**	44.2
$285.0m 3.570% private placement due 2025 (a), (f)	**206.5**	229.0
£216.0m 2.450% private placement due 2028 (a)	**215.5**	215.4
£210m 2.550% private placement due 2030 (a)	**209.4**	209.3
£40m 2.620% private placement due 2033 (a)	**39.8**	39.8
£150.0m floating rate loan due 2024 (a)	**149.7**	149.7
£125.0m floating rate loan due 2024 (a)	**124.6**	124.4
£50.0m floating rate loan due 2022 (a)	**49.9**	49.9
£63.1m floating rate loan due 2027 (a)	**62.9**	62.9
£63.1m floating rate loan due 2029 (a)	**62.9**	62.9
£63.1m floating rate loan due 2031 (a)	**62.8**	62.8
Thames Water Utilities Limited total	**2,340.5**	2,371.0
Thames Water Utilities Finance plc		
£600.0m 1.029% floating rate loan due 2021 (c), (j)	**-**	600.0
£300.0m 1.029% floating rate loan due 2021 (c), (j)	**-**	300.0
£300.0m 1.001% floating rate loan due 2021 (c), (j)	**-**	300.0
£214.3m 1.082% Class B floating rate loan due 2020 (c)	**-**	214.3
£214.3m 0.968% Class B floating rate loan due 2021 (c), (g)	**214.3**	-
£150.0m 1.713% Class B floating rate loan due 2023 (k)	**150.0**	150.0
£150.0m 1.708% Class B floating rate loan due 2023 (k)	**150.0**	-
$106.0m 4.070% private placement due 2026 (a), (f)	**76.8**	85.1
$131.0m 4.270% private placement 2029 (a), (f)	**94.7**	105.1
€50.0m 2.100% private placement due 2030 (a), (f)	**42.4**	44.1
$150.0m 3.870% private placement due 2022 (f)	**108.9**	120.7
$200.0m 4.020% private placement 2024 (f)	**145.2**	161.0
$250.0m 4.220% private placement due 2027 (f)	**181.4**	201.2
Thames Water Utilities Finance plc total	**1,163.7**	2,281.5
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a), (i)	**-**	74.5
£200.0m floating rate loan due 2025 (a)	**198.5**	198.1
£4.5m 5.3% fixed rate loan due 2025 (a)	**4.4**	4.4
£5.5m 5.3% fixed rate loan due 2025 (a)	**5.4**	5.4
£100.0m 5.3% fixed rate loan due 2025 (a)	**98.6**	98.3
£200.0m 5.3% fixed rate loan due 2025 (a)	**197.1**	196.6
£149.8m 5.39% fixed rate loan due 2026 (a)	**147.6**	147.2
£190.0m floating rate loan due 2024 (a)	**188.4**	186.5
£50.0m 5.26% private placement due 2027 (a)	**49.5**	-
£50.0m 5.27% private placement due 2028 (a)	**49.3**	-
Kemble Water Finance Limited total	**938.8**	911.0
Total secured bank loans and private placements	**4,443.0**	5,563.5

Notes to the Group financial statements (continued)

18. Borrowings (continued)

All TWUL and TWUF loans are Class A except where highlighted.

(a) These loans and private placements are shown net of issuance costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margins of these loans are based on (i) a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's; and (ii) the Group's GRESB score.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by annual tranches of £750,000 until maturity where there will be a bullet repayment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(g) In March 2021, £214.3 million out of the £214.3 million Class B revolving credit facility was drawn. In April 2021, this Class B drawdown was fully repaid.
(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(i) During the year ended 31 March 2021, the £75.0m floating rate loan originally due in 2022 was repaid early.
(j) These loans represent drawdowns from the £1,432.1 million Class A revolving credit facility. As at 31 March 2021, £nil was drawn (2020: £1,200.0 million).
(k) The interest margins of these loans are based on a ratings grid and will increase should the operating company securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.

Breakdown of bonds:	2021 £m	2020 £m
Thames Water Utilities Finance plc		
£200.0m 5.050% fixed rate due 2020 (c), (h)	**-**	200.3
£225.0m 6.590% fixed rate due 2021 (l)	**225.3**	233.7
£175.0m 3.375% index-linked due 2021 (b), (d)	**295.2**	290.4
£330.0m 6.750% fixed rate due 2028 (b), (i)	**373.0**	382.1
£200.0m 6.500% fixed rate due 2032 (b), (c), (j)	**236.7**	242.4
£600.0m 5.125% fixed rate due 2037 (b), (c), (k)	**649.3**	653.7
£300.0m 1.680% index-linked due 2053 (b), (d)	**454.7**	447.4
£300.0m 1.681% index-linked due 2055 (b), (d)	**454.7**	447.4
€113.0m 2.300% CPI index-linked bond due 2022 (a), (c)	**104.7**	108.0
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	**298.9**	298.5
£300.0m 4.375% fixed rate bond due 2034 (b)	**296.1**	295.9
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	**131.2**	149.4
£50.0m 3.853% index-linked bond due 2040 (g)	**67.5**	66.6
£500.0m 5.500% fixed rate bond due 2041 (b)	**490.3**	490.0
£50.0m 1.980% index-linked bond due 2042 (d)	**71.3**	70.4
£55.0m 2.091% index-linked bond due 2042 (b), (d)	**75.8**	74.7
£40.0m 1.974% index-linked bond due 2045 (b), (d)	**45.2**	46.3
£300.0m 4.625% fixed rate bond due 2046 (b)	**293.5**	293.4
£100.0m 1.846% index-linked bond due 2047 (d)	**142.5**	140.9
£200.0m 1.819% index-linked bond due 2049 (b), (d)	**284.7**	281.3
£200.0m 1.771% index-linked bond due 2057 (b), (d)	**284.6**	281.3
£350.0m 1.760% index-linked due 2062 (b), (d)	**498.1**	492.1
£500.0m 4.000% fixed rate due 2025 (b)	**497.1**	496.5
£40.0m 0.750% index-linked loan due 2034 (b), (d)	**45.3**	44.7
£45.0m 0.721% index-linked loan due 2027 (b), (d)	**50.9**	50.2
£300.0m 3.500% fixed rate loan due 2028 (b)	**297.3**	297.0
£400.0m 7.738% fixed rate bond due 2058 (b)	**418.7**	419.3
£250.0m 1.875% fixed rate bond due 2024 (b)	**248.9**	248.5
£250.0m 2.625% fixed rate bond due 2032 (b)	**247.7**	247.6
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	**299.3**	299.1
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	**247.6**	247.3
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**143.2**	141.1
£350.0m 2.375% fixed rate bond due 2040 (b)	**345.9**	-
£40.0m 2.442% fixed rate bond due 2050 (b)	**39.9**	-
£84.7m 0.875% fixed rate bond due 2023 (b)	**84.6**	-
€500.0m 0.190% fixed rate bond due 2023 (a), (b)	**424.6**	-
$57.0m 2.060% fixed rate bond due 2030 (a), (b)	**41.3**	-
$40.0m 1.604% fixed rate bond due 2027 (a), (b)	**29.1**	-
Fees (f)	**(10.6)**	(9.3)
Thames Water Utilities Finance Limited total	**9,224.1**	8,468.2

Notes to the Group financial statements (continued)

18. Borrowings (continued)

Breakdown of bonds (continued):

	2021 £m	2020 £m
Thames Water (Kemble) Finance plc		
£175.0m 5.875% fixed rate bond due 2022 (b), (m)	**114.8**	174.3
£400.0m 4.625% fixed rate bond due 2026 (b)	**398.3**	-
Thames Water (Kemble) Finance plc total	**513.1**	174.3
Total bonds	**9,737.2**	8,642.5

All TWUF bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issuance costs.
(c) The Group has entered into swap agreements that convert this debt into £ index-linked debt.
(d) The value of the capital and interest elements of the index-linked debt is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
(f) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
(g) This is a Limited Price Index ("LPI") bond. Accretion is calculated using an adjusted UK Retail Price Index.
(h) This bond includes £nill million (2020: £0.3 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(i) This bond includes £45.1 million (2020: £54.3 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(j) This bond includes £38.6 million (2020: £44.5 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(k) This bond includes £52.6 million (2020: £57.1 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(l) This bond includes £0.2 million (2020: £8.7million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(m) In November 2020, the Group repurchased £59.9 million debt (out of the £175.0 million external debt due 2022) at a £2.7 million premium, with the tender price taking into account the above market interest rate on the bond and its trading price prior to the announcement of the tender. The £2.7 million premium was recognised as a loss on part settlement of debt.

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble Water Holdings Group is £136.5 million (2020: £166.5 million). Capitalised debt issuance costs in relation to the debt portfolio are £85.8 million (2020: £87.0 million).

Breakdown of amounts owed to group undertakings:

Kemble Water Eurobond plc	2021 £m	2020 £m
£3,100.6 fixed rate due on demand (a)	**3,100.6**	**3,100.6**
Total amounts owed to group undertakings	**3,100.6**	**3,100.6**

(a) This loan is repayable on demand, however the Directors confirm that there will be no repayment within 12 months and a letter of comfort has been obtained from the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, amounts owed to group undertakings has been classified as non-current.

Notes to the Group financial statements (continued)

19. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities are as follows:	2021 £m	2020 - Restated[1] £m
Financial assets:		
Fair value through profit or loss		
Cross currency swaps	**63.5**	177.2
Interest rate swaps	**16.2**	87.7
Index-linked swaps	**83.7**	109.4
Cash and cash equivalents – money market funds[2]	**800.4**	801.1
	963.8	1,175.4
Amortised cost		
Other receivables (excluding prepayments) [1]	**51.4**	64.3
Trade and other receivables (excluding prepayments) [1]	**589.6**	458.4
Short-term investments	**-**	300.0
Cash and cash equivalents – cash at bank and in hand[2]	**6.4**	16.7
	647.4	839.4
Total	**1,611.2**	2,014.8

[1] The comparative amounts have been restated to reclassify amounts between 'Other receivables' and 'Trade and other receivables' consistent with how these balances are presented in note 15. Trade and other receivables.

[2] The comparative amounts have been restated to reclassify cash and cash equivalents – money market funds from the amortised cost section to the fair value through profit or loss section."

	2021 £m	2020 £m
Financial liabilities:		
Fair value through profit or loss		
Cross currency swaps	**(113.6)**	(51.3)
Interest rate swaps	**(166.6)**	(252.1)
Index-linked swaps	**(1,189.7)**	(757.5)
	(1,469.9)	(1,060.9)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(610.2)**	(664.3)
Borrowings	**(21,338.0)**	(20,721.6)
Lease liabilities	**(60.4)**	(70.3)
	(22,008.6)	(21,456.2)
Total	**(23,478.5)**	(22,517.1)

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.

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

Unless otherwise stated all of the 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 31 March 2021:

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Fair value measurements (continued)

	Level 2[1]	
	2021 £m	2020 £m
Financial assets - derivative financial instruments:		
Cross currency swaps	**63.5**	177.2
Interest rate swaps	**16.2**	87.7
Index-linked swaps	**83.7**	109.4
	163.4	374.3
Financial liabilities - derivative financial instruments:		
Cross currency swaps	**(113.6)**	(51.3)
Interest rate swaps	**(166.6)**	(252.1)
Index-linked swaps	**(1,189.7)**	(757.5)
	(1,469.9)	(1,060.9)
Net total	**(1,306.5)**	(686.6)

[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 and inflation rates and discounted at a rate that reflects the credit risk of the Group and counterparties, discounted currency cash flows are then translated at spot rate.

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "statement of changes in equity" on page 38. The amount recycled of £37.5 million consisted of a £37.2m loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and for which the related debt has been issued and a £0.3m loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

In November 2019, the maturity date of three index linked swaps, with a total notional of £400.0 million, were extended. These swaps are measured at fair value through the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million at the restructuring date is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and is recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2021, £35.3 million (31 March 2020: £37.3 million) remained capitalised and £2.0 million had been recognised in the income statement (31 March 2020: £0.7 million).

Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Group's financial assets and financial liabilities are set out in the tables below.

	2021		2020	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Trade and other receivables (excluding prepayments)	**51.4**	**51.4**	64.3	64.3
Derivative financial instruments				
Cross currency swaps	**51.2**	**51.2**	177.2	177.2
Interest rate swaps	**16.2**	**16.2**	87.7	87.7
Index-linked swaps	**83.7**	**83.7**	109.4	109.4
	202.5	**202.5**	438.6	438.6

[1] The comparative amounts have been restated to exclude prepayments.

Current				
Trade and other receivables (excluding prepayments)	**589.6**	**589.6**	458.4	458.4
Derivative financial instruments				
Short-term investments	**-**	**-**	300.0	300.0
Cash and cash equivalents	**806.8**	**806.8**	817.8	817.8
Cross currency swaps	**12.3**	**12.3**	-	-
	1,408.7	**1,408.7**	1,576.2	1,576.2
Total	**1,611.2**	**1,611.2**	2,014.8.	2,014.8

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

	2021		2020[1]	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(4,010.8)**	**(4,423.9)**	(4,133.2)	(4,322.8)
Bonds	**(9,215.3)**	**(12,190.5)**	(8,440.9)	(10,402.1)
Amounts owed to group undertakings	**(3,100.6)**	**(3,100.6)**	(3,100.6)	(3,100.6)
Interest payable	**(3,865.2)**	**(3,865.2)**	(3,232.0)	(3,232.0)
Lease liabilities	**(52.9)**	**(52.9)**	(62.4)	(62.4)
Derivative financial instruments:				
Cross currency swaps	**(113.6)**	**(113.6)**	(51.3)	(51.3)
Interest rate swaps	**(166.6)**	**(166.6)**	(252.1)	(252.1)
Index-linked swaps	**(1,189.7)**	**(1,189.7)**	(742.5)	(742.5)
	(21,714.7)	**(25,103.0)**	(20,015.0)	(22,165.8)
Current				
Borrowings:				
Secured bank loans and private placements	**(432.2)**	**(438.6)**	(1,430.3)	(1,436.5)
Bonds	**(521.9)**	**(507.7)**	(201.6)	(200.4)
Interest payable	**(192.0)**	**(192.0)**	(183.0)	(183.0)
Trade and other payables (excluding other taxation and social security)[1]	**(610.2)**	**(610.2)**	(664.3)	(664.3)
Derivative financial instruments:				
Index-linked swaps	**-**	**-**	(15.0)	(15.0)
Lease liabilities	**(7.5)**	**(7.5)**	(7.9)	(7.9)
	(1,763.8)	**(1,756.0)**	(2,502.1)	(2,507.1)
Total	**(23,478.5)**	**(26,859.0)**	(22,517.1)	(24,672.9)

[1] The comparative amounts have been restated to include Trade and other payables (excluding other taxation and social security).

The fair value of borrowings represents the market value of the publicly traded underlying liquid bonds (level 1 inputs to valuation technique) for private placements and less liquid underlying bonds, the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Group's credit spread.

The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity, discounted using a risk-free rate plus the Group's credit spread. Amounts owed by group undertakings includes a floating rate loan and related interest. The fair value of the entire balance is assumed to be the nominal value due to early repayment rights.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively overseas the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain TWUL Group's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The other companies in the Securitisation Group (Thames Water Utilities Finance plc (TWUF) and TWUHL) guarantee the funding activity of TWUL, and TWUL and TWUHL guarantee the funding activity of TWUF, which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index-linked
- Unsecured debt ratios

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Capital risk management (continued)

The Securitisation Group complied with these ratios throughout the financial year.

The Company and its financing subsidiary (TW(K)F) are party to an Intercreditor Deed and their debt is securitised. The Company is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios

These requirements were complied with for the financial year.

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

	2021	2020
	£m	£m
Secured bank loans and private placements	**(4,443.0)**	(5,563.5)
Bonds	**(9,737.2)**	(8,642.5)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and bonds	**(192.0)**	(183.0)
Interest payable on amounts owed to group undertakings	**(3,865.2)**	(3,232.0)
Lease liability	**(60.4)**	(70.3)
	(21,398.4)	(20,791.9)
Cash and cash equivalents[1]	**804.5**	815.2
Short-term investments	**-**	300.0)
Net debt (statutory basis)	**(20,593.9)**	(19,676.7)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and bonds	**192.0**	183.0
Interest payable on amounts owed to group undertakings	**3,865.2**	3,232.0
Unamortised debt issuance costs and discount	**(85.8)**	(87.0)
Relevant derivative financial liabilities (Accretion and FX)	**(293.3)**	(110.6)
Fair value adjustment on acquisition to loans	**136.5**	166.5
Unamortised IFRS 9 transition adjustment	**24.5**	25.1
Cash (not relevant)/relevant for covenant	**(20.4)**	(29.3)
Net debt (covenant basis)	**(13,674.6)**	(13,196.4)
Equity attributable to owners of the Group	**(5,051.4)**	(4,157.7)

[1] The cash and cash equivalents balance excludes £2.3m (31 March 2020: £2.6 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, unamortised IFRS 9 adjustment, cash not relevant for covenant based on covenant definitions, fair value adjustment made to the Thames Water Group's borrowing on acquisition by Kemble Water consortium; includes relevant derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to cross currency swaps.

A summary of the Group's net debt (covenant basis) by different types of debt is as follows:

	2021 £m	2020 £m
Securitised Class A debt	**(11,390.1)**	(11,718.9)
Securitised Class B debt	**(1,543.3)**	(1,393.3)
Holding company level secured debt	**(1,464.9)**	(1,099.8)
Cash net of covenant cash adjustment	**784.1**	1,085.9
Lease liability	**(60.4)**	(70.3)
Net debt (covenant basis)	**(13,674.6)**	(13,196.4)

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2021			2020		
	Borrowings) £m)	**Net derivative financial liabilities £m)**	**Lease liabilities**	Borrowings) £m)	Net derivative financial liabilities £m)	Lease liabilities
Opening balance	**(20,721.6)**	**(686.6)**	**(70.3)**	(19,301.2)	(1,100.1)	(72.5)
Non-current	**(18,906.7)**	**(671.6)**	**(62.4)**	(17,750.4)	(1,061.5)	(65.1)
Current	**(1,814.9)**	**(15.0)**	**(7.9)**	(1,550.8)	(38.6)	(7.4)
Cash flows						
New loans raised	**(2,071.6)**	**-**	**-**	(3,474.4)	-	-
Repayment of borrowings	**1,981.0**	**-**	**-**	2,366.5	-	-
Repayment of lease principal	**-**	**-**	**11.4**	-	-	11.0
Derivative accretion settlement[1]	**-**	**15.3**	**-**	-	123.2	-
Interest paid[2]	**445.9**	**-**	**-**	905.1	-	-
Interest received[3]	**-**	**(176.6)**	**-**	-	(48.7)	-
	355.3	**(161.3)**	**11.4**	(202.8)	74.5	11.0
Non-cash changes						
Interest accrued / Fees amortised	**(1,098.0)**	**171.8**	**-**	(1,072.7)	65.2	-
Foreign exchange movement	**145.8**	**-**	**-**	(52.1)	-	-
Accretion	**(50.2)**	**-**	**-**	(105.1)	-	-
Unamortised IFRS 9 transition adjustment	**0.7**	**-**	**-**	0.7	-	-
Lease additions	**-**	**-**	**1.9**	-	-	(5.1)
Interest accrued on IFRS 16 leases	**-**	**-**	**(3.4)**	-	-	(3.7)
Fair value changes	**-**	**(630.4)**	**-**	-	273.8	-
Fair value amortisation	**30.0**	**-**	**-**	11.6	-	-
	(971.7)	**(458.6)**	**(1.5)**	(1,217.6)	339.0	(8.8)
Closing balance	**(21,338.0)**	**(1,306.5)**	**(60.4)**	(20,721.6)	(686.6)	(70.3)
Non-current	**(20,191.9)**	**(1,318.8)**	**(52.9)**	(18,906.7)	(671.6)	(62.4)
Current	**(1,146.1)**	**12.3**	**(7.5)**	(1,814.9)	(15.0)	(7.9)

[1] Derivative accretion settlement of £15.3 million (2020: £123.2million) relates to index-linked swaps where accretion is payable periodically.
[2] Interest paid of £ 445.9 million (2020: £905.1 million) includes £69.7 million of capitalised borrowing costs (2020: £97.6 million) and excludes £0.3 million of bank charges (2020: £0.2 million).
[3] Interest received of £176.6 million (2020: £48.7 million) excludes £1.5 million interest received on bank deposits (2020: £2.3 million) and £0.7 million other interest income (2020: £5.6 million).

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk.:

As at 31 March 2021:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	**Total £m**
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	9,116.7	684.9	7,611.6	17,413.2
Total	9,116.7	684.9	7,611.6	17,413.2

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Financial risk management (continued)

(a) Market risk

As at 31 March 2020:	Total at fixed rates) £m)	Total at floating rates) £m)	Total at index linked rates) £m)	Total) £m)
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	7,777.3	2,206.9	7,241.5	17,225.7
Total	7,777.3	2,206.9	7,241.5	17,225.7

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

	Weighted average interest rate		Weighted average period until maturity	
	2021	2020	**2021**	2020
	%	%	**Years**	Years
Fixed	**6.2**	7.2	**12.1**	13.4
Index-Linked	**2.5**	3.6	**17.5**	18.1

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on pages 88 and 89.

The table below summarises the impact, on pre-tax profits, of a 1 % increase or decrease in GBP interest rates at 31 March 2021. This analysis considers the effect on the fair value of derivative instruments and assumes that all other variables, in particular exchange rates and inflation expectations, remain constant.

	2021		2020	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**404.7**	**(478.7)**	294.1	(344.3)
Equity	**404.7**	**(478.7)**	294.1	(344.3)

(ii) Exchange rate risk sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2021. This analysis assumes that all other variables in the valuation remain constant.

	2021		2020	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
Profit	**(22.2)**	**(3.9)**	(28.4)	24.5
Equity	**(22.2)**	**(3.9)**	(28.4)	24.5

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Financial risk management (continued)

(a) Market risk (continued)

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2021. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2021		2020	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(881.3)**	**768.0**	(740.1)	699.1
Equity	**(881.3)**	**768.0**	(740.1)	699.1

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and wastewater services to customers within its region. Due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note XX. For non-household customers, the Group's credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to regulatory conditions that exist within the non-household market which aim to mitigate risks in relation to wholesaler creditworthiness.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when the counterparty fails to meet the necessary credit rating criteria and amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral held under the terms of the whole business securitisation agreement. During the year ended 31 March 2021, no collateral was held (2020: nil).

The following table summarises amounts held on cash at bank and in hand, money market funds and short-term investments by credit rating of counterparties.

	2021	2020
	£m	£m
AAA	**800.4**	801.1
A+	**-**	150.0
A	**6.4**	166.7
Total	**806.8**	1,117.8

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk

The following table summarises fair value of derivative assets by credit rating of counterparties.

	2021 **£m**	2020 £m
AA-	**15.6**	93.4
A+	**139.2**	228.2
A	**8.6**	43.3
A-	**-**	9.4
Total	**163.4**	374.3

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

	2021 **£m**	2020 £m
Within one year	**954.1**	1,632.0
Between one and two years	**327.0**	753.8
Between two and three years	**1,928.2**	468.3
Between three and four years	**794.7**	1,130.4
Between four and five years	**1,339.6**	961.3
After more than five years	**11,937.2**	12,360.8
Total	**17,280.8**	17,306.6

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2021** **£m**	2020 - Restated[1] £m
Within one year	**(2,056.1)**	(2,758.3)
Between one and two years	**(794.5)**	(1,213.9)
Between two and three years	**(2,408.7)**	(898.2)
Between three and four years	**(1,229.9)**	(1,572.6)
Between four and five years	**(1,771.7)**	(1,364.3)
After more than five years	**(22,614.1)**	(21,633.4)
Total	**(30,875.0)**	(29,440.7)

[1] The comparative amounts have been restated to include lease liabilities.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Financial risk management (continued)

(c) Liquidity risk (continued)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps, cross currency swaps and index-linked swaps), based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	**2021 £m**	2020 £m
Within one year	**135.1**	168.0
Between one and two years	**58.5**	150.1
Between two and three years	**(45.3)**	77.8
Between three and four years	**(124.4)**	(13.8)
Between four and five years	**59.2**	(86.1)
After more than five years	**(1,584.4)**	(1,238.4)
Total	**(1,501.3)**	(942.4)

Cash flow hedges

The Group has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 52.

In mid-2014 the Group executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. As at 31 March 2021, all forward-starting floating to fixed interest rate swaps have commenced. As the relevant debt has been issued, cash flow hedge has been discontinued prospectively and the amount outstanding on the cash flow hedge reserve is being recycled to the income statement over the life of the hedging instrument.

During the year, £37.5 million (31 March 2020: £34.9 million) was recycled from the cash flow hedge reserve to the income statement, see "Statement of changes in equity" on page 38. The amount recycled of £37.5 million consisted of a £37.2 million loss from the phased release of cash flow hedge reserve in relation to forward starting swaps that have already commenced and related debt has been issued and a £0.3 million loss due to ineffectiveness on the swaps that were restructured during the prior year. No fair value movement was recognised on the cash flow hedge reserve for the year ended 31 March 2021 (31 March 2020: loss of £4.1 million).

The Group's cash flow hedge reserve disclosed on the statement of changes in equity on page 38 relate to forward starting interest rate swaps which have now commenced.

	£m
At 1 April 2019	**(118.0)**
Loss on cash flow hedge	**(4.1)**
Cash flow hedge transferred to income statement	**34.9**
Deferred tax including impact of deferred tax rate change	**(3.0)**
At 31 March 2020	**(90.2)**
Loss on cash flow hedge	**-**
Cash flow hedge transferred to income statement	**37.5**
Deferred tax charge on cash flow hedge gains	**(7.1)**
At 31 March 2021	**(59.8)**

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Cash flow hedges (continued)

Following are the effects of forward starting interest rate swaps which have commenced on the Group's financial position and performance:

As at 31 March	**2021 £m**	2020 £m
Quantitative		
Cash flow hedge transferred to income statement	**37.5**	34.9

As at 31 March	**2021**	2020
Qualitative		
Line item affected in income statement due to reclassification	Net (losses)/gains on financial instruments	Net (losses)/gains on financial instruments

The table below shows phasing of amounts to be reclassed to income statement from the cash flow hedge reserve, which relates to the Group's forward starting interest rate swaps which have commenced:

As at 31 March	**2021 £m**	2020 £m
Interest rate swaps		
Within one year	**(31.1)**	(37.5)
Between one and two years	**(21.1)**	(31.1)
Between two and three years	**(18.7)**	(21.1)
Between three and four years	**(2.8)**	(18.7)
Between four and five years	**-**	(2.8)
After more than five years	**-**	-
Total	**(73.7)**	(111.2)

Offsetting financial assets and financial liabilities

Financial assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where KWF Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

KWF Group has entered into arrangements that allow for the related amounts to be set off in certain circumstances, such as an early termination event for derivative transactions.

The following table presents the recognised financial instruments that are offset, or subject to enforceable master netting arrangements and other similar agreements but not offset in the financial statements, as at 31 March 2021 and 31 March 2020. The column 'net amount' shows the impact on the consolidated statement of financial position if circumstances arose for set-off rights to be applied.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Offsetting financial assets and financial liabilities (continued)

	Effects of offsetting on the Consolidated statement of financial position				
As at 31 March 2021	**Gross amounts**	**Amounts set off**	**Net amounts presented on consolidated statement of financial position**	**Impact of master netting arrangements**	**Net amounts**
	£m	**£m**	**£m**	**£m**	**£m**
Financial assets					
Derivative financial instruments	**163.4**	**-**	**163.4**	**(131.6)**	**31.8**
	163.4	**-**	**163.4**	**(131.6)**	**31.8**
Financial liabilities					
Derivative financial instruments	**(1,469.9)**	**-**	**(1,469.9)**	**131.6**	**(1,338.3)**
	(1,469.9)	**-**	**(1,469.9)**	**131.6**	**(1,338.3)**
Total	**(1,306.5)**	**-**	**(1,306.5)**	**-**	**(1,306.5)**

As at 31 March 2020

Financial assets					
Derivative financial instruments	374.3	-	374.3	(261.3)	113.0
	374.3	-	374.3	(261.3)	113.0
Financial liabilities					
Derivative financial instruments	(1,060.9)	-	(1,060.9)	261.3	(799.6)
	(1,060.9)	-	(1,060.9)	261.3	(799.6)
Total	(686.6)	-	(686.6)	-	(686.6)

20. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedge £m	Other £m	**Total £m**
At 31 March 2019	(1,144.0)	40.2	151.1	47.9	**(904.8)**
(Charge)/credit to income	(153.2)	(5.2)	(33.9)	6.3	**(186.0)**
Charge to equity	-	(27.0)	(3.0)	-	**(30.0)**
At 31 March 2020	(1,297.2)	8.0	114.2	54.2	**(1,120.8)**
(Charge)/credit to income	(22.6)	(17.4)	89.9	1.2	**51.1**
Charge to equity	-	43.2	(7.1)	-	**36.1**
At 31 March 2021	(1,319.8)	33.8	197.0	55.4	**(1,033.6)**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase from 19% to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. Please refer to Note 8 for details of the impact of this announcement, had it been enacted in the year. The deferred tax assets and liabilities shown above as at 31 March 2021 have therefore been calculated using the 19% tax rate, except the deferred tax liability on the pension surplus which is provided at 35%, being the tax rate which would apply if the surplus were to be refunded to the Group.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within TWUL mean that the temporary differences currently tend to increase every year.

Notes to the Group financial statements (continued)

20. Deferred tax (continued)

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A net deferred tax asset is provided on the net retirement benefit obligations booked in the accounts. The £33.8m deferred tax asset carried forward is the net of an asset of £52.6m (19% of the deficit on the TWPS pension scheme of £277.1m) less a liability of £20.2m (35% of the surplus on the MIPS pension scheme of £57.9m) and an asset of £1.4m (19% of the SUURBS deficit of £7.6m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.

- Cash flow hedge: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.

- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation. A deferred tax asset is also provided on fair values on loans booked on consolidation; there will be no current tax impact in future but deferred tax charges will arise as these fair values are amortised in the accounts.

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

	2021 £m	2020 £m
Deferred tax asset	**286.2**	176.4
Deferred tax liability	**(1,319.8)**	(1,297.2)
Total	**(1,033.6)**	(1,120.8)

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset not recognised at 19% (2020: 19%) is:

	2021 £m	2020 £m
Deferred tax asset not recognised in respect of tax losses	**7.2**	7.4

If the corporation tax rate increase from 19% to 25% had been substantively enacted at the balance sheet date, the deferred tax asset not recognised would have been a total of £9.6m.

21. Provisions for liabilities and charges

	Insured liabilities £m	Capital Infrastructure provision £m	Dilapidations £m	Other provisions £m	**Total £m**
At 1 April 2020	85.1	17.5	11.0	32.0	**145.6**
Utilised during the period	(35.9)	(3.5)	-	(25.9)	**(65.3)**
Charge/(credit) to income statement	23.3	-	0.4	43.0	**66.7**
Charge/(credit) to capital project	(1.4)	-	-	(2.7)	**(4.1)**
Transfer from current liabilities	-	2.1	-	-	**2.1**
At 31 March 2021	71.1	16.1	11.4	46.4	**145.0**

The insured liability provision arises from claims for which insurance is in place, including actual claims from third parties received by the Group and incidents incurred but without claims received. These amounts provided for represent the estimated cost of settlement. Where we have insurance cover for claims, we recognise the assessed reimbursement value from third party insurance companies net of retentions. The receivable is disclosed in note 15. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

Notes to the Group financial statements (continued)

21. Provisions for liabilities and charges (continued)

The capital infrastructure provision is to cover various potential third party costs, including compensation claims, arising from the construction of infrastructure assets. Due to the uncertain timing of these costs, the Group considers it appropriate to classify these as non-current.

Dilapidations relate to our legal obligation to return several leased offices, industrial units and laboratories back to their pre-leased state. The estimate of this cost has been informed by our outsourced property advisor. There have been no additional sites to consider under this provision during the current financial year.

Other provisions relate to contractual claims, legal claims including environmental matters and regulatory obligations of the Group. The amount recorded represents management's best estimate of the value to settle the obligations. During the current financial year, there has been an additional charge of £43.0m recognised in other provisions, this represents a reassessment of historic provisions and new provisions recorded during the period. An out of court settlement was reached between the Group and Castle Water Limited which was partially provided for in the previous period, which has been utilised in the current period. Timing of settlement of provisions is uncertain and therefore amounts provided have been classified as non-current.

The Group needs to determine the merit of any litigation and the chances of a claim successfully being made, the likelihood and the ability to reliably estimate 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. There is a risk that the final outcome of legal claims could be materially different to amounts provided.

The Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

22. Share capital and other reserves

Share capital

	2021 £m	2020 £m
Allotted, called-up and fully paid:		
1,000,001 (2020: 1,000,001) ordinary shares of £1 each	**1.0**	1.0

The Group has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group.

Other reserves

	2021 £m	2020 £m
Cash flow hedge reserve	**(59.8)**	(90.2)
Retained earnings	**(4,992.6)**	(4,068.5)
Total	**(5,052.4)**	(4,158.7)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations

Background

The Group operates four material pension schemes, one of which is a defined contribution scheme and the other three are defined benefit schemes.

	What are they?	How do they impact the Group'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 £15.2 million (2020: £13.1 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 no (2020: £1.6 million) outstanding contributions at the year-end recognised in the statement of financial position. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Group's eligible employees are provided through three defined benefit pension schemes: • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Thames Water Pension Scheme ("TWPS"); • Thames Water Mirror Image Pension Scheme ("TWMIPS"); and • The SUURBS Arrangement ("SUURBS"). The SUURBS Arrangement provides retirement benefits to a previous director, and their spouse, of Thames Water Limited, a subsidiary entity in the Group. The scheme is an unfunded arrangement but is secured against assets held by Thames Water Limited Both now 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 TWPS since April 2011. New entrants now join the defined contribution scheme. One scheme was closed to future accrual as of 31 March 2021.	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 charge was recognised in the income statement of £ 26.5 million (2020: £33.2million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; • the net interest expense on pension scheme assets and liabilities; and • the effect of restriction in the surplus. An actuarial loss of £195.6 million (2020: gain of £168.9 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. A pension asset of £57.9 million (2020: £94.5 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £ 277.1 million (2020: £209.1million) is recognised in the statement of financial position for the TWPS scheme. A pension deficit of £7.6 million (2020: deficit of £7.0 million) is recognised in the statement of financial position for the SUURBS scheme. As at 31 March 2021, the net pension deficit is £ 226.8 million (2020:£ 121.6 million). 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.

In addition to the cost of the UK 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 31 March 2021 these related payments amounted to £ 0.2 million (2020: £0.3 million).

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Background (continued)

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 the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the TWMIPS and TWPS schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million).

The triennial 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 2020 to 31 March 2021. The 2020 funding valuation has been updated to an accounting valuation as at 31 March 2021 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.

The most recent full valuation of the SUURBS Arrangement was carried out at 28 February 2018 on behalf of the pension Trustees by Hymans Robertson LLP, the independent and professionally qualified consulting actuaries to the scheme. This resulted in a funding surplus of £1.2 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 the time of the most recent valuation to 31 March 2018. The 2016 funding valuation has been updated to an accounting valuation as at 31 March 2021 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.

Amounts included in the financial statements

Income statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

		2021			2020	
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	**19.0**	**1.5**	**-**	19.5	2.7	-
Past service cost including curtailments	**0.4**	**0.1**	**-**	-	-	-
Scheme administration expenses	**1.8**	**1.6**	**-**	3.1	1.5	-
Net interest cost/(income)	**4.1**	**(2.2)**	**0.2**	7.4	(1.2)	0.2
Total	**25.3**	**1.0**	**0.2**	30.0	3.0	0.2

The net expense is recognised in the following captions within the income statement:

		2021			2020	
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	**23.5**	**3.2**	**-**	22.6	4.2	-
Net finance expense/(income)	**4.1**	**(2.2)**	**0.2**	7.4	(1.2)	0.2
Total	**25.3**	**1.0**	**0.2**	30.0	3.0	0.2

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Amounts included in the financial statements (continued)

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

	2021 £m	2020 - Restated[1] £m
Cumulative actuarial gains recognised at 1 April	**(326.2)**	(495.1)
Actual return less expected return on pension scheme assets	**32.4**	88.4
Experience gain /(loss) arising on scheme liabilities	**100.8**	19.0
(Loss)/gain arising due to change in assumptions	**(341.8)**	145.5
Gain arising due to change in demographic assumption	**13.0**	(84.0)
Total actuarial (loss)/gain	**(195.6)**	168.9
Cumulative actuarial losses recognised at 31 March	**(521.8)**	(326.2)

[1] The cumulative actuarial losses recognised in the prior year have been restated to reflect the MIPS pension surplus that was recognised in the accounts at 31 March 2018, which improved the net pension deficit by £49.7 million. £36.7 million of this amount was previously not reflected in this cumulative actuarial loss figure. The adjustment recognised in the prior period has led to an improvement in the cumulative actuarial losses recognised of £36.7 million.

Statement of financial position

The net pension (liability)/asset recognised within the statement of financial position is as follows:

		2021			2020	
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	**1,730.9**	**770.9**	**-**	1,595.3	805.8	-
Present value of defined benefit obligations	**(2,008.0)**	**(713.0)**	**(7.6)**	(1,804.4)	(711.3)	(7.0)
(Deficit)/surplus	**(277.1)**	**57.9**	**(7.6)**	(209.1)	94.5	(7.0)
Net pension deficit			**(226.8)**			(121.6)

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

		2021			2020	
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,804.4**	**711.3**	**7.0**	1,847.0	759.4	7.7
Current service cost	**19.0**	**1.5**	**-**	19.5	2.7	-
Past service cost including curtailments	**0.4**	**0.1**	**-**	-	-	-
Interest cost	**41.8**	**16.2**	**0.2**	43.9	17.4	0.2
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Benefits paid	**(56.0)**	**(45.4)**	**(0.4)**	(51.5)	(44.5)	(0.4)
Termination benefits	**0.2**	**-**	**-**	1.4	0.3	-
Actuarial gains	**198.1**	**29.3**	**0.8**	(56.0)	(24.0)	(0.5)
At 31 March	**2,008.0**	**713.0**	**7.6**	1,804.4	711.3	7.0

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Amounts included in the financial statements (continued)

Reconciliation of defined benefit plan assets and liabilities (continued)

The movements in the fair value of scheme assets were as follows:

	2021			2020		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,595.3**	**805.8**	**-**	1,508.2	805.2	15.4
Interest income on scheme assets	**37.7**	**18.4**	**-**	36.5	18.6	-
Disposal of assets	**-**	**-**	**-**	-	-	(12.2)
Fair value loss on disposal of assets	**-**	**-**	**-**	-	-	(0.6)
Reclassification of cash[1]	**-**	**-**	**-**	-	-	(2.6)
Contributions by sponsoring employers	**114.4**	**2.3**	**-**	39.8	3.2	0.4
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Administration costs paid from scheme assets	**(1.8)**	**(1.6)**	**-**	(3.1)	(1.5)	-
Benefits paid	**(56.0)**	**(45.4)**	**-**	(51.5)	(44.5)	(0.4)
Contributions for termination benefits	**0.2**	**-**	**-**	1.4	0.3	-
Gains on assets above interest	**41.0**	**(8.6)**	**-**	63.9	24.5	-
At 31 March	**1,730.9**	**770.9**	**-**	1,595.3	805.8	-

[1] £2.3 million of cash, previously held as an asset of the SUURB pension scheme in the prior year is now reclassified as restricted cash.

Analysis of assets

	2021				2020			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**36.8**	**-**	**36.8**	**1.5**	29.7	-	29.7	1.2
Rest of World	**486.3**	**-**	**486.3**	**19.4**	358.3	1.1	359.4	15.0
Bonds								
Government – UK	**25.6**	**-**	**25.6**	**1.0**	16.2	-	16.2	0.7
Government – Rest of World	**92.0**	**-**	**92.0**	**3.7**	116.2	1.1	117.3	4.9
Corporates – UK	**50.3**	**0.2**	**50.5**	**2.0**	48.4	3.5	51.9	2.2
Corporates – Rest of World	**277.2**	**1.4**	**278.6**	**11.1**	166.3	1.9	168.2	7.0
Property								
UK	**7.1**	**-**	**7.1**	**0.3**	4.5	-	4.5	0.2
Rest of world	**1.1**	**-**	**1.1**	**-**	1.9	-	1.9	0.1
Alternative assets								
Liability driven instruments	**1,297.8**	**-**	**1,297.8**	**51.9**	1,433.1	-	1,433.1	59.6
Other (including derivatives)	**86.5**	**-**	**86.5**	**3.5**	109.6	3.5	113.1	4.7
Cash	**139.5**	**-**	**139.5**	**5.6**	105.8	-	105.8	4.4
Total market value of assets	**2,500.2**	**1.6**	**2,501.8**	**100.0**	2,390.0	11.1	2,401.1	100.0

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Willis Towers Watson. As of 31 March 2021, Reddington have been appointed as our new advisors. 51.9% of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Amounts included in the financial statements (continued)

Analysis of assets (continued)

In the current period, Index Linked Gilts amount to £475.0 million and Fixed Interest Gilts amount to £849.0 million of the LDI total.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

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 31 March 2021.
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:

		2021			2020	
	TWPS	**TWMIPS**	**SUURBS**	TWPS	TWMIPS	SUURBS
Price inflation – RPI	**3.25%**	**3.30%**	**3.30%**	2.55%	2.65%	2.65%
Price inflation – CPI (Pre 2030)	**1.00%**	**1.00%**	**1.00%**	1.75%	1.85%	1.85%
Price inflation – CPI (Post 2030)	**0.10%**	**0.10%**	**0.10%**			
Rate of increase to pensions in payment – RPI	**3.25%**	**3.30%**	**3.30%**	1.75%	1.85%	1.85%
Rate of increase to pensions in payment – CPI (Pre 2030)	**1.00%**	**1.00%**	**1.00%**	2.35%	2.35%	2.35%
Rate of increase to pensions payment – CPI (Post 2030)	**0.10%**	**0.10%**	**0.10%**			
Discount rate	**2.10%**	**2.00%**	**2.00%**	2.55%	2.65%	2.65%

Both the TWPS and TWMIPS 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.

In valuing the liabilities of the pension schemes, mortality assumptions have been made as indicated below, however in respect of the SUURBS Arrangement as mortality assumptions have been made regarding the schemes only member and their spouse they have not been disclosed. These 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.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

IAS 19 Assumptions (continued)

	2021		2020	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.6**	**26.8**	27.6	26.8
Female	**29.7**	**29.0**	29.7	28.9
Life expectancy from age 60 currently age 40:				
Male	**28.3**	**27.9**	28.3	27.9
Female	**30.8**	**30.2**	30.8	30.1

Actuarial risk factors

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

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

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

	Reduction in liability					
	2021			2020		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	**400.0**	**110.0**	**0.7**	320.0	90.0	0.7
Change in rate of inflation (-1% p.a.)	**260.0**	**80.0**	**0.7**	210.0	70.0	0.7
Change in life expectancy (-1 year)	**90.0**	**40.0**	**0.3**	70.0	40.0	0.3

Future expected cash flows

The Group made a pension deficit repair payment of £69.7 million on 30 March 2021 covering the financial periods from 2021/22 to 2024/25, which has been treated as an exceptional cash flow in the current year. We made a payment of £28.3 million on 1 April 2020 in relation to 2020/21. The average duration of the benefit obligation at the end of the year is 18 years for TWPS and 11 years for TWMIPS (2020: 19 years for TWPS and 12 years for TWMIPS).

In December 2020, the funding valuation as at 31 March 2020 was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

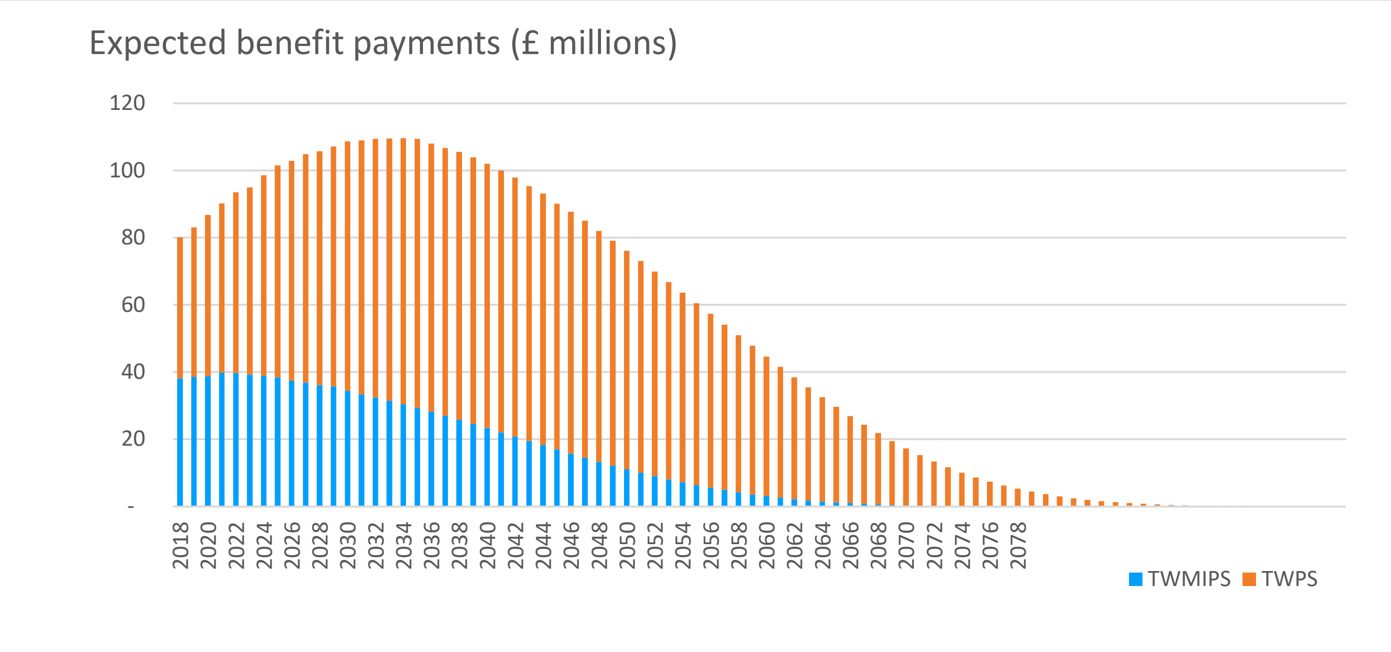
Year to 31 March	**2021**	**2021**	**2022**	**2023**	**2024**	**2025**	**2026**	**2027**
Deficit contribution (£m)	69.7	-	-	-	-	17.9	17.9	17.9

The expected cash flows payable from the schemes are presented in the graph below:

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Future expected cash flows (continued)



The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2019. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

24. Capital commitments

	2021 £m	2020 £m
Property, plant and equipment	**404.9**	281.7
Intangible assets	**10.0**	7.5
Contracted for but not provided	**414.9**	289.2

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network. Capital commitments have increased during the year due to the start of a new AMP and delays to commencement of capital works driven by Covid-19.

25. Contingent liabilities

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

The Group is currently defending five sets of court proceedings commenced by different groups of Property Search Companies (“PSCs”) seeking refunds of fees paid for property search data, including CON29DW searches, from 1 December 2013 to date. The PSCs allege that they have been overcharged for drainage and water searches and that information should have been made available to them pursuant to the Environmental Information Regulations 2004, at a lower cost than that charged. The position is replicated across all other Water & Sewerage Companies in England and Wales. We are defending these claims, as are all the other water and sewage companies in England and Wales. However, the claims are at too early a stage to provide further commentary on the merits or otherwise of them or any effect on the financial position of the Group.

As at 31 March 2021, there were ongoing commercial negotiations arising in the ordinary course of business in respect of closing out AMP6 contracts. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future discussions and will only become known on conclusion of the negotiation. The outcome could result in either an economic outflow, inflow or neither. In respect of these negotiations, the Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Other contractual matters with suppliers incurred in the ordinary course of business, which may result in a liability that could have a material effect on the Group’s financial statements. These contractual matters are unquantifiable and subject to significant uncertainties. The Group has considered these contractual matters as a contingent liability.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS") group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

26. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases not in the scope of IFRS 16;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of customer services, legal services, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Group is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligators under the whole business securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligator will guarantee the obligations of each other Obligator with their future cash flows. The guaranteed debt as at 31 March 2021 was £12.9 billion (2020: £13.1 billion).

27. Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt at 31 March 2021 was £12.9 billion (2020: £13.1 billion).

At 31 March 2021 certain subsidiaries of the Group have secured overdrafts of other subsidiaries up to a maximum of £5.0 million (2020: £20.0 million).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance plc (the "Kemble Financing Group") have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance plc pursuant to any secured indebtedness it may raise. The total amount outstanding at the Kemble Water Finance Limited level at 31 March 2021 amounts to £ 949.8 million (2020: £924.8 million). The total amount of guaranteed secured debt raised at the Thames Water (Kemble) Finance plc level outstanding at 31 March 2021 is £ 515.1 million (2020: £175.0 million).

In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No un-provided loss is expected to arise under these arrangements.

Notes to the Group financial statements (continued)

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

		2021			2020	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	**(831.3)**	**59.6**	**(771.7)**	(389.7)	58.0	(331.7)
Less finance income	**(174.7)**	**-**	**(174.7)**	(73.2)	-	(73.2)
Add finance expense	**1,061.6**	**-**	**1,061.6**	1,081.9	-	1,081.9
Add interest paid on lease liability	**3.4**	**-**	**3.4**	3.7	-	3.7
Less net gains/(add net losses) on fair value of financial instruments	**524.9**	**-**	**524.9**	(190.8)	-	(190.8)
Taxation on (loss)/profit on ordinary activities	**(192.8)**	**14.0**	**(178.8)**	61.2	6.1	67.3
Operating profit	**391.1**	**73.6**	**464.7**	493.1	64.1	557.2
Depreciation on property, plant and equipment	**580.8**	**-**	**580.8**	569.0	-	569.0
Depreciation on right of use assets	**8.0**	**-**	**8.0**	8.2	-	8.2
Amortisation of intangible assets	**52.0**	**-**	**52.0**	32.9	-	32.9
Write off of property, plant and equipment and intangible assets	**-**	**-**	**-**	9.9	-	9.9
Loss on sale of property, plant and equipment	**(8.3)**	**-**	**(8.3)**	4.1	-	4.1
Difference between pension charge and cash contribution	**(92.7)**		**(92.7)**	(1.8)	-	(1.8)
Increase in inventory	**(1.3)**	**-**	**(1.3)**	(0.1)	-	(0.1)
Increase in trade and other receivables	**12.3**	**(71.1)**	**(58.8)**	(46.5)	(60.2)	(106.7)
Increase in contract assets	**(4.6)**	**(4.3)**	**(8.9)**	(17.9)	(0.6)	(18.5)
Decrease in trade and other payables	**(55.4)**	**1.0**	**(54.4)**	(8.0)	(0.8)	(8.8)
Increase/(decrease) in contract liabilities	**48.1**	**1.8**	**49.9**	84.5	(3.1)	81.4
(Decrease)/increase in provisions	**(0.6)**	**-**	**(0.6)**	25.7	-	25.7
Cash generated from/(used in) operations	**929.4**	**1.0**	**930.4**	1,153.1	(0.6)	1,152.5

[1] Operating cash flows for the year ended 31 March 2021 includes £69.7 million (31 March 2020: nil) of payments that are considered to be exceptional. This exceptional outflow is related to the remaining pension deficit repayments covering AMP7 for the TWPS. Excluding this exceptional cash payment, underlying operating cash flows would be £999.1 million for the year ended 31 March 2021 (31 March 2020: £1,153.1 million).

Non-cash transactions

Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

	2021 £m	**2020 £m**
Unrestricted cash movement	**(12.4)**	11.2
Movement in short-term deposits	**300.0**	282.6
Total	**287.6**	293.8

The restricted cash above relates to collateral posted by derivative counterparties that have failed to meet minimum credit rating criteria assigned by Moody's.

29. Ultimate parent company and controlling party

Kemble Water Eurobond plc, a company incorporated in the United Kingdom, is the immediate parent company. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the only group to consolidate these financial statements.

Copies of the accounts of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Notes to the Group financial statements (continued)

30. Related party transactions

Key management personnel

Key management personnel comprise the members of the Board of Directors and the Executive Committee of the Group's principal trading subsidiary Thames Water Utilities Limited during the year. Information regarding transactions with post-employment benefits plans is included in note 23.

	2021 **£'000**	2020 £'000
Short term employee benefits	**3,109.8**	9,255.0
Post-employment benefits	**159.0**	507.0
Other long-term benefits	**-**	-
Termination benefits	**591.0**	3,249.0
Other	**457.0**	124.0
Total	**4,316.8**	13,135

Company

During the year, Kemble Water Eurobond plc (”KWE”), the Company's immediate parent charged the Company interest of £633.3 million (2020: £613.2 million) in respect of the £3,100.6 million 10% fixed rate loan due on demand. As at 31 March 2021, the amount payable to KWE, including loan principal and interest thereon, was £ 6,965.8 million (2020: £6,332.5 million).

The Company pays and receives interest to and from subsidiary undertakings in the normal course of business. Total net interest expense to and from subsidiary undertakings during the year was £634.0 million (2020: £613.3 million).

As at 31 March 2021 net amounts owed by the Company to subsidiary undertakings was £6.909.1 million (2020: £6,122.4 million). As at 31 March 2021 and 31 March 2020, no related party receivables or payables were secured and no guarantees were issued. Balances will be settled in accordance with normal credit terms.

The Company's borrowings include a £100.0 million fixed rate note due 2025 with a book value of £98.6 million. The noteholder is OCM Credit Portfolio LP. OCM Credit Portfolio LP is a member of the Ontario Municipal Employees Retirement System (“OMERS”) group which, via a separately managed group of companies within the OMERS group owns, indirectly, 31.8% of the Company. The terms of the notes, including the coupon payable, are the same market rates as all fixed rate notes issued by the Company in 2018 and due in 2025, a total of £310.0 million.

31. Post balance sheet events

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. The legislation was enacted on 24 May 2021 and the likely impact of this change is disclosed in Note 7 for the Group and Note 33 Company only.

In June 2021, the Group further strengthened its financing position, through Thames Water Utilities Finance Plc entering into a £180.0 million Class B loan facility due June 2026, which is currently undrawn. Since 31 March 2021, £525.0 million has been drawn under the Class A RCF, and debt repayments have been made of £214.3 million Class B RCF, £225.0 million Class A bond due April 2021 and £300.0 million Class B term loan due June 2023.

Notes to the Company financial statements

32. Investment in subsidiaries

	2021 £m	2020 £m
Cost of shares in subsidiary undertakings	**4,292.3**	4,292.3
Net book value	**4,292.3**	4,292.3

A full listing of direct and indirect subsidiary and associated undertakings has been included in note 41 to these financial statements. Investments in subsidiaries are stated at cost, less any provision for impairment. The key inputs consist of future RCV, RCV premium, future gearing and expected interest settlements. This impairment would be recognised within the Company income statement only. An impairment review is performed on an annual basis.

33. Trade and other receivables

	2021 £m	2020 £m
Other receivables	**0.5**	0.6
Amounts owed by group undertakings	**445.6**	379.1
Amounts receivable in respect of group relief	**323.5**	195.6
	769.6	575.3
Disclosed within non-current assets	**417.5**	367.0
Disclosed within current assets	**352.1**	208.3

Included within amounts owed by group undertaking are 3 intercompany loans with Thames Water Limited, including:

£249.8m with an interest rate of 5.47% repayable on demand
£50.0m with an interest rate of 5.40% repayable on demand
£32.0m with an interest rate of 5.46% repayable on demand

Separately there is an intercompany receivable owed by Thames Water Limited of which £85.1 million (2020: 116.6 million) remains at 31 March 2021 and is interest free and repayable on demand.

These loans are repayable on demand, however the Directors confirm that there will be no repayment within 12 months and letters of comfort have been obtained from the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, these amounts owed to group undertakings have been classified as non-current.

34. Deferred tax asset

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

	Other timing differences £m	**Total £m**
At 1 April 2019	9.2	9.2
Charge to income	(0.8)	(0.8)
At 31 March 2020	8.4	8.4
Charge to income	(1.7)	(1.7)
At 31 March 2021	6.7	6.7

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will increase to 25%. Since the proposal to increase the rate to 25% had not been substantively enacted at the balance sheet date, its effects are not included in these financial statements. However, it is likely that the overall effect of the change, had it been substantively enacted by the balance sheet date, would be to increase the deferred tax asset by £1.1m, and to increase the tax credit for the period by £1.1m.

Notes to the Company financial statements (continued)

35. Cash and cash equivalents

	2021 £m	2020 £m
Cash at bank and in hand	**0.3**	0.3
Money market funds	**286.2**	28.4
Total	**286.5**	28.7

36. Trade and other payables

	2021 £m	2020 £m
Other payables	**0.3**	0.1
Amounts owed to group undertakings	**1.7**	0.3
	2.0	0.4
Disclosed within non-current liabilities	**0.3**	0.3
Disclosed within current liabilities	**1.7**	0.1

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

37. Net losses on financial instruments

	2021 £m	2020 £m
Loss on part repayment of amounts owed to group undertakings[1]	**(2.7)**	-
Total	**(2.7)**	-

[1] In November 2020, £62.6 million plus accrued interest was paid by KWF towards repayment of £59.9 million principal of the £175.0 million intercompany loan with TW(K)F. The £2.7 million premium paid on the part repayment of the £175.0 million intercompany loan has been recognised in net losses on financial instruments.

38. Borrowings

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

	2021 £m	2020 £m
Secured bank loans and private placements	**938.8**	911.1
Amounts owed to group undertakings	**3,765.0**	3,426.2
	4,703.8	4,337.3
Interest payable on secured bank loans and private placements	**14.1**	14.8
Interest payable on amounts owed to group undertakings	**3,910.2**	3,270.6
Total	**8,628.1**	7,622.7
Disclosed within current liabilities	**21.0**	17.0
Disclosed within non-current liabilities	**8,607.1**	7,605.7

Notes to the Company financial statements (continued)

38. Borrowings (continued)

Breakdown of secured bank loans and private placements

	2021 £m	2020 £m
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a), (b)	**-**	74.5
£200.0m floating rate loan due 2025 (a)	**198.5**	198.1
£4.5m 5.3% fixed rate loan due 2025 (a)	**4.4**	4.4
£5.5m 5.3% fixed rate loan due 2025 (a)	**5.4**	5.4
£100.0m 5.3% fixed rate loan due 2025 (a)	**98.6**	98.3
£200.0m 5.3% fixed rate loan due 2025 (a)	**197.1**	196.6
£149.8m 5.39% fixed rate loan due 2026 (a)	**147.6**	147.2
£190.0m floating rate loan due 2024 (a)	**188.4**	186.5
£50.0m 5.26% private placement due 2027 (a)	**49.5**	-
£50.0m 5.27% private placement due 2028 (a)	**49.3**	-
Kemble Water Finance Limited total	**938.8**	911.0
Total secured bank loans and private placements	**938.8**	911.0

(a) These loans and private placements are shown net of issuance costs.
(b) During the year ended 31 March 2021, the £75.0m floating rate loan originally due in 2022 was repaid early.

Breakdown of amounts owed to group undertakings

	2021 £m	2020 £m
Thames Water (Kemble) Finance plc		
£175.0m 5.75% fixed rate bond due 2022 (a), (b)	**114.8**	174.3
£400.0m 4.625% fixed rate bond due 2026 (c)	**398.3**	-
Kemble Water Eurobond plc		
£3,100.6 10.0% fixed rate loan due on demand (e)	**3,100.6**	3,100.6
Thames Water Investments Limited		
£15.0m floating rate loan due on demand (d), (e)	**15.0**	15.0
Thames Water Limited		
£136.3m floating rate loan due on demand (d), (e)	**136.3**	136.3
Total amounts owed to group undertakings	**3,765.0**	3,426.2

(a) This bond is on-lent at equivalent interest rate to the external borrowing rate, plus an annual margin of £10,000 (2020: £10,000).
(b) In November 2020, £62.6 million plus accrued interest was paid by KWF towards repayment of £59.9 million principal of the £175.0 million intercompany loan with TW(K)F. The £2.7 million premium paid on the part repayment of the £175.0 million intercompany loan has been recognised in losses on financial instruments.
(c) This bond is on-lent at equivalent interest rate to the external borrowing rate, plus 0.10%.
(d) This loan incurs interest at Libor + 0.5%.
(e) These loans are repayable on demand, however the Directors confirm that there will be no repayment within 12 months and letters of comfort have been obtained from the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing the financial statements. Therefore, these amounts owed to group undertakings have been classified as non-current.

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies. The Company does not hold any derivative financial assets or liabilities (2020: none).

Notes to the Company financial statements (continued)

39. Financial instruments

The carrying values of the financial assets and liabilities are as follows:

	2021 **£m**	2020 - Restated[1] £m
Financial assets:		
Fair value through profit or loss		
Cash and cash equivalents – money market funds[2]	**286.2**	28.4
	286.2	28.4
Amortised cost		
Other receivables (excluding prepayments)[1]	**417.5**	367.0
Trade and other receivables (excluding prepayments)[1]	**352.1**	208.3
Cash and cash equivalents – cash at bank and in hand[2]	**0.3**	0.3
	769.9	575.6
Total	**1,056.1**	604.0
Financial liabilities:		
Amortised cost		
Other payables (excluding other taxation and social security)	**(0.3)**	(0.3)
Trade and other payables (excluding other taxation and social security)	**(1.7)**	(0.1)
Borrowings	**(8,628.1)**	(7,622.7)
Total	**(8,630.1)**	(7,623.1)

[1] The comparative amounts have been restated to reclassify amounts between 'Other receivables' and 'Trade and other receivables' consistent with how these balances are presented in note 36.

[2] The comparative amounts have been restated to reclassify cash and cash equivalents – money market funds from the amortised cost section to the fair value through profit or loss section.

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable.

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

Unless otherwise stated all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The fair values and carrying values of the Company's financial assets and financial liabilities are set out in the tables below:

	2021		2020 - Restated[1,2]	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Other receivables (excluding prepayments)[1]	**417.5**	**417.5**	367.0	367.0
Current				
Trade and other receivables (excluding prepayments)[1]	**352.1**	**352.1**	208.3	208.3
Cash and cash equivalents	**286.5**	**286.5**	28.7	28.7
Total	**1,056.1**	**1,056.1**	604.0	604.0

[1] The comparative amounts have been restated to exclude prepayments.

	2021		2020 - Restated[1,2]	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(938.8)**	**(980.7)**	(911.1)	(877.2)
Amounts owed to group undertakings	**(3,765.0)**	**(3,774.1)**	(3,426.2)	(3,425.0)
Interest payable	**(3,903.3)**	**(3,903.3)**	(3,268.4)	(3,268.4)
Other payables (excluding other taxation and social security)[2]	**(0.3)**	**(0.3)**	(0.3)	(0.3)
Current				
Borrowings:				
Amounts owed to group undertakings	**-**	**-**	-	-
Interest payable	**(21.0)**	**(21.0)**	(17.0)	(17.0)
Trade and other payables (excluding other taxation and social security)[2]	**(1.7)**	**(1.7)**	(0.1)	(0.1)
Total	**(8,630.1)**	**(8,681.1)**	(7,623.1)	(7,588.0)

[2] The comparative amounts have been restated to include Trade and other payables (excluding other taxation and social security).

Capital risk management

Details of the Group's capital risk management strategy can be found on pages 82 and 83. The capital structure of the Company is as follows:

	2021 £m	2020 £m
Cash and cash equivalents	**286.5**	28.7
Secured bank loans and private placements	**(938.8)**	(911.1)
Interest payable on secured bank loans and private placements	**(14.1)**	(14.8)
Amounts owed to group undertakings	**(3,765.0)**	(3,426.2)
Interest payable on amounts owed to group undertakings	**(3,910.2)**	(3,270.6)
Net debt	**(8,341.6)**	(7,594.0)
Deficit attributable to the owners of the Group	**(3,725.0)**	(2,718.4)

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk), credit risk and liquidity risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described below. The Company's activities expose it to credit and liquidity risk.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates that could affect the Company's value of the financial instruments it holds. Below is the effective interest rate profile of the debt held by the Company:

As at 31 March 2021:	Total at fixed rates £m	Total at floating rates £m	Total £m
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	4,165.7	538.1	4,703.8
Total	4,165.7	538.1	4,703.8

As at 31 March 2020:	Total at fixed rates £m	Total at floating rates £m	**Total £m**
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,726.9	610.4	4,337.3
Total	3,726.9	610.4	4,337.3

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate and index-linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and index-linked debt	
	2021 %	2020 %	**2021 Years**	2020 Years
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	**8.8**	9.2	**13.4**	15.3
Total	**8.8**	9.2	**13.4**	15.3

Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2021. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2021		2020	
	+1% £m	**-1% £m**	+1% £m	-1% £m
Profit	**(3.9)**	**3.9**	(4.7)	4.7
Equity	**(3.9)**	**3.9**	(4.7)	4.7

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Financial risk management (continued)

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, therefore the maximum exposure to credit risk at the year-end date was £1056.1 million (2020: £604.0 million).

(c) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Company's borrowings are disclosed in Note 38.

The maturity profile of the Company's financial liabilities disclosed in the statement of financial position are given below.

	2021 **£m**	2020 £m
Within one year	**-**	-
Between one and two years	**114.8**	-
Between two and three years	**-**	248.8
Between three and four years	**188.4**	-
Between four and five years	**504.1**	186.5
After more than five years	**3,896.5**	3,902.0
Total	**4,703.8**	4,337.3

Cash flows from non-derivative financial liabilities.

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2021** **£m**	2020 - Restated[1] £m
Within one year	**74.4**	53.4
Between one and two years	**184.4**	53.2
Between two and three years	**65.9**	296.5
Between three and four years	**250.2**	39.7
Between four and five years	**563.3**	224.9
After more than five years	**3,925.5**	3,940.6
Total	**5,063.7**	4,608.3

[1] The comparative amounts have been restated to include lease liabilities.

Notes to the Company financial statements (continued)

40. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2021 £m	2020 £m
Loss for the financial year	**(556.6)**	(533.6)
Add finance expense	**687.3**	674.5
Less finance income	**(0.1)**	(12.7)
Decrease in intercompany receivables	**31.6**	53.9
Increase/(decrease) in intercompany payables	**1.4**	(14.6)
Taxation on loss on ordinary activities	**(130.4)**	(126.5)
Cash generated in operations	**33.2**	41.0

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2021 the Company held the following principal interests, all of which are either wholly or jointly owned either directly or indirectly through its subsidiary investments.

	Principal undertaking	Country of incorporation	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
Direct					
Thames Water (Kemble) Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Indirect					
Thames Water Utilities Limited	Water & wastewater	United Kingdom	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Finance Plc	Finance company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Finance Limited	Holding company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Services Limited	Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Legacy Investment	Singapore	Singapore	Ordinary	100%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Innova Park Management Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
PWT Projects Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Non Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continued)

Liquidations completed during the year ended 31 March 2021

Thames Water Nominees Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International Service Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Developments Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Shapeshare Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International (Thailand) Limited	Legacy Investment	Thailand	Thailand	Ordinary/ Preference	100%

The address of the registered office of all the above companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB with the exception of:

- Thames Water Asia Pte Limited (80 Robinson Road #02-00, Singapore, 68898)

Registered number 05819317 (England and Wales)

Kemble Water Finance Limited

Annual report and consolidated financial statements

For the year ended 31 March 2020

Contents

Introduction

Kemble Water Finance Limited ("the Company" or "KWF") is an intermediate holding company of the Kemble Water Holdings Group of companies ("the KWH Group"). The Kemble Water Finance Group of companies ("the Group") represents the consolidated results of Kemble Water Finance Limited and its subsidiaries. These consolidated financial statements are prepared as a requirement of the Kemble Water Finance covenants, which govern the way the Group borrows funds.

The Company acts as an intermediate holding company within the KWH Group and also acts as the borrower of funds both directly and through its direct subsidiary Thames Water (Kemble) Finance plc ("TW(K)F") for use within the wider Group. Under these arrangements the Company has at 31 March 2020, £1,099.8 million of external debt, £924.8 million (£911.0 million book value) of which has been raised directly by the Company and £175.0 million (£174.3 million book value) has been raised by its financing subsidiary TW(K)F. This subordinated debt is issued outside of the securitised group.

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"), in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relates to the activities of the Group including TWUL.

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall Group.

The Group's management structure separates the Directors of the Company, who are all Non-Executives, and have no role to play in the day-to-day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group. There are controls in place to ensure that the day to day management of the appointed business is separated from the commercial water retail business.

Unless otherwise stated; all current year data included in this report is for the year ended 31 March 2020 ("2019/20").

Directors and Advisors

Directors

P Noble
M McNicholas
S Deeley
J Divoky
G Lambert
A Hall
G Pestrak
F Sheng
M Bloch-Hansen
C Pham
J Cogley
B Moncik
I Grund
P McCosker
H De Run
M Wang
G Tucker
Y Deng

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
23 Forbury Road
Reading
RG1 3JH

Company secretary and registered office

D J Hughes
S Billet
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their strategic report of the Kemble Water Finance Limited Group ("the Group") for the year ended 31 March 2020. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which can be found at www.thameswater.co.uk/annualresults and provides a more detailed insight into the regulated business.

Business review

Principal Activities

The principal activity of the Group is the appointed supply of water and sewerage services through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL"). The Company's principal activity is to act as the holding company of the Group.

The three main functional areas to the TWUL business are:

Customer experience: comprises the household business segment and provides certain customer-facing activities, billing and revenue collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business segment is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT which is shown separately in the financial statements;

Operations: responsible for all aspects of raw water abstraction, treatment as well as the distribution of high quality drinking water and wastewater collection, treatment and safe disposal for household and non-household customers; and

Support services: responsible for other areas including delivery, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 98% of the Group's appointed gross revenue as per the regulated accounts, TWUL also manages certain non-appointed activities including:

- property searches, including the provision of information required by property developers;
- sale of gravel and other aggregates extracted through day-to-day operations; and
- treatment of trade effluent and other septic waste.

In addition, outside of TWUL, the Group operates a property business to manage and optimise the value of the Group's property portfolio.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, to deliver life's essential service, so our customers, communities and the environment can thrive. This means keeping customers' bills as low as possible whilst investing efficiently in assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they expect and require.

- Outside of the appointed business, the Group continues to provide property search services to conveyancers and homebuyers. The Group also retains a property services arm which focuses on the development and enhancement of the value of land and sites that are no longer required for the appointed business, including disposal to third parties.

Principal risks and uncertainties

Our risk management and governance framework

The Board assisted by the Audit Risk and Reporting Committee (ARRC), oversees the risk framework and ensures alignment of risk management objectives with the strategies and objective of the Group, validates risk status and mitigation plans and verifies the long term viability statement process to maintain a sound system of risk management and internal control. This includes the determination of the nature and extent of the principal risks we are prepared to accept to achieve our strategic objectives, and ensuring that an appropriate culture has been embedded throughout the organisation. The work of the Board and its committees is underpinned by delegation of authority and policies and procedures covering key areas of our operation.

Our approach to risk management

Our approach to risk management is to ensure risk is managed effectively and within tolerable limits. Making sure that every effort is made to maximise potential opportunities, minimise the adverse effects of risk and increase our ability to effectively deliver value to our customers, people, communities, environment, stakeholders and shareholders.

There has been a lot of movement in our risk profile during the year, which reflects changes in the political and regulatory environment, which saw the immediate threat of nationalisation of the water industry diminish, the level of uncertainty around Brexit decrease and challenges presented through the transition between AMPs. Many of our risks were also compounded by the Covid-19 pandemic, but overall, the end point shows it relatively stable versus this time last year.

In 2020/21, we anticipate the risk landscape will continue to fluctuate, remain challenging and complex in both our internal and external environment. We will be reflecting on the impacts of Covid-19 on our business, our risk management processes and our internal control environment. Our risk management process is aligned with the Risk Management International Standard, ISO 31000, which supports our compliance with the Financial Reporting Council's UK Corporate Governance Code guidance on risk management. We have therefore adopted the ISO31000 definition of risk: 'the effect of uncertainty on our objectives.'

Principal risks and uncertainties

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><td colspan="2">Environmental protection and climate change</td></tr>
<tr><td>Description

Without robust operational resilience plans and environmental management systems we may be unable to deal with the impact of extreme and unpredictable weather events , or operational incidents, on our assets and infrastructure resulting in damage to the natural environment, and/or are unable to successfully plan for future water resource supply and demand due to climate change.

Movement in the period: ↑

The impact of changes due to Covid-19 are unknown. We are already experiencing supply impacts due to unexpected increases in demand at unusual locations due to London and the Thames Valley largely working from home and holidaying at home. This may cause us to have to use emergency abstractions and drought permits to maintain supply leading to adverse environmental impacts.</td><td>Mitigation
During the Covid-19 pandemic, we continue to ensure the continued provision of essential services by prioritising essential work and postponing non-essential projects
Investment in our water and wastewater networks to improve resilience, including planning ahead to make a strong case at PR24
Pollution incident reduction plan
Political influencing to support introduction of measures to reduce per capita consumption by government
Influencing manufacturers to develop products that meet the 'fine to flush' standard
Long-term - management of water resource issues as set out in our Water Resource Management Plan and drainage and wastewater issues as set out in our Drainage and Wastewater Management Plan
Focus on influencing a change in customer behaviour to reduce water demand and to prevent sewer misuse
Development of Groundwater Impacted Catchments Management Plans
Development of a comprehensive Environmental Management System for the Wastewater business
Looking Forward
Mitigating these long-term risks requires a robust and well-evidenced business case for PR24, focussed on enhancing resilience of both our assets and the natural environment.
We are developing a better understanding of risks and integration of systems across our business and the river catchments within which we operate
Commitment to protecting and enhancing the health of the rivers in our area. Developing an action plan with regulators, government and environmental NGOs for the Chilterns chalk streams
Delivery of our Smarter Water Catchments initiative to increase understanding of our river catchments and enhance natural resilience through delivery of partnership projects
Development of stronger relationships with Catchment Partnerships and other environmental NGO's to enable greater partnership working
Commitment to net-zero carbon emissions</td></tr>
</table>

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Changes in the political and regulatory environment

Description

We may be unable to effectively anticipate and/or influence future developments in the UK water industry resulting in changes which may affect our ability to meet our strategic objectives and best serve our customers and the environment

Movement in the period: →

The outcome of the 2019 election sets the medium-term political direction in relation to political intervention in the water sector. The conclusion of PR19 also provides (clarity on the basis for investment over the coming 5 years.

Mitigation

- Making a proactive and constructive contribution to the public policy debate around the water sector Active and ongoing engagement and consultation with regulators and politicians
- Wide and in-depth engagement with a wide range of other stakeholders, including engagement on mitigating the risks and uncertainty arising from Covid-19

Looking Forward

- Implications of changes in law/regulations around future sludge disposal. We will be developing a long-term plan (AMP8+) to address the challenges around waste to land process
- We will engage regulators and political stakeholders in the development of our business plan for PR24, which will be a critical opportunity to effect positive change for our customers and the environment

Maintaining the trust and confidence of our stakeholders

Description

Without robust stakeholder understanding and relationship management we may be unable to meet the needs and expectations of all our stakeholders (customers, regulators, investors, communities, pressure groups, etc), leading to a loss of trust and confidence, as well as damage to our brand

Movement in the period: →

No significant change in the risk profile during 2019/20

Mitigation

- Full review of the company’s approach to stakeholder engagement, looking at areas including systems and processes; relationships with key individuals and organisations, and how we work with communities
- Extensive engagement with all stakeholders to understand their needs, expectations and preferences
- Regular communications, for example on key company announcements, through our quarterly stakeholder newsletter, and on individual projects
- Bespoke engagement on issues of interest, such as long-term water resource and wastewater management planning
- Improved levels of transparency

Looking Forward

- Build new, and strengthen existing stakeholder relationships
- Forge deeper links with our communities to better understand their needs and preferences
- Develop our capability in stakeholder relationship management

Business planning and delivery

Description

Without a clear strategy supported by robust planning, transformational change and operational processes we may be unable to meet our regulatory operational performance targets and/or delivery our capital investment programme

Movement in the period: →

No significant change in the risk profile during 2019/20

Mitigation

- Clear strategy for delivery of challenging business plan
- Prioritised business and asset investment process
- Business transformation/change programme and governance
- Improved robustness of financial governance arrangements
- Performance and financial management reporting process

Looking Forward

- AMP7 transformation programme
- Enhancing the business planning and price review process
- Continue to drive efficiency through the business
- Programme to improve approach to risk and resilience

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Customer service

Description	Mitigation
We may be unable to improve and maintain our levels of customer service to deliver what our customers tell us they want: an effortless customer experience, a safe and dependable water service and wastewater service, plan for the future, and for us to be a responsible company. **Movement in the period:** ↑ • Response to customers during and post significant events • Level of complaints received	• Improved incident response including actioning lessons learnt from major events, • Customer service improvement initiatives enabled by significant investment in new platform to enhance capability within our call centre, reduce complaints and service resolution timescales, • Continued improvements to our propositions to support customers in vulnerable circumstances • Continued engagement to understand what our customers want and to prioritise improvements • Offered financial assistance to household customers affected by Covid-19 such as social tariffs and flexible payment terms **Looking Forward** • Stabilisation and optimisation of new customer service and billing platform • Water Networks Transformation Programme to improve customer service outcomes • Incident Management improvement initiatives and growth of Priority Services Register and support wrap • Bad Debt Transformation programme

People

Description	Mitigation
We may be unable to attract, develop and retain an appropriately skilled, diverse workforce and leadership team that encourages and supports ethical behaviours to drive delivery of our company strategy **Movement in the period:** → No significant change in the risk profile during 2019/20	• People strategy based on engagement, equality, diversity, talent attraction and development, training, reward and recognition • Ongoing review of core roles, skills and competency requirements and development of internal capability where difficult to recruit externally • Learning management and mandatory training programmes in place • Talent succession planning and leadership programmes • Clear statement of Company vision and values supported by suite of policies, standards, procedures • Graduate and apprenticeship programme • Ongoing monitoring of employee engagement and targeted response plans **Looking Forward** • Implement a robust Licence to Operate programme to further develop technically competent colleagues to demonstrate competency to our regulators • Design and implementation of a Leadership Capabilities Framework to identify key attributes for leadership assessment and development • Further development of our learning management system ‘Learning on Tap’ focussing on developing our frontline colleagues and leaders to deliver customer service • Investing in further learning technology to enable engaging and impactful blended learning solutions • Implementation of our strategic workforce plan to address long-term capability priorities

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><th colspan="2">Health & safety</th></tr>
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Description

Failing to manage risks resulting from our behaviour, operations and construction activities could endanger the health, safety or wellbeing of our people, operating partners and/or members of the public

Movement in the period: ↓

- Significant reductions in severity and frequency of injury incidents – 35% reduction in RIDDOR notifiable incidents and 41% reduction in days lost to injury
- Early intervention and assistance provided to work related mental health cases resulted in 45% in days lost to absence.
- Ensuring regular review of site safety through regular management inspections and maintaining focus on statutory inspections – inspections increased by 14% and over 63k assets were examined and tested.

*Although the general Incident and injury trend shows a reduction, we have had 1 Life Changing Injury to one of our employees at Iver South STW

</td><td>

Mitigation

- Strong health and safety and wellbeing culture throughout the business
- Health & safety committee monitors performance and oversees and reviews health and safety catastrophic and statutory risks
- Health & Safety Leadership Team structure includes Directors from Major Tier1 contractors, with a clear link to Forums for Waste, Water & Logistics
- Robust health and safety management system externally accredited to ISO 45001
- Robust mental and physical health strategies alongside in-house occupational health team and over 500 mental health first aiders
- During the Covid-19 pandemic, measures undertaken include the provision of appropriate PPE to frontline staff, modifying work practices to maintain social distancing and enhanced resources to ensure our employees are kept to date with company activity and evolving protocols.

Looking Forward

- Further reduce injuries and work-related illness by 20%
- Transition and embed health and safety values and standards across all new partners in year 1 of AMP
- Increase management focus on health and safety hazard resolution through enhanced reporting systems

</td></tr>
</table>

<table>
<tr><th colspan="2">Information & operational technology systems resilience</th></tr>
<tr><td>

Description

Without a resilient information and operational technology infrastructure , we may be unable to effectively operate or provide our services

Movement in the period: ↓

- Significant networks upgraded to enhance capability, stability and resilience,
- Roll- out of circa 6,500 new devices across the business

</td><td>

Mitigation

- Migration into the Future Mode of Operations (FMO) virtual solution, thereby addressing underlying risks of infrastructure failure
- Migration of mainframe to z Cloud, consolidating our mid-range platforms on modern server solutions
- Resilient networks,
- Cloud solutions with enough failover plans in place.

Looking Forward

- Replacement of operational field devices to enhance staffs' working experience, reduce hardware failures and address security risks
- Implementation of architectural roadmap for replacing or retiring applications and servers;
- Finalise infrastructure migration of mainframe to Z cloud solution
- Migration of legacy customer billing systems off mainframe onto SAP consolidating our mid-range platforms on modern server solutions
- Develop the asset management strategy covering operational technology and the internet of things (IoT)
- Operational technology - lease line upgrade programme and ongoing remote terminal unit (RTU) upgrades

</td></tr>
</table>

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Supply of enough clean, safe water	
Description We may be unable to provide a secure, resilient supply of clean, safe drinking water with the potential for a negative impact on public confidence in water supply **Movement in the period:** → No significant change in the risk profile during 2019/20	**Mitigation** • Drinking water quality transformation programme agreed with DWI • Monitoring of assets (asset health measures) • Contingency arrangements for areas at risk of supply failure • Leakage reduction plan achieved best result this year • Plans to reduce demand (leakage and per capita consumption/water efficiency programme) **Looking Forward** • Risk-based water network maintenance and investment plans being developed to improve resilience in key areas of London and Thames Valley • Transformation of the water network - development of an asset management strategy and investment plans that extend across AMP7-10 and strategically to 2100 • Implementation of an asset management system that is ISO 55000 certified • Continue work to enhance the understanding our assets through improved data collection • Programme underway to enhance the technical competence of operational teams • Implementation of an asset management system that is ISO 55001 certified

Wastewater treatment	
Description We may be unable to effectively remove and treat wastewater, or impact the environment should our processes, sewers and pumping stations fail **Movement in the period:** ↑ Rise in significant pollution incidents	**Mitigation** • Pollution incident reduction plan (PIRP) • EA agreed, national investment plan covering several AMPs • Go to Green programme • Enhanced monitoring of assets (asset health measures) • Mitigation plans for sites experiencing high load as a result of Covid-19 related population movements • Engagement with WaterUK regarding the future of sludge recycling **Looking Forward** • Risk-based wastewater network maintenance and investment plans • Development of an asset management strategy and investment plans that extend across AMP7-10 and strategically to 2100 • Development of an Asset management strategy that is ISO 55001 certified • Programme underway to increase technical competence of operational teams

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

<table>
<tr><th colspan="2">Supply Chain Management</th></tr>
<tr><td>

Description

We may be unable to effectively deliver day to day services, capital, operational or change programmes without a sustainable, resilient, cost-effective supply of goods, services, and high calibre third party contractors

Movement in the period: ↑

- Post Covid-19 impact on Supply Chains are likely to be significant in some areas as economic shocks emerge post governmental financial support.
- Likely to see more financial failure of businesses which may disrupt supply of goods and services
- Potential for shortages of some base products or componentry.
- Potential for price volatility in some supply markets

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Mitigation

- Enhanced monitoring of supply chain health in face of Covid-19 economic fallout
- Ensure appropriate supply contingencies are in place to deal with supply shocks, such as Brexit
- Support of small suppliers
- Contractual relationships built on achieving long-term value
- Contract management processes and ongoing performance review
- A supplier management framework to deliver ongoing value
- Compliance monitoring of all suppliers to ensure standards are met, adherence to policy and standards and with legislation (e.g. criminal facilitation of tax evasion; OJEU; Modern Slavery; GDPR, Health and Safety)
- Despite the uncertainty around Brexit, we continue to monitor and develop preparations, with ongoing monitoring of Government Brexit proposals

Looking Forward

- Collaboration with our supply chain to jointly design and deliver innovations that continuously drive towards a more sustainable service, including mitigating single source supply
- Improved engagement across the business to better understand future business needs to drive best value for the organisation.
- Enhance contract management capabilities and capacity within our business
- Further development of the supplier management programme to build best practice supplier relationship management (SRM) to deliver further innovation and supply chain improvement.
- Develop suite of supplier performance metrics
- Introduce category-based approach to procurement using market experts to drive solutions

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<table>
<tr><th colspan="2">Asset protection and cyber security</th></tr>
<tr><td>

Description

We may be unable to protect our assets from internal / external threats and vulnerabilities, due to inadequate or ineffective security controls protecting sites, data, systems, processes and people and as a result we may experience loss, or corruption of personal and business data, or significant disruption of our key business systems and services.

Movement in the period: →

No significant change in the risk profile during 2019/20

</td><td>

Mitigation

- Collaboration with CPNI and regulators (e.g. DWI and Defra) to drive improvements in approach to security across the water sector
- Technological security measures, including effective modern firewalls, patching policies, threat/vulnerability monitoring, identity management controls, multi-factor authentication, encryption of information,
- Physical and electronic site security controls, including site alarms and CCTV that are actively monitored
- Clear policies and procedures and mandatory security awareness training and communications.
- Regular risk assessments of physical security threats and measures
- Incident response process

Looking Forward

- Improving the quality and accuracy of user information in our systems.
- Limiting, controlling and monitoring the use of standard users and administrators
- Increasing the use of incident alerting tools, and tools to prevent the deliberate and accidental loss of data.
- Improving the quality and utility of data collected and collated within our incident monitoring solution
- A significant program of work to maintain and improve our physical and electronic site security controls including upgrading CCTV and hatch alarms on service reservoirs and boreholes.

</td></tr>
</table>

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased → No change in risk profile ↓ Risk profile has decreased

Legal and regulatory compliance	
Description Our processes may fail or may not effectively keep pace with changes in legislative and/or complex regulatory landscape leading to instances of non-compliance with our obligations. **Movement in the period:** → No significant change in the risk profile during 2019/20	**Mitigation** • The Board promotes high ethical standards of behaviour and ensures the effective contribution of all Directors. • Robust policies, processes and controls to understand and meet legal and regulatory compliance obligations, including standards and policies in third party contracts • Continued focus on delivery of leakage target and associated commitments, with regular reporting to customers, Ofwat and other stakeholders during the year • Data protection improvement programme aligned with IT transformation programme and migration of sensitive data onto new platforms • Policy framework and mandatory training programmes • Robust H&S culture and audit / review programme • Monitoring of consent and permit compliance • Horizon scanning for changes to the legal and regulatory environment with associated risk assessment of impacts to our business **Looking Forward** • Programme to improve the legal and regulatory compliance control environment and assurance activities

Credit and Liquidity	
Description We are unable to fund the business sufficiently in order to meet our liabilities as they fall due. **Movement in the period:** ↑ • Risk heightened due to broader economic uncertainty and potential impact on financial markets, in addition to increased economic pressure on our customer base affecting collections	**Mitigation** • Strong liquidity position supported by cash and available committed banking facilities • Agreed schedule of contributions to reduce pension deficit combined with significant overall deficit reduction driven by economic factors • Ongoing focus on credit ratings and financial covenant headroom in budget setting • Treasury strategy covering funding, hedging and cash management in place • Cost transformation programme delivering efficiency savings to the business • See viability statement (on pages 15 to 16) for further details on financial resilience **Looking Forward** • Further review of business plan and budget to achieve challenging cost saving targets

Financial review

Key financial performance indicators

	2020			Restated 2019[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Revenue (£m)	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6
Operating expenses (£m)	**(1,694.9)**	**(0.2)**	**(1,695.1)**	(1,665.6)	(0.3)	(1,665.9)
Operating profit (£m)	**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Net finance expense (£m)	**(1,012.4)**	**-**	**(1,012.4)**	(1,005.8)	-	(1,005.8)
Net (losses)/gains on financial instruments (£m)	**190.8**	**-**	**190.8**	(37.7)	-	(37.7)
Loss before tax (£m)	**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Loss after tax (£m)	**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Capital expenditure (£m)	**1,223.0**	**-**	**1,223.0**	1,206.6	-	1,206.6
Statutory net debt (£m)	**(19,676.7)**	**-**	**(19,676.7)**	(18,847.2)	-	(18,847.2)
Interest cover (PMICR) *	**1.7**	**n/a**	**n/a**	1.3	n/a	n/a
Gearing (%) **	**89.6**	**n/a**	**n/a**	88.4	n/a	n/a
Credit rating ***	**n/a**	**n/a**	**Baa2 stable**	n/a	n/a	Baa1 negative

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

* As defined on page 53.
** Ratio of covenant net debt to Regulatory Capital Value ("RCV"), defined on page 53. Reported ratios for 31 March 2019 are before restatements.
*** Representing the consolidated Corporate Family Rating assigned by Moody's for the Thames Water Utilities Limited securitisation group. Separately during March 2020, Moody's concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF's rating to B+ from BB-. The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF to issue debt via the capital markets.

Overall performance

Total loss before tax for the year was (£264.4) million (restated 2019: £531.4 million).

A summary of the movement in our total loss before tax is summarised below:	**2020 £m**
Restated loss before tax for the year ended 31 March 2019	**(531.4)**
Increase in underlying revenue	**71.5**
Increase in BTL revenue	**16.8**
Increase in operating expenses	**(29.2)**
Decrease in other operating income	**(14.0)**
Increase in net finance expense	**(6.6)**
Movement in (losses)/gains on financial instruments	**228.5**
Loss before tax for the year ended 31 March 2020	**(264.4)**

Revenue

Our revenue is generated from the bills we send our customers for the essential water and wastewater services we provide 24 hours a day, 365 days a year. The amounts we bill our customers is determined every five years, through a price review process, and is ultimately driven by the costs we expect to incur investing in and operating our business to deliver these essential services over that five year regulatory period.

Our revenue also includes amounts billed to our wastewater customers in respect of construction costs for the Thames Tideway Tunnel. As cash is collected, we pass it to Bazalgette Tunnel Limited ("BTL"), the independent company appointed to construct the Tunnel. As these amounts are not retained by us, we show them separately in our financial reporting.

Our total revenue for the year ended 31 March 2020 increased by £88.3 million to £2,172.9 million (2019: £2,084.6 million). The increase can be attributed to a £16.8 million increase in BTL revenue – driven by the phasing of construction work, in addition to an increase of £71.5 million in our underlying revenue.

Our underlying revenue for the year ended 31 March 2020 was £2,108.6 million (2019: £2,037.1 million). The increase can be attributed to the year-on-year allowed revenue as set out in the Final Determination issued by Ofwat at the start of the 2015-2020 five-year regulatory period. As we did for the year ended 31 March 2019, we have also returned money to customers during the year, this time through the leakage rebate (£30.7 million) and a voluntary deferral of revenue (£17.1 million) to keep bill increases to a minimum. While this total reduction of £47.8 million is more than the amount returned to customers early for the year ended 31 March 2019 (£40.3 million), the underlying allowed revenue on which we set our charges increased by £50.4 million. In addition, while we are under-recovered against this underlying allowed revenue (due to lower than forecast property numbers and consumption volumes compared to those assumed when our charges for the year were set) our under-recovery is smaller than that seen during the year ended 31 March 2019, which also contributes to the year-on-year increase.

Capital expenditure

During the year, we continued with our significant investment programme, investing a total of £1,223.0 million (restated 31 March 2019: £1,206.6 million) in our assets. The total investment by area is summarized in the table below.

Key projects within the above capital expenditure include:

- £47.0 million on our metering programme (water)
- £16.6 million on connecting our network to the Thames Tideway Tunnel
- £20.6 million on a customer relationship management and billing system
- £22.6 million on our scheme aimed to reduce the risk of flooding (waste)

Financing our investment

As we continue to invest heavily in the business, our statutory net debt (as defined in the accounting policies section) has increased by £829.5 million to £19,676.7 million (restated 2019[1]: £18,847.2 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £455.6 million to £14,729.3 million (2019: £14,273.7 million). Overall gearing (on a covenant basis), was 89.6% (2019: 88.0%), below the mandated maximum of 95.0%. Additionally, our PMICR in the current year is 1.7x (2019: 1.3x) and is above the mandated minimum of 1.05x.

In January 2019, a £227.3 million equivalent ($106.0 million 7-year, $131.0 million 10-year and €50.0 million 11-year) US Private Placement was priced, and funded in April 2019. During March 2019, a £189.2 million bilateral term loan facility (split equally over 8, 10 and 12 year maturities) was signed and funded in November 2019. During May 2019, a £175.0 million (£125.0 million 5-year and £50.0 million 3-year) bilateral term loan facility was signed and funded in June 2019.

In December 2019, a £300.0 million 3.5-year Class B term loan facility was signed out of which £150.0 million was drawn in March 2020.

In April 2020, a £350.0 million 20-year Class A bond was issued, followed by a further £40.0 million 30-year Class A private placement in May 2020. In May 2020 a £110.0 million 3.5-year Class A term loan facility was signed.

In July and August 2019, we extended the maturity of £4.0 billion fixed and floating interest rate swaps to 2030.

In October and November 2019, we transacted a number of index-linked swaps with a total notional value of around £2.1 billion with maturities of 5 years and 10 years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity. In November 2019, we also extended the maturity of £400.0 million notional of index linked swaps. For the 12 month period ended 31 March 2020, these derivative transactions reduced interest costs on a cash basis by £47.1 million although this will be offset by increased costs in later years.

Through the Company, £649.8 million of new Sterling debt was committed in November 2018 (of which £310.0 million was drawn at 31 March 2019 and £339.8 million in April 2019), using the bank and private placement markets. £400.0 million of this was used to refinance the £400.0 million bond guaranteed by the Company which was repaid in April 2019. The remaining amount, £249.8 million, was used to de-gear TWUL in April 2019.

The associated net finance expense has increased by £6.6 million to £1,012.4 million (restated 2019[1]: £1,005.8 million), which has been driven primarily by higher interest expense on intercompany borrowings partially offset by higher interest income on swaps. Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects. Under the IFRS accounting framework we capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £97.6 million this year (2019: £109.3 million).

Bad debt

Bad debt are the amounts billed that are considered to be uncollectable from customers. Our bad debt charge for the year ended 31 March 2020 was £73.6 million – an increase of £11.0 million compared to the previous year. Even though there was recovery of older debt that was previously considered uncollectable, following new debt collection initiatives put in place during the year, the net increase in the bad debt is primarily due to an additional provision of £15.3 million in respect of Covid-19, as detailed above. The current year bad debt charge is split between bad debt relating to current year bills (amounts that are not expected to be collected when invoiced) of £33.1 million, which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £40.8 million, which is shown within operating expenses.

Operating expenses

Our underlying operating expenses have increased by £29.3 million (2.0%) to £1,694.9 million from 2018/19, driven mainly by:

- an increase in employee costs of £20.2 million arising from increased resources within the business
- a £35.3 million increase in depreciation and amortisation, as the significant investment programme continues;
- 'exceptional' costs of £27.7 million relating to our recent company reorganisation and associated programme management costs; offset by
- a £19.1 million decrease in our rates costs, arising primarily from a large rebate due for overpayments in previous years; and
- a £31.2 million reduction in the wider operating costs, such as direct operating costs, consumables, hired and contracted costs and professional fees.

Financial instruments

Our borrowings, revenue and total expenditure ("totex") (as defined in the alternative performance measures section) are exposed to fluctuations in external market variables 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 £9.3 billion of derivative financial instruments (face value). A total gain on financial instruments of £190.8 million was recognised in the income statement during the year (2019: loss of £37.7 million). This is primarily driven by £277.8 million fair value gains on swaps, partially offset by a £34.9 million loss on cash flow hedge transferred from reserves and £52.1 million net foreign exchange loss on foreign currency loans. Note 7 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments

Credit rating

In March 2020, Moody's downgraded the Corporate Family Rating ("CFR") for our securisation group to Baa2 with a stable outlook (2019: Baa1 negative outlook).

Moody's also downgraded our securitisation group companies senior secured (Class A) debt rating to Baa1 with stable outlook (2019: A3 with negative outlook) and subordinated (Class B) debt rating to Ba1 with stable outlook (2019: Baa3 with negative outlook). In February 2020, S&P affirmed our securitisation group companies credit rating of BBB+ and BBB- (2019: BBB+ & BBB-) in respect of our senior secured (Class A) debt and our subordinated (Class B) debt respectively, with negative outlook (2019: negative outlook). We retain these investment grade credit ratings that allow us to access efficiently priced debt to fund our investment programme, whilst keeping bills affordable for our customers.

Separately during March 2020, Moody's concluded their review of ratings for the Group, moving KWF guaranteed debt from negative to stable outlook (still rated B1). During April 2020 Fitch downgraded KWF's rating to B+ from BB-. The directors do not consider that the change in rating reflects a material change in credit risk or impacts the ability of KWF to issue debt via the capital markets.

Dividends

The Company's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financability of the company's business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% dividend yield guidance, applied to Ofwat's notional company, the Thames Water Utilities Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

No dividends or interest on shareholder debt was paid to external shareholders in 2019/20. The shareholders of the Company have supported the operating Company Board's decision to not pay dividends over and above those required by the Kemble Water Holdings Group to service group debt obligations and working capital requirements during the 2015-2020 regulatory period, while investment is prioritised to improve service to customers.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During 2019/20, we contributed £13.1 million (2019: £11.0 million) to the defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2020 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net retirement benefit obligation for the three schemes as at 31 March 2020 was £121.6 million (2019: £285.3 million), which includes a pension deficit of £209.1 million (2019: £338.8 million) for the TWPS scheme and a pension deficit of £7.0 million (2019: surplus of £7.7 million) for the SUURBS pensions scheme offset by a pension surplus of £94.5 million (2019: £45.8 million) for the TWMIPS scheme. We have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. The reduction in the deficit is mostly driven by a change in actuarial assumptions primarily driven by external market factors, such as an increase in the discount rate.

Capital, financial and actuarial risk management policies and objectives

The Group's operations expose it to a variety of capital, financial and actuarial risks.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The key objectives of the funding strategy are to maintain customer bills at a level which is both affordable and sustainable, retain the Group's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations.

The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The capital structure of the Group consists of net debt and equity as disclosed in note 19. The Group's net debt is comprised of cash and cash equivalents, short-term investments, bank loans and intercompany loans from subsidiary undertakings that issue secured bonds.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used, where appropriate, to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. Financial instruments entered into by the Group include RPI linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The principal operating company of the Group, TWUL, is a regulated water company with RPI linked revenues. Therefore the Group's index-linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Group also uses derivatives to manage inflation risk on non-index-linked borrowings.

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Group. Further disclosures regarding financial instruments can be found in note 19.

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

TWUL has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, TWUL's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings and other financial instruments are disclosed in notes 18 and 19, respectively.

Actuarial risks

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 23.

The trustees continue to control the level of investment risk within the schemes by reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees also review the risk exposures taking into consideration the longer term objectives of the respective schemes.

Viability statement

The Directors have assessed the longer-term viability of the Group over a ten year period to 31 March 2030. Due to the prolonged look-forward period, the level of certainty of the assumptions used reduces the further into the future we look. The high degree of confidence for the first few years of AMP7, is followed by moderate confidence in the remaining years of AMP7 and a lower level of confidence for AMP8. In spite of the reduced confidence levels in the later years of the look forward period, the Directors continue to consider the ten year period to be appropriate given the long term nature of the business, and the necessity to adopt a sustainable approach.

The Directors have considered the current position of the Group, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and its ability to maintain a strong investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 5 to 11.

The performance of the Group is mainly dependent on the appointed activities of TWUL which is responsible for the supply of water and wastewater services to customers in London, the Thames Valley and surrounding area. As such, this assessment takes into account the long-term viability of TWUL where the Directors of TWUL have a reasonable expectation that TWUL will be able to operate within its financial covenants and maintain sufficient liquidity facilities to meet its funding needs over the same ten year assessment period.

As part of the Group's financial resilience assessment, management has designed a number of 'stress tests' which subject the Group's existing model, that underlies the Group's planning processes, to a number of severe but plausible scenarios and tests its sensitivity to these. The stress tests consider factors, both individually and in combination. These include:

- Fluctuations in interest rates, which could affect the cost of financing the business;
- Fluctuations in inflation rates, which could affect the cost of investment and day-to-day operations, in addition to impacting amounts we bill our customers;
- Increase in operating and capital expenditure, which would increase costs and reduce cash flows;
- Operational underperformance and the crystallisation of certain regulatory risk events leading to regulatory and legal penalties / fines; and
- Inability to secure new finance and/or delays in raising finance, reducing the cash available to deliver our investment programme.

The assessment showed, in the absence of any mitigating actions, that there are severe but plausible downsides which indicated the need to undertake mitigating actions to avoid non-compliance of financial covenants. It should be recognised that such pressure on the Group's viability is based on hypothetical sensitivities where the probability of these scenarios occurring is uncertain. The analysis showed pressures crystallising at a point in time well into the assessment period, thereby providing sufficient time to implement any mitigating actions if so required. As part of its risk management, the Directors regularly monitor compliance of financial covenants so as to ensure any issues are appropriately addressed to avoid or reduce the impact of occurrence of the underlying risk.

The Directors believe there are a number of options available, these include but are not limited to the following:

- Modifying or temporarily waiving existing financial covenants and debt amortisations;
- Improving liquidity by increasing the size of its existing £110 million bank facility. This would extend the period over which the Company is able to meet the interest payments of its external debt in the event that there are no distributions from TWUL or when the Company exceeds certain financial covenants. Currently the facility is expected to cover more than 18 months of interest payments; and
- Raising additional capital in the form of deeply subordinated instruments and / or equity from shareholders.

The viability of the Group is heavily influenced by the Company's ability to service external (non-shareholder) debt. Noticeably, these costs have been met by distributions from TWUL. In circumstances where distributions were not made available by TWUL, the Company, as mentioned above, has access to a £110 million bank facility which is sufficient to cover more than 18 months of interest payments. In the event where the absence period of such distributions exceeded that provided by the bank facility, the Company would be reliant on additional support from its shareholders to meet its obligations. The Directors of the Company have discussed this matter with the shareholders, whom they represent, and are confident that support would be available if required.

Taking account of the range of scenarios, the Directors consider that the Group has sufficient mitigating actions available to address particular circumstances and events, should they arise. The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. This conclusion has been made assuming capital market continue to operate under normal market conditions and that no renationalisation of the water sector take place over the assessment period.

s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

> "A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:
>
> (a) the likely consequences of any decision in the long term;
>
> (b) the interests of the Company's employees;
>
> (c) the need to foster the Company's business relationships with suppliers, customers and others;
>
> (d) the impact of the Company's operations on the community and the environment;
>
> (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
>
> (f) the need to act fairly as between members of the company."

On appointment, as part of their induction of becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group's main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as an intermediate holding company within the Kemble Water Holdings Limited group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited. During the year, items that the Board of Directors have approved include the sale of direct subsidiary company, Thames Water Insurance Company Limited, updates of debt issuance programme documentation and renewal of facilities, interest rate hedge reprofiling, reviewing the impact of the price control review, and the approval of the Company's annual report and financial statements. The

Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers.

Likely consequences of decisions in the long term

Much of the Board's decision making is focussed around ensuring that the Group's business is sustainable in the long term. The consideration of the impact to Ofwat's price control review and the Group's response is consistent with that objective.

Stakeholder management

The Company's stakeholders are considered to be external debt investors, shareholders and other companies within the Kemble Water Holdings group. The Company places considerable importance on communication with investors and through a Group-wide approach, regularly engages with them on a wide range of topics. The Group's Head of Corporate Finance is responsible for facilitating communication with investors and analysts and maintains an active investor relations programme. Wider stakeholder engagement occurs regularly throughout the year, both formally and informally.

Community and Environment

The Board supports the Group-wide commitment to seeking to continually improve the delivery of water and wastewater services in the most sustainable way, which means complying with regulation, delivering public value and leaving the environment in a better state than we found it at the end of each regulatory period.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 29.

Approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

P Noble
Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8D

Directors' report

The Directors present their annual report and the audited financial statements of Kemble Water Finance Limited (the "Company") and the audited consolidated financial statements of its group ("the Group") for the year ended 31 March 2020. These are the Group and Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' report includes certain disclosures required under the Companies Act 2006.

The Directors consider that the annual report and audited financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess both the Group's and Company's position and performance, business model and strategy.

The Directors have carried out a robust assessment of the principal risks and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 5 to 11.

The Directors have voluntarily complied with the Disclosure and Transparency Rules ("DTR"), to the extent that these can be reasonably applied to the Group.

The registered number of the Company is 05819317 (England and Wales).

Principal activity

The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Details of the associated and subsidiary undertakings of the Group at 31 March 2020 has been provided in the notes to these financial statements.

Future outlook

The future outlook of the Group is discussed in the strategic report.

Directors

The Directors who held office during the year ended 31 March 2020 and to the date of this report were:

M McNicholas	(appointed 4 April 2019)
K Bradbury	(resigned 1 July 2019)
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
G Pestrak	
G Tucker	(resigned 20 May 2019, appointed 21 May 2020)
M Bloch-Hansen	
E Howell	(resigned 8 April 2020)
P Mulholland	(resigned 20 May 2019)
C Pham	
F Sheng	
T Song	(resigned 5 March 2020)
J Cogley	(appointed 20 May 2019)
B Moncik	(appointed 20 May 2019)
I Grund	(appointed 1 July 2019)
P McCosker	(appointed 14 July 2019)
M Wang	(appointed 5 March 2020)
H De Run	(appointed 8 April 2020)
Y Deng	(appointed 21 May 2020)

During the year under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service (2019: none). Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	**Alternate Director**
J Divoky	C Pham
P Noble	H De Run
F Sheng	M Wang
A Hall	I Grund
M Bloch-Hansen	I Grund
G Lambert	P McCosker
M McNicholas	I Grund
G Tucker	Y Deng

Directors' indemnities

Subject to the conditions set out in Section 234 of the Companies Act 2006 and subject to shareholder approval the Group has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies of the Group and these remain in force at the date of this report.

Share capital

As at 29 June 2020, the Company's issued share capital was 1,000,001 ordinary shares of £1 each amounting to £1,000,001. There were no movements in the Company's share capital during the year. Further details of the Company's share capital can be found in note 22.

Dividends

The Company's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business's current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid, are required to ensure that:

- Payment of a proposed dividend should not impair short term liquidity or compliance with our covenants
- Payment of a proposed dividend should not impair the longer term financability of the company's business
- Assessment of the impact that payment of the dividend may have on all stakeholders including employees, pension members and customers
- Our financial performance, that underpins the opportunity to pay the dividend, is as a result of operational performance that meets the level required of a supplier of essential services
- If a net dividend is declared above Ofwat's 5% dividend yield guidance, applied to Ofwat's notional company, the Board will consider whether the additional returns result from performance (including progress towards degearing) that has benefited customers and may therefore be reasonably applied to finance a dividend.

The Group has not paid any dividends during the current or preceding financial year and do not recommend the payment of a final dividend (2019: £nil).

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom. The Group had two wholly owned subsidiary entities incorporated in the Cayman Islands. These companies act solely as a financing vehicle for TWUL and their operations are conducted entirely within the UK. These companies have always been resident in the UK for tax purposes. During the prior year Group dissolved the Cayman Islands subsidiaries.

Going concern

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the strategic report.

The Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the Group is well placed to manage its business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. However, in light of the current situation, the Directors have sought a letter of support from the Company's ultimate parent company, Kemble Water Holdings to support the going concern basis.

The Directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position as at the year end, that both the Group and Company have sufficient resources for their present requirements and are able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. This is based upon a review of the Group's and Company's financial forecasts for the forthcoming financial year, consideration of the Group's compliance with its covenants, and the cash, current asset investments and available facilities of the Group and Company.

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Corporate Governance

Our system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for remainder of the asset management plan ("AMP").
- Performance reporting – the Board and shareholders receive monthly management reports, including an overview of key performance metrics.
- System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk;
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

Our Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks.

Financial risk management

During the period the Company had access to the Interim Executive Chairman and the Executive Team of TWUL, who also manage the wider Kemble Water Holdings Limited group ("KWH Group") on a day-to-day basis on behalf of the Directors of individual group companies. The Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Group's operations expose it to a variety of financial risks and information on the use of financial instruments by the Group to manage these risks is disclosed in the strategic report.

Political donations

No political donations were made by the Group or Company during the current or preceding year.

Charitable donations

Charitable donations of £0.3 million were made by the Group during the year (2019: £0.3 million).

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges and also provide specialist technical support to the business.

The development and application of new techniques and technology is an important part of the Group's activities. The Group is a member of UK Water Industry Research ("UKWIR") and participates and benefits from its research programme. The UKWIR research programme covers water, wastewater, sustainability, regulation, customers and asset management. In addition, we carry out research and development in-house, including solutions to improve the resilience of our water supplies, developing insight into the deterioration of critical assets, novel approaches to tackle leakage and pollutions from our water and wastewater networks respectively, and wastewater treatment processes to allow us to meet increasingly stringent regulatory requirements.

Expenditure on research and development totalled £3.8 million for the year (2018/19: £3.9 million).

Employee engagement

Over 84% of the Group's employees took part in our annual survey, our highest ever response rate, with an overall engagement score of 64%. This demonstrates that our employees are willing to express how they are feeling about working at Thames – both the good aspects and what we can do to improve.

Employees commented favourably on health and safety, diversity and inclusion and work/ life balance as well as the fact that they are proud to work for Thames Water.

We continuously seek to listen to and act on feedback from our employees, putting voices into action throughout the year.

Earlier in the year the Board approved the appointment of Ian Pearson as a designated Non-Executive Director to take accountability for ensuring that workforce issues are appropriately considered at the Thames Water Board. Ian is supported in this by the other members of the Board who actively participate in engagement activities.

To support the Board, we expanded our engagement approach through regular engagement sessions across a range of functions and sites, providing employees with greater opportunities to meet with and be listened to by Board members.

Our Executive team continue to regularly meet and listen to employees in person as well as reviewing feedback from a variety of other sources. This includes formal channels such as our Hear For You survey and joint meetings with our recognised trade unions (UNISON, GMB and Unite), as well as our 'stop' mailbox, yammer communications and local feedback channels. This feedback is considered and included in Executive decision making.

Our lead engagement champions for each area of the business additionally came together along with representatives from each of the three Trade Unions recognised by Thames Water for our first bi-annual employee engagement forum chaired by NED Ian Pearson. The forum discussed what works well in addition to what else we can do to continually improve.

Equal opportunities, diversity and inclusion and disability confident

People are at the heart of our group. We value and harness the unique skills, experiences and backgrounds that each individual brings.

Our ongoing commitment to maintaining an inclusive workplace enables us to attract and retain diverse talent that is representative of our communities. This supports the growth of a great place to work where everyone can flourish in helping us to succeed and drive the right outcomes for our customers, business and the environment.

Over the past year we have seen an increase in minority talent in management and leadership positions, and a year-on-year reduction in our mean gender pay gap.

Additionally, we were honoured to become the first water company to be awarded Disability Confident Leader status in July. This is the highest award in the UK and is in recognition of our continued success in enabling access improvements, the implementation of "adjustment passports" to further support employees in the workplace and the implementation of work experience for people who are not in education, employment or training as well as those with disabilities.

Furthermore, in January we received the results of our Stonewall Workplace Equality Index, a leading benchmarking tool for LGBT inclusion in the workplace. Our target was to be in the Top 250 so we were delighted to jump an incredible 113 places to rank 189th out of more than 500 companies.

Energy Management and Operational Greenhouse Gas Emissions

In 2019/20 we made significant progress reducing our greenhouse gas emissions and improving our energy performance. We achieved a reduction in our gross operational emissions of 9% and increased our renewable energy generation from sludge by 20 GWh to 313 GWh. Of our total 1,679 GWh of energy consumption, we have reduced our electricity consumption by over 16GWh to 1,305GWh. Together with our other renewables (wind and solar photovoltaics (PV)) we have increased our supply from on-site renewables in the year ended 31 March 2020 from 22% to 24%.

Where we're not able to produce our own renewable electricity, we source Renewable Energy Guarantees of Origin ("REGO") accredited renewable electricity through contracts with our suppliers. As a result, we have achieved our emissions targets for 2019/20 and for AMP6, for both water and wastewater. Our ambition for operational emissions is to reach Net Zero Carbon by 2030.

Emissions

During 2019/20, we reduced our gross operational emissions by 49.5 ktCO2e to 494.9 ktCO2e. 32 kTCO2e through reduced consumption and the generation of grid electricity from lower carbon sources (decarbonization). Our net operational emissions reduced by 17.8 ktCO2e to 257.9 ktCO2e a fall of 6%. 2.8kTCO2e of this reduction was achieved thanks to the decarbonization of the electricity transmission network. We have achieved numerous successes, realising emissions reductions through a combination of actions including;

- a 7.4 kTCO2e reduction by increasing methane capture from our sludge digestion at two sites;
- a 6% reduction in our emissions from fossil fuels saving 2.6kTCO2e on our sites, by recovering more of our process heat requirements from our renewable CHP engines, and using less diesel in our standby generators;
- our CHP engines exporting more renewable electricity when we did not need it ourselves, which generated an additional 0.6kTCO2e carbon offset;
- changing how we deliver our digital capabilities, with a 1kTCO2e reduction in emissions from our outsourced IT partners.
- rolling out new videoconferencing capabilities in Autumn of 2019, we achieved a 15% reduction in emissions from private and public transport 0.4kTCO2e.

We have also reduced the emissions associated with each megalitre (Ml) of water and wastewater we supply and treat; our emissions intensity.

Water: 19.6 $kgCO_2e$ per Ml down 1.0 $kgCO_2e$ per Ml

Wastewater: 111.9 $kgCO_2e$ per Ml down 15.1 $kgCO_2e$ per Ml

	$kTC0_2e$
Scope 1	205.7
Scope 2	232.9
Scope 3	56.3
Gross	**494.9**
Net-offs	(237.0)
Net	**257.9**

Energy

Supported by our recently ISO certified Energy Management System we have delivered energy efficiency improvements across both water and wastewater operations. We have reduced the net electricity intensity for each megalitre of water and wastewater we supply and treat.

Water: 525 kWh/Ml down 1%

Wastewater: 254kWh/Ml down 9%

This was achieved through a series of actions including efficiencies and generation increases at several sites, notable examples being;

- Crossness STW which has increased its renewable electricity generation from sludge by over 8.5GWh (27%) since March 2019 by expanding and optimising the capacity of its THP sludge treatment process.
- At Beckton STW the site team have optimised its secondary treatment, reducing its total consumption by 2.5 GWh since March 2019.
- We have invested in variable speed drives at our Amwell Marsh Water Pumping Station which has improved the performance and saved 290MWh, an amazing 49% reduction!
- At Aldershot STW we have invested in new high efficiency air blowers, achieving an 8% (180MWh) year-on-year reduction.

Emissions Methodology

We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department of Environment, Food and Rural Affairs (Defra). Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually reflecting the six major greenhouse gases and the Defra Environmental Reporting Guidelines.

The emissions reported are associated with the operational emissions of the whole regulated operational business including our head offices and include:

- Scope 1 (Direct emissions);
- Scope 2 (Indirect energy use emissions);
- Scope 3 (Emissions from outsourced services and business travel); and
- Carbon intensity ratios per megalitre day (Ml/d) of service delivered.

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO2e").

Insurance

The Company maintains a comprehensive insurance programme, renewed annually. This includes cover for a range of insurance classes including Public Liability, Property, Employers Liability, Construction, Motor, and Directors' & Officer Liability cover.

The insurance coverage has been reviewed and approved by an independent insurance adviser retained to ensure that the Company's insurances: (i) have regard to the risk being covered; and (ii) address the interests of the Company

Funding

In January 2019, a £227.0 million equivalent ($106.0 million 7-year, $131.0 million 10-year and €50.0 million 11-year) US Private Placement was priced, and funded in April 2019. During March 2019, a £189.2 million bilateral term loan facility (split equally over 8, 10 and 12 year maturities) was signed and funded in November 2019. During May 2019, a £175.0 million (£125.0 million 5-year and £50.0 million 3-year) bilateral term loan facility was signed and funded in June 2019.

Through the Company, £649.8 million of new Sterling debt was committed in November 2018 (of which £310.0 million was drawn at 31 March 2019 and £339.8 million in April 2019), using the bank and private placement markets. £400.0 million of this was used to refinance the £400.0 million bond guaranteed by the Company which was repaid in April 2019. The remaining amount, £249.8 million was used to de-gear TWUL in April 2019.

In December 2019, a £300.0 million 3.5-year Class B term loan facility was signed out of which £150.0 million was drawn in March 2020.

In April 2020, a £350.0 million 20-year Class A bond was issued, followed by a further £40.0 million 30-year Class A bond in May 2020. In May 2020 a £110.0 million 3.5-year Class A term loan facility was signed.

In October and November 2019, we executed a number of index-linked swaps with a total notional value of around £2.1 billion with maturities of 5 years and 10 years. These swaps help manage inflation risk and effectively convert existing debt which was issued at a fixed nominal rate into a fixed real rate with the underlying principal amount linked to inflation. All of the swaps transacted are structured to pay the inflation accretion amount at maturity. In November 2019, we also extended the maturity of £400.0 million notional of index linked-swaps.

Disclosure of information to the auditor

In accordance with Section 418 of the Companies Act 2006, the Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Independent auditors

Pursuant to section 487 of the Companies Act 2006, the auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 29 June 2020 and signed on its behalf by

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of Directors' responsibilities in respect of the annual report, strategic report, the Directors' report and the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group financial statements and IFRSs as adopted by the European Union have been followed for the company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the company's financial statements published on the ultimate parent company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the Company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

P Noble
Director

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Report on the audit of the financial statements

Opinion

In our opinion, Kemble Water Finance Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2020 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2020; the consolidated income statement, the consolidated statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the Accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the directors.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the company.

Other than those disclosed in note 2 to the financial statements, we have provided no non-audit services to the group or the company in the period from 1 April 2019 to 31 March 2020.

Our audit approach

Overview

- Overall group materiality: £30.0 million (2019: £30.0 million), based on 0.15% of total assets.
- Overall company materiality: £49.1 million (2019: £103.7 million), based on 1% of Total assets.

- Two significant components within the group are subject to a full scope audit.
- Two additional entities were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group.
- For the company only accounts and the significant components we tested both the design and operation of relevant business process controls and performed substantive testing over material financial statement line items.

- Provision for bad and doubtful debts (group only)
- Classification of costs between capital and operating expenditure (group only)
- Valuation of financial derivatives (group only)
- Valuation of retirement benefit obligation (group only)
- Impact of COVID-19 (group and company)
- Investment in Subsidiaries (company only)

	• Carrying value of Goodwill (group only)

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Capability of the audit in detecting irregularities, including fraud

Based on our understanding of the group and industry, we identified that the principal risks of non-compliance with laws and regulations related to Water Industry Act 1991, Water Resources Act 1991, Environment Act 1995 and Competition Act 1998, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the preparation of the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting journal entries to increase profits or reclassify costs, management bias in accounting estimates especially in provisions and expected credit losses, or excluding transactions from underlying or free cash flow metrics. Audit procedures performed by the engagement team included:

- Challenging assumptions and judgements made by management in determining significant accounting estimates and independently reviewed and tested assumptions in relation to such judgements and estimates along with the related disclosures in the financial statements;
- Identifying and testing journal entries, in particular journal entries posted with unusual account combinations; and
- Discussions and enquiries of management, internal audit function and legal counsel

There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	***How our audit addressed the key audit matter***
Provision for bad and doubtful debts The recoverability of customer debts is always a key issue for water companies. Management uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £187.8m (2019: £176.6m). The provision includes an additional overlay in the current year to reflect the potential impact of COVID-19 pandemic, which involves a high degree of estimation uncertainty. Management makes key assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance and consideration of the actual write-off history. These historical trends are used as a basis to assess expected credit losses in the future. These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions. Management have also considered plausible downside scenarios in assessing the impact of COVID-19 on the receivable balance. Refer to page 13 of the Strategic report and note 15 of the financial statements. This risk is applicable to the group only.	We evaluated the model used to calculate the provision and confirmed its consistency with prior years (excluding the COVID-19 overlay) and the appropriateness of the model. We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year. We re-performed the calculations used in the model and ensured appropriateness and accuracy of these calculations. We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to ensure appropriateness of the aging classifications used in the model. We assessed the various downside scenarios considered by management on account of COVID-19 and tested the additional overlay provision. We challenged management's assumptions with regards to the impact of COVID-19 on the future cash flows and recoverability of trade receivables based on our understanding of the business and industry knowledge. In addition, we performed sensitivity analysis on the downside scenarios considered by management. The result of the sensitivity analysis showed that the downside scenario considered by management is reasonable and did not have a material impact on management's assessment. We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and

	estimates involved in the provision for bad and doubtful debts and the impact of COVID-19 on trade receivables. Overall we consider that the provision and disclosure for bad and doubtful debts is reasonable as at 31 March 2020.
Classification of costs between capital and operating expenditure Additions to Assets under construction (AUC) during the period amounted to £1,105bn (2019: £1,098bn). Within this is £192m (2019:189m) of own works capitalised and £94.2m (2019: 102.7m) of borrowing costs incurred with the remainder being external costs incurred. There is a high degree of judgement applied when allocating costs to operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the group and can be measured reliably. There is a risk that costs capitalised do not meet these criteria. Refer to note 12 of the financial statements. This risk is applicable to the group only.	We have tested the controls regarding the assessment by management of each project as being either operating or capital in nature. For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements. We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately. We tested the borrowing costs calculation and the qualifying projects involved. We have understood the methodology management have used to determine the value of spend on leak detection capitalised in the current year and that has been restated in respect of previous years. We have sample tested the underlying costs related to leak detection spend. Our procedures over own works capitalised included: We tested the control process over assessing the level of spend incurred by each cost centre that should be capitalised. We obtained management's assessments of what spend by cost centre should be capitalised and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias. We performed sample testing at a cost centre level and challenged management as to the nature of these costs and whether they meet the capitalisation criteria Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2020.
Valuation of financial derivatives The group derivative position as at 31 March 2020 was an asset of £374m (2019: £162m) and liability of £1,061m (2019: £1,262m). The net derivative fair value as at 31 March 2020 was a liability of £687m (2019: £1,100m). The valuation of derivatives is designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities. Refer to page 14 of the Strategic report and note 19 of the financial statements. This risk is applicable to the group only.	We obtained independent confirmations from the external counterparties to confirm the existence and terms of all contracts held. Engaged with our specialist valuations team who have performed independent valuations for a sample of the derivative population by applying sampling methodology to determine an appropriate number of derivatives to test. The tested population had a fair value of £743m. We also performed an analytic review of the derivative position by calculating expected movements in derivatives using independent sources of exchange rates and interest rates. We tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties. Overall, we consider that the valuation method and judgements management have used are reasonable and the fair values recorded at the balance sheet date are appropriate.
Valuation of retirement benefit obligation Valuation of total scheme liabilities £2,515.7m (2019: £2,606.4m).	We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities.

The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability. The pension liability and disclosures are also an area of interest to key stakeholders; this is especially so in the current year in light of the COVID-19 crisis, the new triennial valuations completed and the change of administrator. Refer to page 14 of the Strategic report and note 23 of the financial statements. This risk is applicable to the group only.	We benchmarked the various assumptions used (e.g. discount and inflation rate) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to the prior year end. The last formal triennial valuation took place as at 31st March 2019. However, the year end liabilities have been calculated using a roll forward approach based on cash flows from the 2016 valuations for the Schemes adjusted for the experience noted in the 31 March 2019 valuation. In order to get comfortable with this approach and conclude that the accounting liabilities are reasonable, we have performed an independent roll forward from the valuation results to the accounting results. We assessed the impact on COVID-19 on the scheme assets by ensuring none had any material uncertainty over the valuation. COVID-19 had no impact on the financial assumptions as these were all based on market conditions at the reporting date and the impact of the pandemic at that time would have been included in bond yields and inflation curves. Overall, we concur that the methodology and assumptions used by management at 31 March 2020 are reasonable.
Impact of COVID-19 The COVID-19 pandemic is considered to have a significant impact on specific items in the Annual report. The specific areas of the financial statements where we have assessed the impact of COVID-19 are as below: - Going concern- COVID-19 is likely to have a potential impact on the group's cash flows, macro-economic impact (financial markets) and in turn the ability of the group to access the financial markets. - Recoverability of trade receivables - Valuation of Pension Assets — In particular consideration of any Property backed Investments and impact on valuations performed by investment managers - Disclosure of the impact on the business and impact on any Alternative Performance Measures (APMs)in the financial statements We have also incorporated the guidance for auditors issued by the FRC regarding Covid-19 and applied this where appropriate. Refer to page 5 to 11 of the Strategic report and note 31 of the financial statements. This risk is applicable to both the group and company.	We have considered the impact of COVID-19 on various areas of the Annual report and performed procedures to address the risk around the impact of COVID-19. We have set out our responses to the risk in respective areas of the financial statements as below: - Going concern: We have understood how management have factored in the potential impact of COVID-19 on future cash flows and the potential impact of this on covenant compliance including; lower non-household consumption, delays in cash collection of household revenue and impacts on the cost base. In doing this we have validated management's assumptions by looking at the actual impact on revenue and operating expense cash flows since year end. Further we have assessed the availability of financial resources and the ability of the Group to absorb potential adverse circumstances over the going concern period. - Recoverability of trade receivables- Refer Key Audit Matter "Provision for bad and doubtful debts" above - Valuation of Pension Assets — Refer Key Audit Matter "Valuation of retirement benefit obligation" above - Disclosure of the impact on the business and impact on any Alternative Performance Measures (APMs)in the financial statements- We have audited the disclosures provided in the financial statements and assessed the reasonableness of such disclosures. As a result of the procedures performed we consider that the disclosures are reasonable and appropriate. Overall, we consider management's assessment of the impact of COVID-19 on the financial statements to be reasonable.
Investment in Subsidiaries Recoverability of Investments	We have obtained management's model and verified the mathematical accuracy of calculations used.

Investments at 31 March 2020 were £4,292.3m (2019: £4,292.3m) and are required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to note 33 of the financial statements. This risk is applicable to the company only.	We have reviewed the assessment management has performed to determine the premium on RCV and determined that the assessment performed is reasonable We have traced net debt used in management's assessment at 31 March 2020 to the audited financial statements. We have verified the RCV used by management to the latest Ofwat publication. Overall we consider the management's assessment that there is no impairment at 31 March 2020 to be reasonable.
Carrying value of Goodwill Goodwill at 31 March 2020 is £1,468.1m (2019: £1,4681.1m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group. Refer to note 9 of the financial statements. This risk is applicable to the group only	Our procedures included: We have obtained management's assessment and verified the mathematical accuracy of calculations used and confirmed that significant headroom exists at 31 March 2020. We have reviewed the assessment management has performed to determine an appropriate premium on RCV to apply in its assessment and determined the premium determined is reasonable. We have verified how management have determined the equity value of the group from the deemed total value of the group and that in calculating this that management have deducted statutory net debt, which we have reconciled to the audited group financial statements. We have also verified the RCV used by management to the latest Ofwat publication. Overall we consider the management's assessment that there is no impairment at 31 March 2020 to be reasonable.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over material financial statement line items. Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we determined that the components requiring a full scope audit were Thames Water Utilities Limited and Thames Water Utilities Finance plc. As the main trading and financing entities of the group, these provide sufficient coverage across the majority of balances. Two additional entities were considered in scope for certain financial statement line items, in order to obtain sufficient coverage of the cash, borrowings and finance expenses of the group. We additionally obtained full coverage over the consolidation journal entries for the group**.**

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	*Company financial statements*
Overall materiality	£30.0 million (2019: £30.0 million).	£49.1 million (2019: £103.7 million).
How we determined it	0.15% of total assets.	1% of Total assets.
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore group materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.15% of total group assets was deemed to be most appropriate.	Total assets has been determined to be the appropriate benchmark for both significant components of the group, therefore company materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical, in the year the company listed private placement debt in Ireland for the first time, so became an EU PIE.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £25.5 million and £28.5 million.

We agreed with the directors that we would report to them misstatements identified during our audit above £3.0 million (Group audit) (2019: £1.5 million) and £4.9 million (Company audit) (2019: £5.2million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons. The increase in the reporting threshold reflects the understanding of audit findings we gained last year, our first year as auditors, and was accepted by the directors.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 March 2020 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities in respect of the financial statements set out on page 24, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

We were appointed by the directors on 27 June 2018 to audit the financial statements for the year ended 31 March 2019 and subsequent financial periods. The period of total uninterrupted engagement is 2 years, covering the years ended 31 March 2019 to 31 March 2020.

Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
29 June 2020

Consolidated income statement
For the year ended 31 March

	Note	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated 2019[1] Underlying £m	Restated 2019[1] BTL £m	Restated 2019[1] Total £m
Revenue	1	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6
Operating expenses excluding net impairment losses on financial and contract assets [1,2]	2	**(1,654.3)**	**-**	**(1,654.3)**	(1,636.7)	-	(1,636.7)
Net impairment losses on financial and contract assets	2	**(40.6)**	**(0.2)**	**(40.8)**	(28.9)	(0.3)	(29.2)
Total operating expenses	2	**(1,694.9)**	**(0.2)**	**(1,695.1)**	(1,665.6)	(0.3)	(1,665.9)
Other operating income	4	**79.4**	**-**	**79.4**	93.4	-	93.4
Operating profit		**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Finance income	5	**73.2**	**-**	**73.2**	18.8	-	18.8
Finance expense	6	**(1,085.6)**	**-**	**(1,085.6)**	(1,024.6)	-	(1,024.6)
Net gains/(losses) on financial instruments	7	**190.8**	**-**	**190.8**	(37.7)	-	(37.7)
(Loss)/profit on ordinary activities before taxation		**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Taxation on loss/(profit) on ordinary activities	8	**(61.2)**	**(6.1)**	**(67.3)**	96.0	(2.8)	93.2
(Loss)/profit for the year		**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)

The group activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

[2] Operating expenses for the year ended 31 March 2020 includes £27.7 million (31 March 2019: £nil) of costs that are considered to be exceptional. A summary of exceptional costs is included within note 2.

Consolidated statement of other comprehensive income

For the year ended 31 March

	Note	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated 2019[1] Underlying £m	Restated 2019[1] BTL £m	Restated 2019[1] Total £m
(Loss)/profit for the year		**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Other comprehensive (loss)/income							
Will not be reclassified to the income statement:							
Net actuarial losses on pension schemes	23	**168.9**	**-**	**168.9**	(23.4)	-	(23.4)
Deferred tax (charge)/credit on net actuarial gain/loss including impact of deferred tax rate change	8	**(27.0)**	**-**	**(27.0)**	4.3	-	4.3
May be reclassified to the income statement:							
Losses on cash flow hedges		**(4.1)**	**-**	**(4.1)**	(8.9)	-	(8.9)
Cash flow hedges transferred to income statement	7	**34.9**	**-**	**34.9**	34.2	-	34.2
Deferred tax charge on cash flow hedge gains including impact of deferred tax rate change	20	**(3.0)**	**-**	**(3.0)**	(4.3)	-	(4.3)
Other comprehensive (loss)/income for the year		**(169.7)**	**-**	**(169.7)**	1.9	-	1.9
Total comprehensive (loss)/income for the year		**(220.0)**	**58.0**	**(162.0)**	(480.7)	44.4	(436.3)

All of the Group's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The accounting policies and notes on pages 40 to 107 are an integral part of these financial statements.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Consolidated statement of financial position

As at 31 March

		2020			Restated 2019[1]		
	Note	**Underlying £m**	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current assets							
Goodwill	9	**1,468.1**	**-**	**1,468.1**	1,468.1	-	1,468.1
Interest in joint venture	10	**-**	**-**	**-**	-	-	-
Intangible assets	11	**273.7**	**-**	**273.7**	218.2	-	218.2
Property, plant and equipment	12	**16,328.7**	**-**	**16,328.7**	15,776.8	-	15,776.8
Right of use asset	13	**52.3**	**-**	**52.3**	54.2	-	54.2
Trade and other receivables	15	**71.1**	**159.0**	**230.1**	44.2	101.9	146.1
Pension asset SUURBS	23	**-**	**-**	**-**	7.7	-	7.7
Pension asset TWMIPS	23	**94.5**	**-**	**94.5**	45.8	-	45.8
Derivative financial assets	19	**374.3**	**-**	**374.3**	162.3	-	162.3
		18,662.7	**159.0**	**18,821.7**	17,777.3	101.9	17,879.2
Current assets							
Inventories and current intangible assets	14	**13.6**	**-**	**13.6**	13.5	-	13.5
Contract asset	15	**235.4**	**1.5**	**236.9**	217.5	0.9	218.4
Trade and other receivables	15	**484.9**	**5.1**	**490.4**	800.9	4.1	805.0
Cash and cash equivalents	16	**815.2**	**2.6**	**817.8**	513.8	7.6	521.4
Short term investments	19	**300.0**	**-**	**300.0**	-	-	-
		1,849.1	**9.6**	**1,858.7**	1,545.7	12.6	1,558.3
Current liabilities							
Contract liabilities	17	**(123.8)**	**(0.3)**	**(124.1)**	(110.6)	(3.4)	(114.0)
Trade and other payables	17	**(661.1)**	**(10.3)**	**(671.4)**	(671.8)	(11.1)	(682.9)
Lease liabilities	13	**(7.9)**	**-**	**(7.9)**	(7.4)	-	(7.4)
Borrowings	18	**(1,814.9)**	**-**	**(1,814.9)**	(1,550.8)	-	(1,550.8)
Derivative financial liabilities	19	**(15.0)**	**-**	**(15.0)**	(38.6)	-	(38.6)
		(2,622.7)	**(10.6)**	**(2,633.3)**	(2,379.2)	(14.5)	(2,393.7)
Net current liabilities		**(773.6)**	**(1.0)**	**(774.6)**	(833.5)	(1.9)	(835.4)
Non-current liabilities							
Contract liabilities	17	**(707.3)**	**-**	**(707.3)**	(636.1)	-	(636.1)
Lease liabilities	13	**(62.4)**	**-**	**(62.4)**	(65.1)	-	(65.1)
Borrowings	18	**(18,906.7)**	**-**	**(18,906.7)**	(17,750.4)	-	(17,750.4)
Derivative financial liabilities	19	**(1,045.9)**	**-**	**(1,045.9)**	(1,223.8)	-	(1,223.8)
Deferred tax	20	**(1,120.8)**	**-**	**(1,120.8)**	(904.8)	-	(904.8)
Provisions for liabilities and charges	21	**(145.6)**	**-**	**(145.6)**	(119.9)	-	(119.9)
Pension deficit	23	**(216.1)**	**-**	**(216.1)**	(338.8)	-	(338.8)
		(22,204.8)	**-**	**(22,204.8)**	(21,038.9)	-	(21,038.9)
Net (liabilities)/assets		**(4,315.7)**	**158.0**	**(4,157.7)**	(4,095.1)	100.0	(3,995.1)
Equity							
Called-up share capital	22	**1.0**	**-**	**1.0**	1.0	-	1.0
Cash flow hedge reserve	22	**(90.2)**	**-**	**(90.2)**	(118.0)	-	(118.0)
(Accumulated losses) / retained earnings	22	**(4,226.5)**	**158.0**	**(4,068.5)**	(3,978.1)	100.0	(3,878.1)
Total deficit		**(4,315.7)**	**158.0**	**(4,157.7)**	(4,095.1)	100.0	(3,995.1)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised amounts in the Statement of Financial Position in relation to the arrangement with BTL and have disclosed our underlying amounts separately as required by some of our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41.

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Company statement of financial position

As at 31 March

	Note	**2020 £m**	2019 £m
Non-current assets			
Investment in subsidiaries	33	**4,292.3**	4,292.3
Trade and other receivables	34	**0.6**	8.2
Intercompany receivables	34	**366.4**	170.6
Deferred tax asset	35	**8.4**	9.3
		4,667.7	4,480.4
Current assets			
Intercompany receivables	34	**208.3**	534.3
Cash and cash equivalents	36	**28.7**	349.2
		237.0	883.5
Current liabilities			
Trade and other payables	37	**(0.1)**	(1.2)
Borrowings	38	**(17.0)**	(426.7)
		(17.1)	(427.9)
Net current assets		**219.9**	455.6
Non-current liabilities			
Trade and other payables	37	**(0.3)**	(14.9)
Borrowings	38	**(7,605.7)**	(7,105.8)
		(7,606.0)	(7,120.7)
Net liabilities		**(2,718.4)**	(2,184.7)
Equity			
Called-up share capital	22	**1.0**	1.0
Accumulated losses		**(2,719.4)**	(2,185.7)
Total deficit		**(2,718.4)**	(2,184.7)

The accounting policies and notes on pages 40 to 107 are an integral part of these financial statements.

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent Company. For the year ended 31 March 2020 the Company generated a loss after taxation of £533.6 million (2018: £508.2 million)

The financial statements for Kemble Water Finance Limited, registered in England & Wales company number 05819317, were approved by the Board of Directors on 29 June 2020 and signed on its behalf by:

P Noble
Director

Consolidated statement of changes in equity
For the year ended 31 March

	Called-up share capital £m	Cash flow hedge reserve £m	Retained earnings £m	**Total equity £m**
At 1 April 2018 (as previously reported)	1.0	(139.0)	(3,413.2)	**(3,551.2)**
Restatement for IFRS 16	-	-	(14.2)	**(14.2)**
Other restatements	-	-	5.0	**5.0**
Deferred tax on restatements	-	-	1.6	**1.6**
Restated 1 April 2018	1.0	(139.0)	(3,420.8)	**(3,558.8)**
Loss for the year	-	-	(438.2)	**(438.2)**
Loss on cash flow hedges	-	(8.9)	-	**(8.9)**
Cash flow hedges transferred to income statement	-	34.2	-	**34.2**
Deferred tax charge on cash flow hedge	-	(4.3)	-	**(4.3)**
Actuarial loss on pension schemes	-	-	(23.4)	**(23.4)**
Deferred tax charge on actuarial loss	-	-	4.3	**4.3**
Restated 31 March 2019	1.0	(118.0)	(3,878.1)	**(3,995.1)**
At 1 April 2019 (as previously reported)	1.0	(118.0)	(3,883.9)	**(4,000.9)**
Restatement for IFRS 16	-	-	(12.3)	**(12.3)**
Other restatements	-	-	15.3	**15.3**
Deferred tax on IFRS 16 and other restatements	-	-	2.8	**2.8**
At 1 April 2019 (as restated)	1.0	(118.0)	(3,878.1)	**(3,995.1)**
Loss for the year	-	-	(331.7)	**(331.7)**
Loss on cash flow hedges	-	(4.1)	-	**(4.1)**
Cash flow hedges transferred to income statement	-	34.9	-	**34.9**
Deferred tax charge on cash flow hedge losses including impact of deferred tax rate change	-	(3.0)	-	**(3.0)**
Actuarial gain on pension schemes	-	-	168.9	**168.9**
Loss on disposal of pension assets	-	-	(0.6)	**(0.6)**
Deferred tax charge on actuarial gain	-	-	(34.7)	**(34.7)**
Impact of deferred tax rate change on pension schemes	-	-	7.7	**7.7**
At 31 March 2020	**1.0**	**(90.2)**	**(4,068.5)**	**(4,157.7)**

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 ‘Leases’ as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Company statement of changes in equity
For the year ended 31 March

	Called-up share capital £m	Accumulated losses £m	**Total equity £m**
At 1 April 2018	1.0	(1,677.6)	**(1,676.6)**
Loss for the year	-	(508.2)	**(508.2)**
At 31 March 2019	1.0	(2,185.8)	**(2,184.8)**
Loss for the year	-	(533.6)	**(533.6)**
At 31 March 2020	1.0	(2,719.4)	**(2,718.4)**

The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended 31 March

	Note	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated 2019[1] Underlying £m	Restated 2019[1] BTL £m	Restated 2019[1] Total £m
Cash generated from operations	28	**1,153.1**	**(0.6)**	**1,152.5**	1,125.5	5.0	1,130.4
Group relief received / (paid)		**455.0**	**(4.4)**	**450.6**	-	-	-
Overseas tax paid		**(0.9)**	**-**	**(0.9)**	(0.1)	-	(0.1)
Net cash generated by/(used in) operating activities		**1,607.2**	**(5.0)**	**1,602.2**	1,125.4	5.0	1,130.4
Investing activities:							
Interest received		**56.6**	**-**	**56.6**	10.7	-	10.7
Increase in current asset investments		**(300.0)**	**-**	**(300.0)**	-	-	-
Purchase of property, plant and equipment [2]		**(1,137.9)**	**-**	**(1,137.9)**	(1,135.6)	-	(1,135.6)
Purchase of intangible assets		**(86.1)**	**-**	**(86.1)**	(71.2)	-	(71.2)
Proceeds from sale of property, plant and equipment		**-**	**-**	**-**	2.6	-	2.6
Net cash used in investing activities		**(1,467.4)**	**-**	**(1,467.4)**	(1,193.5)	-	(1,193.5)
Financing activities:							
New loans raised		**3,481.6**	**-**	**3,481.6**	1,452.7	-	1,452.7
Repayment of borrowings		**(2,366.5)**	**-**	**(2,366.5)**	(670.2)	-	(670.2)
Interest paid		**(807.7)**	**-**	**(807.7)**	(328.0)	-	(328.0)
Fees paid		**(11.6)**	**-**	**(11.6)**	(19.1)	-	(19.1)
Repayment of lease principal		**(11.0)**	**-**	**(11.0)**	(10.1)	-	(10.1)
Derivative settlements		**(123.2)**	**-**	**(123.2)**	2.8	-	2.8
Net cash generated by financing activities		**161.6**	**-**	**161.6**	428.1	-	428.1
Net increase/(decrease) in cash and cash equivalents		**301.4**	**(5.0)**	**296.4**	360.0	5.0	365.0
Net cash and cash equivalents at beginning of year		**513.8**	**7.6**	**521.4**	153.8	2.6	156.4
Net cash and cash equivalents at end of year		**815.2**	**2.6**	**817.8**	513.8	7.6	521.4

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Included in the cashflow are amounts in relation to the arrangement with BTL and therefore our underlying amounts are disclosed separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 41. The accounting policies and notes on pages 40 to 107 are an integral part of these consolidated financial statements.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

[2] Borrowing costs of £94.2 million (2019: £102.7 million) relating to tangible assets that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities. Borrowing costs of £3.4 million (2019: £6.6 million) relating to intangible assets that have been capitalised are included within "Purchase of intangible assets" under investing activities.

Company statement of cash flows
For the year ended 31 March

	Note	**2020** **£m**	2019 £m
Cash generated used in operations	40	**41.0**	79.7
Group relief received		**465.8**	-
Net cash generated by operating activities		**506.8**	79.7
Investing activities:			
New loans issued		**(249.8)**	-
Interest received		**0.3**	0.5
Dividends received		**-**	1.0
Net cash (used in)/generated by investing activities		**(249.5)**	1.5
Financing activities:			
New loans raised		**339.8**	303.9
Repayment of borrowings		**(399.3)**	(0.7)
Interest paid		**(515.9)**	(54.1)
Fees paid		**(2.4)**	(10.0)
Net cash (used in)/generated by financing activities		**(577.8)**	239.1
Net (decrease)/increase in cash and cash equivalents		**(320.5)**	320.3
Net cash and cash equivalents at beginning of the year		**349.2**	28.9
Net cash and cash equivalents at end of the year		**28.7**	349.2

The accounting policies and notes on pages 40 to 107 are an integral part of these financial statements.

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Kemble Water Finance Limited ("the Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose principal activity is to act as the holding company for the Kemble Water Finance Limited group of companies ("the Group"). The trading address and the address of the registered office of both the Company and the Group is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The Group's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

During 2017/18, the Group 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"). The companies transferred the assets and liabilities to Thames Water Utilities Finance plc ("TWUF") on 31 August 2018 as a result of the above decision The Cayman Islands entities ceased to be subsidiaries of the Company on 27 September 2018. They were formally dissolved on 28 February 2019 and are no longer companies that exist within the Kemble Water Holdings Group. The results of the Cayman entities, up until they ceased to be subsidiaries of the Company, are included in the income statement for the year ended 31 March 2019.

Statement of compliance with International Financial Reporting Standards ("IFRS")

The policies applied in these consolidated financial statements for the year ended 31 March 2020 are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 29 June 2020, the date that the Board of Directors approved these financial statements. The Company only financial statements are also prepared under EU-IFRS.

Basis of preparation

The financial statements have been prepared in accordance with The Companies Act 2006 as applicable to companies using IFRS. IFRS 9 and IFRS 15 are applicable for the year ended 31 March 2020 and comparative period 31 March 2019. Financial information relating to year ended 31 March 2018 was restated to reflect IFRS 9 and IFRS 15.

Going concern

The consolidated financial statements for the year ended 31 March 2020, set out on pages 32 to 39, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

The Group has considerable financial resources, a strong liquidity position, ongoing revenue streams and a great diversification of customer types. Revenue includes the set amounts which can be expected to be collected from customers and the rewards/penalties associated with operational out/under performance compared against certain targets set by the regulator.

The water sector in England and Wales has been much less affected to date than many other sectors by the COVID-19 pandemic. The existing regulatory framework provides protection against reduced revenues arising from lower consumption and the regulatory recovery mechanisms ensure that the economic value impact is generally immaterial. In addition, the impact of COVID-19 on the Group's ability to provide essential water and wastewater services has been mitigated through Government's recognition that these services are essential and the Group's quick response to enable effective working practices in the challenging operational environment. Moody's, a credit rating agency, identified the water industry as having low exposure to the coronavirus.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme, and currently predicts a short-term reduction in cash receipts and a deferral of a reasonable portion of the capital programme into future AMP7 years. The cash receipts impact is anticipated to come from deferred payments from household customers and lower billable volumes in the non-household sector, due to reduced consumption. Management has analysed scenarios to assess its going concern, which include plausible and severe downside scenarios, and in all cases we are a going concern in compliance with covenants and have adequate liquidity for a period of at least 12 months from the signing of these financial statements. To mitigate the impact of potential lower cash collections, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance. There remains a risk that the impact of COVID-19 is greater than that modelled by the Group.

As a consequence of these factors and having accepted the five year plan for 2020-2025 (the Final Determination), the Directors believe that the Group is well placed to manage its business risks successfully and have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future..

Basis of consolidation

The Group's consolidated financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of joint ventures using equity accounting. Associates are accounted for on an equity basis either where the Group's holding exceeds 20% or the Group has the power to exercise significant influence. Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments have been made to the financial statements of subsidiaries to align the accounting policies used under the relevant local GAAP in line with those used by the Group.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Bazalgette Tunnel Limited ("BTL") arrangement

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

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. 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, cost and profit are excluded from our key performance indicators, which is consistent with our financial covenants. The revenue, cost and resulting profit on this arrangement is disclosed separately to the Group's underlying performance in the financial statements. As a result of this arrangement, 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, against which this prepayment will be utilised.

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. The Company has a variety of customers including, household customers, non-household retailers and other Water Only Companies ("WOCs").

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 historical experience, is excluded from revenue, as it does not fall within the IFRS 15 criteria, to ensure that revenue is recorded at the amount which the Group expects to receive, for providing its services to customers.

The Company considers the performance obligation associated with our core revenue to be the continued provision of water and wastewater services to customers.

The Company considers the performance obligation associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised by the end of the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Company considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions.

For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed, typically in advance of delivery, is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the bill relates.

When the Group identifies the occupants the bill is billed in the customer's name. If the Group has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Revenue includes amounts that the Group billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the BTL arrangement section above (on page 41).

Refer to page 54 for significant judgements around revenue.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Interest expense

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group's right to consideration is met in advance of billing. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance. Refer to the "Trade and other receivables" below for more information.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities is deferred revenue in relation to nil cost assets adopted during the year and receipts in advance from our capital projects.

Net gains/(losses) on financial instruments

The Group raises debt in a variety of currencies and uses derivative contracts to manage the foreign exchange risk exposure on this debt. The Group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses / gains on financial instruments. The following are also recognised in the income statement as net losses / gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve.

Net gains/ (losses) on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 48 for more details.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the consolidated statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome. As at 31 March 2020, there are no uncertain tax positions (2019: none).

Investment in subsidiary undertakings and joint ventures

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Investment in joint ventures are accounted for using the equity method. Impairment reviews are performed on an annual basis.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired. Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, the carrying value of goodwill acquired in a business combination is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense within the income statement and is not subsequently reversed.

Non-current intangible assets (excluding goodwill)

Separately acquired intangible assets are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Assets under development are not amortised until they are commissioned. Borrowing costs that have been capitalised within purchase of intangible assets are included within "Purchase of intangible assets" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Other intangible assets include concessions, licences and similar rights and assets. Assets under development are not depreciated until they are commissioned.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in deferred income and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows and refer to non-current assets disclosed in note 12:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
Land and buildings:	
Buildings	15-60
Operational structures	30-100
Plant and equipment:	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

Leased assets

Refer to pages 49 to 51 for the impact of new accounting standards on leases.

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases'. The tunnel will be recognised as a right of use asset and depreciated over the life of the contract. On inception of the contract, the tunnel will be recognised at fair value, being the BTL prepayment (refer to BTL arrangement section on page 41) plus the present value of the future minimum contract payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). Management do not consider there to be any significant judgements relating to the impairment of non-financial assets.

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments).

Trade receivables are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. Other receivables such as loans or insurance receivables are recognised at fair value on initial recognition.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables and these other receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs are recognised as an expense within operating costs and can relate to a financial asset in its entirety or to a portion of it.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and insurance claims receivable. The Group's assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends. Management has considered the impact of COVID-19 and has increased the provision to reflect the expected adverse impact on customers' ability to pay their water and wastewater bills.

There are three main types of customer for which an expected credit losses provision is calculated, directly billed customers, indirectly billed (such as non-household customers billed through non-household retailers) and billed through WOCs. There is also bad debt associated with the BTL arrangement.

(i) Directly billed and indirectly billed customers
An expected credit losses model is used to calculate the provision for directly and indirectly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that are expected to be collected or cancelled based on performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by an expected credit losses provision. Debt that is older than 4 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling.

(ii) WOCs
A provision is also made against debts due from Water Only Companies (WOCs) who bill their customers for sewerage services provided by the Group. As the bills relate to services provided by the Group, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Group. As detailed information about the debt, including the ageing, is not readily available, the level of provision is therefore based on write offs covering a three-year period – prior year, current year and forecast for the year ahead.

(iii) BTL
The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognizing revenue within the Group and associated bad debt. Refer to page 41 for more information on the BTL arrangement.

Impact of COVID-19
COVID-19 is predicted to have an impact on cash collection as employment rates worsen and people find themselves unable to pay their water and wastewater bills. To help assess the implications on debtors and level of additional provision required, a range of outcomes impacting billing and collections performance were developed using available data. Subsequently, management has increased the provision by £15.3 million across directly billed customers and WOCs. No adjustment has been made for indirectly billed non-household customers as Management have assessed the future cash flows and the risk of non-payment was considered to be low.

Intercompany loans receivable

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. If an intercompany loan receivable continues to have an investment grade rating, then IFRS 9 permits an assumption that there has been no significant increase in credit risk. As such given the investment grade credit rating, an assessment of the 12 month expected credit loss is permitted rather than a lifetime credit loss assessment as per ‘stage 1’ of the IFRS 9 impairment model.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Included within cash and cash equivalents are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Short-term investments

Short-term investments include term deposits which are not readily convertible into known amounts of cash.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. In case of exchange or modification of interest bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Inventories and current intangible assets

Inventories are stated at the lower of cost and net realisable value (“NRV”).

Current intangible assets relate to purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) and are stated at cost, less accumulated amortisation and any provision for impairment. A provision is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement. This is no longer relevant for the 2019/20 financial year and beyond as the scheme has been closed.

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services. Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use. For more information on the BTL arrangement, refer to page 41.

Retirement and other employment benefits

Defined benefit schemes

The Group operates three, independently administered, defined benefit pension schemes, both of which are closed to new employees. Actuarial valuations are carried out as determined by the Trustees, at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit surplus or deficit. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 ‘The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction’ is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme. In the prior year, following a review of the approach Management concluded that it was appropriate to recognise a surplus relating to the TWMIPS scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service costs, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net (deficit) / surplus.

Changes in the retirement benefit surplus or obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of other comprehensive income in the period in which they arise.

Defined contribution schemes

The Group operates a Defined Contribution Pension Scheme (“DCPS”) managed through Standard Life Assurance Limited. From 1 April 2011 the DCPS is the only scheme to which new employees of the Group are eligible. The assets of the DCPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates a closed defined contribution pension scheme. The Group has no further payment obligations, however defined funds for some former employees are held within this scheme.

Long-term incentive plans (“LTIP”) and bonus

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Company’s performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Company’s performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme's performance period runs from April 2017 to March 2020 and is open to all non-manager grade employees. The scheme entitles eligible employees to earn an amount of up to 5% of their salary following the end of the performance period.

Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from third party insurance companies net of retentions. The timing for the insurance claims are uncertain and therefore both the liability and receivable have been recognised as non-current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2015 to 31 March 2020 is known as AMP6, and the period for which we have recently submitted our plan and accepted the Final Determination, 1 April 2020 to 31 March 2025 is known as AMP7.

Outcome delivery incentives ("ODIs") were introduced by Ofwat in the price determination process covering AMP6. The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

ODIs introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

There is no financial reward or penalty in the rate setting period in which the ODI is incurred, and accordingly there is no accounting required. Instead, the reward or penalty is reflected in the following AMP period by way of increased or reduced revenues respectively. Ofwat assesses companies' operational performance against agreed performance commitments. Each performance commitment contains an ODI, which can carry a financial reward or penalty or both that will be realised as part of the next price review process in the form of revenue or RCV adjustments. The Group does not recognise a provision for penalties or rewards in the financial year in which they are incurred or achieved, as the financial impact is realised in future AMPs.

Risks, opportunities and innovation ("ROI") funds

The Group has entered into certain alliance arrangements with a number of third parties. The alliance agreements include incentive mechanisms which result in the alliance partners sharing in any over or underspend on contracted works. Remuneration for services provided under the contract are also linked to TWUL's performance commitments. During the year ended 31 March 2020 there were three alliances responsible for delivering works over AMP6 (2019: 2)

A notional ROI fund for each alliance is created and built up over the AMP period and is ultimately paid to alliance partners at contractual percentages. This occurs once certain conditions are satisfied, as specified in the alliance contracts between the Group and the alliance partners.

A provision for ROI amounts is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Conversely, a receivable for ROI will be recognised when: the Group has a right to receive cash at a future date; the amount can be reliably estimated; and receipt is virtually certain.

ROI amounts arising from an over or underspend against the contracted cost for a capital project, where the spend is directly attributable to the asset created, are deemed to be an integral cost in bringing an asset into the condition and location for use as intended by management. They are therefore capitalised as part of the cost of the asset and depreciated over the asset's useful life.

ROI amounts arising from operating expenditure over or underspend against the contracted cost, where spend cannot be directly attributed to a capital asset, are recognised directly in operating expenses as the spend is incurred.

ROI amounts linked to an ODI or Service Incentive Mechanism ("SIM") penalty or reward are recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Dividends

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Group. This occurs when the shareholders right to receive payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividends receivable are recognised when the Company's right to receive payment is established.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 19.

Derivative financial instruments not designated as hedging instruments

Initially recognition is at fair value, with transaction costs being taken to the income statement. Gains or losses on re-measurement to fair value are recognised immediately in the income statement.

Derivative financial instruments designated as hedging instruments

The group uses derivative financial instruments, such as forward starting interest rate swaps to hedge its interest rate risks. At the inception of each hedge relationship the Group documents:

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The economic relationship between the hedge item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The group uses hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement as net gains/(losses) on financial instruments. When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately as net gains/(losses) on financial instruments.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

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.

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS"). Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised directly in the cash flow hedge reserve.

New accounting policies and financial reporting changes

The accounting policies adopted in the preparation of these 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 2019:

Exceptional items

Exceptional items are those charges or credits, and their associated tax effects, that are considered to be unusual by the Directors, either by nature or by scale and that are of such significance that separate disclosure is required for the financial statements to be properly understood by the users of the financial statements.

The determining factor for exceptional items is whether or not the item is considered unusual in nature, although exceptional charges may impact the same asset class or business segment over time. Market conditions that have deteriorated significantly over time will only be captured to the extent observable at the balance sheet date. Examples of items that may be considered exceptional include business restructuring and reorganisation or transformation costs, significant gains or losses on disposal, material impairment charges or reversals and provisions in relation to contractual settlements associated with significant disputes and claims.

The Directors consider that any individual gain or loss on disposal of greater than £30.0 million would be disclosed as being exceptional by nature of its scale. Other gains or losses on disposal below this level may be considered to be exceptional by reference to specific circumstances. These will be explained on a case-by-case basis where relevant.

Transition to new IFRSs

Restatements to the comparative periods arising from the adoption of the new accounting standard IFRS 16 Leases, have been made.

IFRS 16: Leases

Background

IFRS 16 Leases is effective for annual periods beginning on or after 1 January 2019 and such the Group and Company has applied the new accounting standard for the year ended 31 March 2020.

The Group and Company have applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group and Company have restated both comparative periods presented in the financial statements which include the financial periods ended 31 March 2018 and the 31 March 2019.

Restatements to the prior year

On adoption of IFRS 16, the Group and Company have recognised right of use assets and associated lease liabilities in relation to certain leases which had previously been classified as 'operating leases' under the principles of the previous accounting standard, IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted at the borrowing rate applicable at inception of the lease. Please refer to note 32 for full details of the adjustments made on transition.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated income statement on page 32
- Consolidated statement of comprehensive income on page 33
- Consolidated statement of financial position on page 34
- Consolidated statement of changes in equity on page 36
- Consolidated statement of cash flows on page 38
- Note 2 Operating expenses on pages 60 to 61
- Note 5 Finance income and note 6 finance expense on page 62
- Note 8 Taxation on pages 63 to 65
- Note 13 Leases on page 68
- Note 15 Trade and other receivables on pages 69 to 70
- Note 17 Trade and other payables on page 71
- Note 19 Financial Instruments on page 75 to 83
- Note 28 Statement of cash flows on page 94
- Note 32 Restatements to the prior year on page 96 to 99

Recognition of Right of use assets and lease liabilities

Refer to note 32 Restatements to the prior year.

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.

In applying IFRS 16 for the first time, the group has used the following practical expedients permitted by the standard:

- applying a single discount rate to a portfolio of leases with reasonably similar characteristics
- relying on previous assessments on whether leases are onerous as an alternative to performing an impairment review – there were no onerous contracts as at 1 April 2019
- accounting for operating leases with a remaining lease term of less than 12 months as at 1 April 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- using hindsight in determining the lease term where the contract contains options to extend or terminate the lease.
- contracts of low value (£5,000 as determined by the Group) will not be considered as leases
- the Group is not required to reassess whether a contract is, or contains, a lease at the date of initial application. The Group has therefore only applied IFRS 16 to contracts that were previously identified as leases under IAS 17 and IFRIC 4 with the date of initial application being 1 April 2019

Recognition of leases

As a lessee
The Group's leasing activities include rentals payable for office properties and other land and buildings. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In previous years, the leasing activities of the Group consisted of solely operating leases. Payments made under operating leases were charged to the income statement on a straight-line basis over the period of the lease. The associated right-of-use assets for property leases were measured on a retrospective basis as if the new rules had always been applied.

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. At commencement or on modification of a contract that contains a lease component, along with one or more other lease or non-lease components, the Group accounts for each lease component separately from the non-lease components. The Group allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price and the aggregate stand-alone price of the non-lease components

From 1 April 2019, leases are recognised as a right-of-use asset along with a corresponding liability with the date of recognition being the commencement date of the lease.

Right-of-use asset
Right-of-use assets are recognised at cost comprising the following components:

- the amount of the initial measurement of lease liability;
- lease payments made less lease incentives received before the commencement date;
- initial direct costs; and
- restoration costs.

The right-of-use asset is depreciated over the lease term on a straight-line basis.

Lease liability
Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payments that are based on an index or a rate;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payment is discounted using the incremental borrowing rate "IBR". The IBR is the rate of interest that the Group would have to pay to borrow the funds necessary to obtain the right-of-use asset in a similar economic environment at the date of lease inception.

The lease payment is allocated between the liability and the finance cost. The finance cost is recognised in the income statement within 'finance expenses' so as to produce a constant periodic rate of interest over the remaining balance of the liability for each period.

Lease payments represent rentals payable by the Group for certain office properties. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is reasonably certain that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the Group has the ability to mutually agree changes to the arrangement with the lessor.

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 of 0.8% of RCV. However, leases that would have been identified as operating leases prior to the new standard do not contribute towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio of 2% of RCV.

Short-term leases and leases of low-value assets
The Group has elected not to recognise right-of-use assets and lease liabilities for lease of low-value assets (£5,000) and short-term leases. The Group recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Transition approach
The Group has applied the new accounting standard using a full retrospective approach, including the practical expedient permitted in the standard. As a result, the Group has restated the comparative information presented in the interim condensed financial statements.

As a lessor
At inception or on modification of a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract applying IFRS 15.

To classify each lease, the group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, certain indicators such as whether the lease is for the major part of the economic life of the asset are considered.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset.

The Group applies the derecognition and impairment requirements in IFRS 9 to the net investment in the lease (see the financial instruments note 19). The Group further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease.

The Group recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'. The Group has no material leases for which it is a lessor.

Other prior period restatements

Dilapidations provision

Under IFRS 16 at the inception of the lease an estimate of the costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease can be included in the value of the right of use asset. The obligations for these costs are accounted for under IAS 37: *Provisions, Contingent Liabilities and Contingent Assets.* As part of the transition to IFRS 16, management identified that this liability had not been previously recognised. The liability has recognised an estimate of these costs within the right of use asset and a provision. This restatement has impacted the following items and associated disclosures:

	1 April 2018 £m	During 2018/19 £m	31 March 2019 £m
Operating expenses (note 2)	Not restated	(0.7)	-
Right of Use Asset (note 13)	2.9	-	2.6
Provisions (note 21)	(9.8)	-	(10.2)
Total	(6.9)	(0.7)	(7.6)

Deferred tax asset provided on dilapidation adjustments at 17% included within “Other restatements” on page 96 to 99:

Deferred tax asset	1.2	0.1	1.3

Leakage Capitalisation

During the year management undertook a review of the classification of costs for leakage detection. It was identified that there were enablement costs being incurred to bring our water network assets to the location and condition necessary to serve our customers. These costs were previously classified as an operating expense. This is a broadening of the policy in line with IAS 8 and the leakage was capitalised as part of reassessing the methodology. This restatement has impacted the following items and associated disclosures:

	1 April 2018 £m	During 2018/19 £m	31 March 2019 £m
Operating expenses (note 2)	Not restated	17.6	-
Property, plant and equipment (note 12)	11.9	-	29.5
Total	11.9	17.6	29.5

Deferred tax asset provided on dilapidation adjustments at 17% included within “Other restatements” on page 96 to 99:

Deferred tax asset	(2.0)	(3.0)	(5.0)

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

IBOR reform

Following the financial crisis, the reform and replacement of benchmark interest rates such as the London Interbank Offer Rate ("LIBOR") and other interbank offered rates ("IBOR"') has become a priority for global regulators. There is currently uncertainty around the timing and precise nature of these changes in the various jurisdictions affected.

We cannot rely on LIBOR being published after the end of 2021. It is currently expected that SONIA (Sterling Overnight Index Average) will replace GBP LIBOR as a reference rate. There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is currently a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences might need to be applied to SONIA, to enable the two benchmark rates to be economically equivalent on transition.

At the time of reporting, industry working groups are reviewing methodologies for calculating adjustments between GBP LIBOR and SONIA.

The Group is establishing a project to oversee the GBP LIBOR transition plan. This transition project will include changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications. The Group currently anticipates that the areas of greatest change will be amendments to the contractual terms of GBP LIBOR-referenced floating-rate debt and swaps.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2020, the Group / Company had no designated hedge relationship and hedge accounting was not applied.

In addition to the IBOR reform, 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.

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Group, and to enhance the comparability of information between reporting periods.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 11 and 12 respectively) and capital accruals.

Net debt

Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the banking covenants. Net debt on a statutory basis consists of borrowings (including lease liabilities recorded under IFRS 16) less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts and including certain derivative financial liabilities as explained in note 19.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Group needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment. There is no equivalent statutory measure.

Gearing

Gearing is the percentage of the Group's covenant net debt to RCV, and is a key covenant ratio for the Group's financing arrangements with its lenders. There is no equivalent statutory measure.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Group, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating

The Group must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

Underlying

Underlying represents the financial performance of the Group excluding the arrangement with Bazalgette Tunnel Limited ("BTL"). The underlying performance of the Group has been included within our financial statements and associated notes separate to our performance from the BTL arrangement which has been discussed in more detail in the section below.

In accordance with our financial covenants, we are required to disclose our underlying performance separately.

BTL

BTL represents the financial performance of the Group from the arrangement with Bazalgette Tunnel Limited. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance which has been discussed above. Refer to page 41 for more information on the BTL arrangement.

EBIT

Earnings before interest and taxation ("EBIT") is a key performance metric used by management. As the Group has significant capital investment it is necessary that amounts relating to depreciation and amortisation are included in this metric. However, as interest expense and income and gains/losses on financial instruments are largely driven by external factors management deem it most appropriate to use EBIT as a key performance metric.

Significant accounting judgements and key sources of estimation uncertainty

The preparation of annual 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. The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty for the year ended 31 March 2020 are contained in the sections below:

Revenue recognition

Accounting judgement – revenue recognition

Water and Wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgemental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in revenue for the current year of £32.8 million (2019: £35.1 million), with a corresponding decrease in receivables as shown in note 15.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2020 was £78.2 million (2019:£75.6 million).

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 or other third party.

The performance obligation is to install / 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.

Accounting estimate – provision for doubtful debt

Provisions are made against trade receivables based on an assessment of the recovery of debts including those which will:

- ultimately be cancelled and may or may not be rebilled; and
- of debts which have not yet been billed but are part of the metered sales accrual.

This assessment is typically made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of what might happen in the future.

Management has reassessed the provision to consider the impact of COVID-19 on customers' ability to pay their water and wastewater bills and has increased the provision by £15.2 million across directly billed customers and WOCs. No adjustment has been made for indirectly billed non-household customers as the risk of non-payment of bills sits with the non-household retailers.

The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2020 was £187.8 million (2019: £176.6 million).

We have performed a sensitivity analysis on the main components of the directly billed and WOC bad debt models. The main component of the bad debt model for the directly billed customers is based on cash collection rates. The main component of the WOC bad debt model is based on historic writes offs as the Group does not have direct access to cash collection data. The sensitivity analysis is summarised below:

Directly Billed

Scenario	£m	Outcome
CY Collection rates increase by 1%	3.4	Reduction in charge
CY Collection rates reduce by 1%	-3.4	Increase in charge

WOCs

Scenario	£m	Outcome
£0.5m reduction in write offs	1.1	Reduction in charge
£0.5m increase in write offs	-1.1	Increase in charge

Property, plant and equipment and intangible assets

Accounting judgement – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgements. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2020 were £1,136.3 million (2019 restated: £1,135.4 million). Intangibles additions for the year ended 31 March 2020 were £86.7 million (2019: £71.2 million). Both figures include capitalised overheads and capitalised borrowing costs.

Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently judgement is applied concerning the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgement is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangibles for the year ended 31 March 2020, net of commissioning, were £95.6 million (2019: £109.3 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods. The total depreciation charge for the year ended 31 March 2020 was £569.0 million (restated 2019: £545.1 million) and the total amortisation charge for the year was £32.9m (2019: £22.0m). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	**£m**	**Outcome**
5 year increase in average remaining useful life	71.6	Decrease in total depreciation and amortisation charge
5 year decrease in average remaining useful life	(95.3)	Increase in total depreciation and amortisation charge

Provisions for other liabilities and charges

Accounting judgement – recognition of other provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These include contractual (including ROI funds), employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgement about whether or not a provision should be recognised.

Other provisions, which are detailed in note 21, total £31.3 million as at the year ended 31 March 2020 (restated 2019: £25.3 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2020 totalled £144.9 million (restated 2019: £119.9 million). There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

Retirement benefit obligations

Accounting judgement – IFRIC 14 'IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Company with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind-up once all benefits have been distributed, at which point any surplus would be taken by the Company. Based on these rights, any net surplus in the scheme is recognised in full. Therefore, the Group considers that under IFRIC 14, it is appropriate to recognise the net surplus in TWMIPS.

Accounting estimate – actuarial valuations

The Group operates three defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. The pension liability and net cost recognised under IAS 19 *Employee Benefits* are assessed using the advice of an independent, qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. These assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management and are used to estimate the present value of defined benefit obligations.

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the Income Statement and the net asset figure in the Statement of Financial Position and are a source of estimate. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- increases to pensions in payment.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the three schemes as at 31 March 2020 was £121.6 million (2019: £285.3 million), which includes a pension deficit of £209.1 million (2019: £338.8 million) for the TWPS scheme, offset by a pension surplus of £94.5 million (2019: £45.8 million) for the TWMIPS scheme and pension deficit of £7.0 million (2019: surplus of £7.7 million) for the SUURBS scheme. Refer to note 23 for more information on the key assumptions and sensitivities of the pension schemes.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

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. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable. All of the Group's inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. The net total of derivate financial assets and liabilities as at 31 March 2020 was a liability of £686.6 million (2019: liability of £1,101.1 million).

The restructure of a derivative measured at fair value may result in a change to the observed fair value on the restructure date. Changes in the fair value may be attributable to both observable and unobservable factors. IFRS 9 does not permit the recognition of a restructure date fair value change on the income statement unless it relates to factors that are fully observable in the market. In cases where, due to unobservable factors, it is not possible to reliably identify the actual fair value movement, the whole of the observed fair value movement is capitalised and recognised in the income statement over the maturity period of the relevant restructured derivative.

During the year, three index-linked swaps were restructured. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. See note 19 to the consolidated financial statements "Financial Instruments" for more information.

Impairment of investment in subsidiaries and goodwill

Determining whether the Company's investments in subsidiaries or the carrying value of goodwill have been impaired requires estimations of the investment or cash generating unit's net realisable value. An enterprise valuation is derived through the application of an observable market multiplier uplift to the underlying entities Regulatory Capital Value ("RCV"). The recoverable amount is thus most sensitive to the uplift multiplier used in the valuation model. See notes 9 and 33 for the net carrying value of goodwill investments and associated impairment provision.

Judgement that relates to Bazalgette Tunnel Limited ("BTL")

Accounting judgement – principal vs. agent

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 in customer bills.

Additionally, the Group, as the sole future 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.

Notes to the Group financial statements

1. Revenue

	2020			2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Regulated water and wastewater services	**2,053.2**	**64.6**	**2,117.8**	2,046.5	-	2,046.5
Other services	**88.2**	**-**	**88.2**	23.8	47.7	71.5
Gross revenue	**2,141.4**	**64.6**	**2,206.0**	2,070.3	47.7	2,118.0
Charge for bad and doubtful debts	**(32.8)**	**(0.3)**	**(33.1)**	(33.2)	(0.2)	(33.4)
Net revenue	**2,108.6**	**64.3**	**2,172.9**	2,037.1	47.5	2,084.6

All revenue is derived from activities based in the UK.

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. In the current and preceding financial year, the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. Cash collected in respect of Thames Tideway Tunnel construction costs is passed 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.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2020 £m	2019 £m
Contract assets		
Current		
Accrued revenue for services provided to metered customers	**173.5**	144.3
Accrued income for other activities[1]	**63.4**	74.1
Total current contract assets	**236.9**	218.4
Contract liabilities		
Non-current		
Deferred revenue from infrastructure charges	**511.9**	497.0
Deferred revenue from other activities[2]	**195.4**	139.1
Total non-current contract liabilities	**707.3**	636.1
Current		
Advance payments received from unmeasured customers	**78.2**	75.6
Deferred revenue from infrastructure charges	**5.3**	5.1
Deferred revenue from other activities[2]	**40.6**	33.3
Total current contract liabilities	**124.1**	114.0
Total contract liabilities	**831.4**	750.1

[1] Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 41).
[2] Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities and how much relates to performance obligations that were satisfied in a prior period.

	2020 £m	2019 £m
Revenue recognised that was included in the contract liability balance at the beginning of the period:		
Advance payments received from unmeasured customers	**75.6**	75.6
Deferred revenue from infrastructure charges	**5.1**	4.9
Deferred revenue from other activities	**33.3**	48.9
Total	**114.0**	129.4

Notes to the Group financial statements (continued)

1. Revenue (continued)

Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

	2020 **£m**	2019 £m
Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:		
Developer services		
Service connections	**7.4**	8.0
Requisitions and diversions	**16.4**	12.5
Infrastructure charges	**517.1**	502.1
Other	**3.6**	3.5
Eight2o		
High speed 2	**7.7**	21.1
Total	**552.2**	547.2

The Group considers the performance commitment associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Thus the amounts disclosed in the table above represent amounts received for schemes which have either not started on site or which are part way through construction at the balance sheet date. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years.

For infrastructure charges the Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly, the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate.

Remaining performance obligations (unsatisfied or partially unsatisfied) at the year end all relate to customer contracts that have an original expected duration of not more than one year. Therefore, as permitted under IFRS 15, the transaction price allocated to these remaining performance obligations is not disclosed.

Notes to the Group financial statements (continued)

2. Operating expenses

	2020 Underlying £m	2020 BTL £m	2020 Total £m	Restated[1] 2019 Underlying £m	Restated[1] 2019 BTL £m	Restated[1] 2019 Total £m
Wages and salaries	**280.2**	**-**	**280.2**	253.4	-	253.4
Social security costs	**30.7**	**-**	**30.7**	28.2	-	28.2
Pension costs – defined benefit schemes	**26.8**	**-**	**26.8**	34.7	-	34.7
Pension costs – defined contribution schemes	**13.1**	**-**	**13.1**	11.0	-	11.0
Apprenticeship Levy	**1.3**	**-**	**1.3**	1.9	-	1.9
Total employee costs	**352.1**	**-**	**352.1**	329.2	-	329.2
Power	**129.0**	**-**	**129.0**	124.7	-	124.7
Carbon reduction commitment	**(1.1)**	**-**	**(1.1)**	4.5	-	4.5
Raw materials and consumables	**53.9**	**-**	**53.9**	59.3	-	59.3
Rates[3]	**98.2**	**-**	**98.2**	117.3	-	117.3
Research and development expenditure	**3.8**	**-**	**3.8**	3.9	-	3.9
Insurance	**39.8**	**-**	**39.8**	34.6	-	34.6
Legal and professional fees	**28.2**	**-**	**28.2**	31.0	-	31.0
Other operating costs	**495.6**	**-**	**495.6**	546.7	-	546.7
Own work capitalised	**(183.0)**	**-**	**(183.0)**	(189.4)	-	(189.4)
Net operating expenses before depreciation and amortisation	**1,016.5**	**-**	**1,016.5**	1,061.8	-	1,061.8
Depreciation of property, plant and equipment	**569.0**	**-**	**569.0**	545.1	-	545.1
Depreciation of right-of use assets	**8.2**	**-**	**8.2**	7.8	-	7.8
Amortisation of intangible assets	**32.9**	**-**	**32.9**	22.0	-	22.0
Net operating expenses excluding exceptional items	**1,626.6**	**-**	**1,626.6**	1,636.7	-	1,636.7
Exceptional costs[4]						
Company reorganisation - severance	**12.2**	**-**	**12.2**	-	-	-
Associated programme management costs	**15.5**	**-**	**15.5**	-	-	-
Operating expenses excluding impairment losses on financial and contract assets	**1,654.3**	**-**	**1,654.3**	1,636.7	-	1,636.7
Impairment losses on financial and contract assets[2]	**40.6**	**0.2**	**40.8**	28.9	0.3	29.2
Total operating expenses	**1,694.9**	**0.2**	**1,695.1**	1,665.6	0.3	1,665.9

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 expenditures under IAS16: Property Plant and equipment.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements, which are discussed on page 51.

[2] Impairment loss for the year is net of £5.1 million relating to excess payments received from customers in the past and recognised during the year (2019: £11.8 million).

[3] Rates expense includes a rebate of £23.0 million year (31 March 2019: £nil) relating to reassessment of the business rates expense in the period 2005-2015.

[4] Exceptional costs relate to significant restructuring of the business these costs are considered to be exceptional in nature with significant expenditure incurred that is not in the ordinary course of business. The restructure of the business that has occurred in the year is one-off in nature and involved significant changes in the way that the Company operates and therefore this is deemed exceptional by nature.

Notes to the Group financial statements (continued)

2. Operating expenses (continued)

Auditors remuneration

Amounts payable to the Group's auditor are shown below in respect of the following services to the Group:

	2020 £'000	2019 £'000
Fees payable to the Group's auditor:		
Fees payable for the audit of the Company's financial statements	**41**	23
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	**1,215**	678
Fees payable to the Group's auditor for other services:		
Audit related assurance services	**823**	292
PR19 assurance services	**-**	330
Other	**146**	728
Net operating expenses	**2,225**	2,051

All costs of consolidation were borne by the ultimate parent company Kemble Water Holdings Limited for both the current and preceding financial year. Total aggregate remuneration has increased due to the new standard IFRS 16 'Leases' and additional work relating to COVID-19.

Other assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements to Ofwat.

No fees, other than those disclosed, were payable to PricewaterhouseCoopers LLP in respect of the Company, or Group, in the current or preceding financial year.

3. Employees and Directors

Employees

All Group employees are based in the United Kingdom. The average number of persons employed by the Group during the year (including Executive Directors), analysed by category, was as follows:

	2020 Number	2019 Number
Employed by Thames Water Utilities Limited:		
Operations	**3,313**	3,489
Customer experience	**1,456**	1,135
Support services	**1,099**	1,101
Digital, strategy and transformation	**300**	189
Delivery office	**128**	149
	6,296	6,063
Employed by other group companies:		
Property services	**5**	5
Total	**6,301**	6,068

The Company has no employees (2019: none).

Directors

The Directors' emoluments were as follows:

	2020 £'000	2019 Restated[1] £'000
Salary and fees	**566**	841
Pension and pension allowances	**35**	94
Bonus	**234**	238
Long-term incentive plan	**-**	-
Payment on loss of office	**787**	-
Other benefits	**5**	14
Total	**1,627**	1,187

[1] Prior year figures have been restated in order to correct a prior year error whereby not all directors' emoluments were correctly disclosed.

In the current and preceding financial years no amounts were accruing to any Directors under the Group's defined benefit scheme in respect of services to the Group.

Notes to the Group financial statements (continued)

3. Employees and Directors (continued)

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Group during the year were £743,000 (2019: £275,000).

4. Other operating income

	2020 £m	Restated 2019 £m
Power income	**12.1**	13.2
Requisitions and diversions charges	**29.4**	31.5
Service connection charges	**18.9**	21.1
Amortisation of deferred income recognised on adoption of assets at nil cost	**3.1**	4.0
Release from deferred income – infrastructure charges	**5.1**	4.9
Loss on sale of PPE	**(4.1)**	(7.0)
Rental income	**5.9**	2.7
Other income	**9.0**	23.0
Total	**79.4**	93.4

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

5. Finance income

	2020 £m	2019 £m
Interest income on bank deposits	**2.2**	1.5
Interest income on swaps	**65.2**	8.9
Other finance income on swaps	**0.2**	7.5
External trading interest income	**5.6**	0.9
Total	**73.2**	18.8

6. Finance expense

	2020 £m	2019 Restated[1] £m
Interest in relation to bank and other loans:		
Interest expense	**(467.3)**	(458.2)
RPI accretion on loans	**(105.1)**	(110.1)
Interest in relation to leases:		
Leases	**(3.7)**	(3.9)
Interest in relation to intercompany borrowings:		
Interest expense	**(613.2)**	(561.0)
Interest in relation to defined benefit obligation:		
Net interest expense on defined benefit obligation	**(6.3)**	(6.4)
Fees:		
Fees credited / (incurred) in relation to liquidation of the Cayman Islands entities[2]	**0.8**	(5.9)
Gross finance expense	**(1,194.8)**	(1,145.5)
Amortisation	**11.6**	11.6
Capitalised borrowing costs	**97.6**	109.3
Total finance expense	**(1,085.6)**	(1,024.6)

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements, which are discussed on page 51.

[2] Finance expense for the prior year ended 31 March 2019 included £5.9 million of fees incurred for the liquidation of the Cayman Island entities. No fees in relation to the liquidation were incurred for the year ended 31 March 2020. A credit of £0.8 million was recognised for the year ended 31 March 2020 in respect of these fees.

Notes to the Group financial statements (continued)

7. Net gains/(losses) on financial instruments

	2020 £m	2019 £m
Exchange losses on foreign currency borrowings	**(52.1)**	(68.0)
Gains arising on swaps where hedge accounting is not applied [1]	**277.8**	64.5
Loss on cash flow hedge transferred from equity [2]	**(34.9)**	(34.2)
Total	**190.8**	(37.7)

[1] Gain arising on swaps where hedge accounting is not applied primarily reflects lower RPI and interest rate expectations. This excludes accrued interest which is disclosed within note 5 Finance income and note 6 Finance expense.

[2] Refer to note 19 Financial Instruments on pages 75 to 83 for more information on the loss on cash flow hedge transferred from equity.

8. Taxation

Tax charge/(credit) in the income statement

		2020		2019 Restated[1]		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Current tax:						
Current year amounts due in respect of group relief	**(125.9)**	**6.1**	**(119.8)**	(111.5)	2.8	(108.7)
Overseas tax payable	**1.7**	**-**	**1.7**	-	-	-
Adjustment in respect of prior periods	**(0.6)**	**-**	**(0.6)**	(2.2)	-	(2.2)
	(124.8)	**6.1**	**(118.7)**	(113.7)	2.8	(110.9)
Deferred tax[1]:						
Origination and reversal of timing differences	**68.1**	**-**	**68.1**	7.2	-	7.2
Adjustment in respect of corporation tax rate change	**117.1**	**-**	**117.1**	-	-	-
Adjustment in respect of prior periods	**0.8**	**-**	**0.8**	10.5	-	10.5
	186.0	**-**	**186.0**	17.7	-	17.7
Tax (credit)/charge on (loss)/profit on ordinary activities	**61.2**	**6.1**	**67.3**	(96.0)	2.8	(93.2)

The total tax for the year ended 31 March 2020 is higher (2019: lower) than the standard rate of corporation tax in the UK. The differences are explained below:

		2020				2019 Restated[1]		
	Underlying £m	**BTL £m**	**Total £m**	Effective tax rate %	Underlying £m	BTL £m	Total £m	Effective tax rate %
(Loss)/profit on ordinary activities before taxation	**(328.5)**	**64.1**	**(264.4)**		(578.6)	47.2	(531.4)	
Current tax at 19% (2019: 19%)[1]	**(62.4)**	**12.2**	**(50.2)**	**19.0%**	(109.9)	9.0	(100.9)	19.0%
Effects of:								
Recurring items:								
Depreciation on assets that do not qualify for tax relief	**4.3**	**-**	**4.3**		4.2	-	4.2	
Disallowable expenditure [2]	**0.5**	**-**	**0.5**		2.4	-	2.4	
Non-taxable income [3]	**(4.6)**	**-**	**(4.6)**		(5.4)	-	(5.4)	
Property disposals [4]	**(0.1)**	**-**	**(0.1)**		-	-	-	
Tax differential on profits and losses of overseas subsidiaries	**0.1**	**-**	**0.1**		(0.1)	-	(0.1)	
Group relief not paid at standard rate [5]	**6.1**	**(6.1)**	**-**		6.2	(6.2)	-	
Tax as adjusted for recurring items	**(56.1)**	**6.1**	**(50.0)**	**18.9%**	(102.6)	2.8	(99.8)	19.3%
Non-recurring items:								
Tax rate change on temporary timing differences[6]	**117.1**	**-**	**117.1**		(1.7)	-	(1.7)	
Adjustments to tax charge in respect of prior periods – group relief [7]	**(0.6)**	**-**	**(0.6)**		(2.2)	-	(2.2)	
Adjustments to tax charge in respect of prior periods – deferred tax	**0.8**	**-**	**0.8**		10.5	-	10.5	
Total tax charge/(credit)	**61.2**	**6.1**	**67.3**	**(25.5%)**	(96.0)	2.8	(93.2)	18.6%

Notes to the Group financial statements (continued)

8. Taxation (continued)

[1]The restatement relates to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and other restatements, which have been disclosed on pages 49 to 51.

[2]Disallowable expenditure includes fines included in operating expenses.

[3] Non-taxable income relates to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while cost of the new service connections fixed assets is not eligible for capital allowances.

[4] Tax arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.

[5] Thames Water Utilities Limited ("TWUL") has decided to utilise tax losses available in its immediate parent company for the year ended 31 March 2020. TWUL will pay £5.8 million to its parent Company for the tax losses, of which £6.1 million arises on the profits of BTL (which are included within TWUL) and accordingly is shown in the income statement as a current year current tax charge. TWUL 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 TWUL. Utilising tax losses in this way should ultimately benefit customers through lower costs being recovered through bills in future regulatory settlements.

[6] A reduction in the UK corporation tax rate 19% from to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. However, this reduction was reversed in the March 2020 Budget and substantively enacted on 17th March 2020. Therefore, with effect from 1 April 2020 the corporation tax rate remains at 19% and the deferred tax assets and liabilities shown above as at 31 March 2020 have been calculated based on this rate, except the deferred tax liability on the pension surplus which is provided at 35%.

[7] The prior year current tax credit of £0.6 million is in respect of group relief receivable from the Company's immediate parent company.

The effective tax rate, as adjusted for recurring tax items, of 18.9% is slightly lower than the standard rate of corporation tax for the year of 19.0%.

The Group is not currently in a tax paying position with HMRC (although companies within the group do pay for group relief), primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs. The differences between (loss)/profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

	2020			2019 (Restated)		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit on ordinary activities before taxation[1]	**(328.5)**	**64.1**	**(264.4)**	(578.6)	47.2	(531.4)
Tax at 19% (2019: 19%)	**(62.4)**	**12.2**	**(50.2)**	(109.9)	9.0	(100.9)
Effects of:						
Depreciation on assets that do not qualify for relief	**4.3**	**-**	**4.3**	4.2	-	4.2
Disallowable expenditure	**0.5**	**-**	**0.5**	2.4	-	2.4
Non-taxable income	**(4.6)**	**-**	**(4.6)**	(5.4)	-	(5.4)
Property disposals	**(0.1)**	**-**	**(0.1)**	-	-	-
Tax differential on profits and losses of overseas subsidiaries	**0.1**	**-**	**0.1**	(0.1)	-	(0.1)
Capital allowances for the year (in excess of)/less than depreciation	**(3.3)**	**-**	**(3.3)**	45.2	-	45.2
Capitalised borrowing costs allowable for tax [9]	**(18.5)**	**-**	**(18.5)**	(20.8)	-	(20.8)
Tax deduction available on restatement for IFRS 15 [10]	**-**	**-**	**-**	(25.1)		(25.1)
Taxable profit on IFRS 16 and other restatements[11]	**5.5**	**-**	**5.5**	-	-	-
Losses/(profits) on financial derivatives [12]	**(48.8)**	**-**	**(48.8)**	(3.6)	-	(3.6)
Pension cost charge higher than (lower than) pension contributions	**(1.9)**	**-**	**(1.9)**	3.7	-	3.7
Other short term timing differences	**(1.1)**	**-**	**(1.1)**	(8.3)	-	(8.3)
Group relief not paid at standard rate	**6.1**	**(6.1)**	**-**	6.2	(6.2)	-
Adjustments in respect of prior periods	**(0.6)**	**-**	**(0.6)**	(2.2)	-	(2.2)
Current tax (credit)/charge for the year	**(124.8)**	**6.1**	**(118.7)**	(113.7)	2.8	(110.9)

[9] Capitalised borrowing costs are eligible for a full tax deduction in the year.

Notes to the Group financial statements (continued)

8. Taxation (continued)

[10] Tax relief is available on the net charge to reserves for IFRS 16, but most is available in future years, rather than this financial year. The credit to reserves arising on the Other restatements is taxable in full this financial year.

[11]The restatement relates to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and other restatements have been disclosed on pages 49 to 51. Tax relief is available on the net charge to reserves for IFRS16, but most is available in future years, rather than in this financial year. The credit to reserves arising on the Oher restatements is taxable in full this financial year.

[12]Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.

Uncertain tax positions

At 31 March 2020 the total value of provisions for uncertain corporation tax positions was £nil (2019: £nil).

Tax credited/(charged) directly to other comprehensive income

The deferred tax credited/(charged) directly to other comprehensive income during the year is as follows:

	2020 **£m**	2019 £m
Deferred tax:		
Tax (charge)/credit on net actuarial (gain)/loss in year	**(34.7)**	4.3
Impact of deferred tax rate change on net actuarial (gains)/losses	**7.7**	-
	(27.0)	4.3
Deferred tax:		
Tax (charge)/credit on cash flow hedges in year	**(5.2)**	(4.3)
Impact of deferred tax rate change on cash flow hedges	**2.2**	-
	(3.0)	(4.3)
Total (charged)/credited directly to other comprehensive income	**(30.0)**	-

9. Goodwill

The Directors have reviewed the carrying value of goodwill in line with the accounting policy on page 43 and do not consider there to be any impairment to this carrying value for the year ended 31 March 2020 (2019: £nil).

All purchased goodwill, which arose on acquisition of the Thames Water Utilities Limited group in 2006, has been allocated to the regulated water and wastewater business. Impairment of this purchased goodwill occurs where the carrying value is in excess of the net realisable value, the expected sales value of the regulated business.

An equity valuation model has been used which takes an external, observable, market multiplier uplift to the Regulatory Capital Value ("RCV") of the regulated business. This model has also been informed by recent equity transactions, involving the sale of shares in KWH by existing shareholders. Ofwat, an external regulator, have developed the RCV as a measure of the capital value of the business, and the use of a multiplier reflects any premium to which the equity of publicly listed water utilities is being traded.

The critical assumption is thus the multiple of RCV used. As at 31 March 2020, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 14.8% (2019: 14.8%) to the multiplier used would be required.

10. Interests in joint venture

Thames Water Limited, a wholly owned subsidiary of the Group, controls 50% of the share capital of Foudry Properties Limited ("Foudry"), a property company incorporated in the United Kingdom. Foudry made a loss in 2020 of £0.5 million (2019: £1.2m) and has net liabilities of £12.1 million (2019: £11.6m). The Group's share of these losses relate solely to loan and associated interest balances owed to the Group, which have been fully provided for, and consequently no separate provision in respect of these losses has been recognised.

As at 31 March 2020 the joint venture did not have any significant contingent liabilities to which the Group was exposed and the Group did not have any significant contingent liabilities in relation to its interests in the joint venture (2019: £nil). The Group had no capital commitments in relation to its interests in the joint venture as at 31 March 2020 (2019: £nil).

Notes to the Group financial statements (continued)

11. Intangible assets

	Software £m	Other £m	Assets in development £m	**Total £m**
Cost:				
At 1 April 2018	214.4	1.3	109.7	**325.4**
Additions	-	-	71.2	**71.2**
Transfers	26.5	-	(26.5)	**-**
At 31 March 2019	240.9	1.3	154.4	**396.6**
Additions	-	-	86.7	**86.7**
Write-offs	(4.1)	-	-	**(4.1)**
Transfers between categories and from PPE	222.5	-	(214.3)	**8.2**
Disposals	(0.6)	-	-	**(0.6)**
At 31 March 2020	458.7	1.3	26.8	**486.8**
Amortisation:				
At 1 April 2018	(155.5)	(0.9)	-	**(156.4)**
Amortisation charge	(21.9)	(0.1)	-	**(22.0)**
At 31 March 2019	(177.4)	(1.0)	-	**(178.4)**
Amortisation charge	(32.8)	(0.1)	-	**(32.9)**
Transfers from PPE	(2.2)	-	-	**(2.2)**
Disposals	0.4	-	-	**0.4**
At 31 March 2020	(212.0)	(1.1)	-	**(213.1)**
Net book value:				
At 31 March 2020	246.7	0.2	26.8	**273.7**
At 31 March 2019	63.5	0.3	154.4	**218.2**

Additions relate to IT projects undertaken including the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. £3.4 million borrowing costs were capitalised during the year (2019: £6.6 million). The write offs are included under operating expenses in the income statement. The effective rate of borrowing costs for the year was 4.55% (2019: 4.91%).

During the year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of intangible assets that was fully depreciated at 31 March 2020 amounted to £141.4 million (31 March 2019: £127.4 million).

Notes to the Group financial statements (continued)

12. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets (restated[1]) £m	Assets under construction £m	**Total (restated[1]) £m**
Cost:					
At 1 April 2018	3,681.5	7,709.0	7,094.0	2,437.6	**20,922.1**
Additions	-	0.5	36.7	1,098.2	**1,135.4**
Transfers between categories	170.7	504.2	233.1	(908.0)	**-**
Disposals	(1.5)	(22.6)	-	-	**(24.1)**
At 31 March 2019	3,850.7	8,191.1	7,363.8	2,627.8	**22,033.4**
Additions	-	0.4	30.9	1,105.0	**1,136.3**
Transfers between categories and to IA	62.3	379.8	428.5	(878.8)	**(8.2)**
Write-offs	-	(5.1)	-	(0.7)	**(5.8)**
Disposals	(2.0)	(8.2)	(0.1)	-	**(10.3)**
At 31 March 2020	3,911.0	8,558.0	7,823.1	2,853.3	**23,145.4**
Depreciation:					
At 1 April 2018	(1,018.5)	(4,214.4)	(493.3)	-	**(5,726.2)**
Depreciation charge	(60.3)	(350.2)	(134.4)	-	**(544.9)**
Disposals	0.7	13.8	-	-	**14.5**
At 31 March 2019	(1,078.1)	(4,550.8)	(627.7)	-	**(6,256.6)**
Depreciation charge	(59.1)	(371.5)	(138.4)	-	**(569.0)**
Transfers to IA	-	2.2	-	-	**2.2**
Disposals	0.5	6.2	-	-	**6.7**
At 31 March 2020	**(1,136.7)**	**(4,913.9)**	**(766.1)**	**-**	**(6,816.7)**
Net book value:					
At 31 March 2020	2,774.3	3,644.1	7,057.0	2,853.3	**16,328.7**
At 31 March 2019	2,772.6	3,640.3	6,736.1	2,627.8	**15,776.8**

[1] The prior year results have been restated due to the capitalisation of leakage detection costs, which are discussed on page 51.

£94.2 million of borrowing costs were capitalised in the period (2019: £102.7 million). The effective annual capitalisation rate for borrowing costs was 4.55% (2019: 4.91%).

During the year, assets previously categorised as property, plant and equipment were reclassified as Software assets and therefore were transferred from property, plant and equipment to intangibles. The amount transferred was £6.0 million net of depreciation (£8.2 million of asset cost and £2.2 million of accumulated depreciation).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2020 amounted to £2,485.1 million (31 March 2019: £2,359.6 million).

Assets under construction include amounts in respect of land and building purchases made in relation to the TTT project; an element of which will not be capitalised when the asset is brought into use. These land and buildings were acquired to perform necessary works relating to the construction and integration of the tunnel into our network and will be disposed of in due course once required works have been completed.

Notes to the Group financial statements (continued)

13. Leases

(i) Amounts recognised in the statement of financial position

Right-of-use assets		Restated[1]
As at	**31 March 2020**	31 March 2019
	£m	£m
Land and buildings	**52.3**	54.2
Total	**52.3**	54.2

Additions to right-of-use assets during the year ended 31 March 2020 were £nil million (31 March 2019: £3.9 million).

Lease liabilities		Restated[1]
As at	**31 March 2020**	31 March 2019
	£m	£m
Current	**(7.9)**	(7.4)
Non-current	**(62.4)**	(65.1)
Total	**(70.3)**	(72.5)

(ii) Amounts recognised in the income statement

		Restated[1]
For the year ended	**31 March 2020**	31 March 2019
	£m	£m
Depreciation charge of right-of-use assets	**8.2**	7.8
Interest expense included in finance costs	**3.7**	3.9
Expense relating to short-term leases, low value assets and variable lease payments not included in lease liabilities	**5.0**	7.7
Total	**16.9**	19.4

The total cash outflow for leases during the year ended 31 March 2020 was £11.0 million (31 March 2019: £10.1 million).

The Group's leasing activities consist of rentals payable for office properties and other land and buildings.

[1]The restatement relates solely to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and has been discussed on pages 49 to 51.

14. Inventories and current intangible assets

	2020	2019
	£m	£m
Raw materials and consumables	**13.6**	9.1
Current intangible assets – emissions allowances	**-**	4.4
Total	**13.6**	13.5

Emission allowances represent purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK). A provision (see note 21) is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement. This scheme was discontinued by the government as at 31 March 2019 and therefore this balance is £nil at 31 March 2020.

Notes to the Group financial statements (continued)

15. Trade and other receivables

	2020			Restated[1] 2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Prepayments and accrued income	**-**	**159.0**	**159.0**	-	101.9	101.9
Insurance claims receivable	**64.4**	**-**	**64.4**	30.8	-	30.8
Other receivables	**6.7**	**-**	**6.7**	13.4	-	13.4
	71.1	**159.0**	**230.1**	44.2	101.9	146.1
Current:						
Gross trade receivables	**475.9**	**13.5**	**489.4**	454.9	9.5	464.4
Less doubtful debt provision	**(185.1)**	**(2.7)**	**(187.8)**	(174.4)	(2.2)	(176.6)
Net trade receivables	**290.8**	**10.8**	**301.6**	280.5	7.3	287.8
Amounts owed by associated undertakings	**0.1**	**-**	**0.1**	0.5	-	0.5
Amounts receivable/(payable) in respect of group relief	**126.4**	**(6.1)**	**120.3**	455.7	(4.4)	451.3
Prepayments and accrued income	**32.0**	**-**	**32.0**	31.6	-	31.6
Other receivables	**35.6**	**0.8**	**36.4**	32.6	1.2	33.8
	484.9	**5.5**	**490.4**	800.9	4.1	805.0
Current:						
Contract assets[1]	**235.4**	**1.5**	**236.9**	217.5	0.9	218.4
Total	**791.4**	**166.0**	**957.4**	1,062.6	106.9	1,169.5

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value. The Directors believe that the Group is well placed to manage its business risks successfully, despite the current uncertainties in the economy as a result of COVID-19.

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 ‘Leases’ as discussed on pages 49 to 51.

Non-current prepayments at 31 March 2020 includes £159.0 million (2019: £101.9 million) of prepayment relating to the Bazalgette Tunnel Limited (“BTL”) arrangement. The prepayment relates to use of the tunnel which will occur once construction is complete.

Contract assets at 31 March 2020 includes £173.5 million (2019: £144.3 million) of services provided to metered customers. The remaining amount is for accrued capital contributions and accrued income from the BTL arrangement.

Expected credit loss provision

Movements in the expected credit losses provision were as follows:

	2020 £m	2019 £m
At 1 April	**(176.6)**	(174.3)
Charge for bad and doubtful debts – charged against revenue	**(33.1)**	(33.4)
Charge for bad and doubtful debts – included within operating expenses	**(40.8)**	(29.2)
Excess credits recognised during the year	**(5.1)**	(11.8)
Amounts directly charged to revenue and not included in bad debt expense	**-**	(3.9)
Amounts written off	**67.8**	76.0
Total at 31 March	**(187.8)**	(176.6)

Ageing of gross receivables is as follows:

	2020 £m	2019 £m
Up to 365 days	**274.3**	243.9
1 – 2 years	**78.5**	131.7
2 – 3 years	**94.4**	38.1
More than 3 years	**42.2**	50.7
Total	**489.4**	464.4

Notes to the Group financial statements (continued)

15. Trade receivables (continued)

The ageing of gross BTL receivables[1] is as follows:

	2020 £m	2019 £m
Up to 365 days	**8.3**	4.7
1 – 2 years	**2.4**	4.8
2 – 3 years	**2.8**	-
Total	**13.5**	9.5

[1] This relates to the amount of receivables collected from other partied and passed on to BTL.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets. This is calculated based on historical experience of levels of recovery and what might happen in the future.

Expected credit loss split by ageing is as follows:

	2020 £m	2019 £m
Up to 365 days	**82.1**	66.2
1 – 2 years	**32.4**	40.6
2 – 3 years	**44.4**	34.9
More than 3 years	**28.9**	34.9
Total	**187.8**	176.6

The ageing of impaired BTL receivables[1] is as follows:

	2020 £m	2019 £m
Up to 365 days	**1.4**	0.8
1 – 2 years	**0.6**	1.4
2 – 3 years	**0.7**	-
Total	**2.7**	2.2

[1] This relates to the amount of receivables collected from other partied and passed on to BTL.

Trade and other receivables are part of the Group's financial exposure to credit risk as explained on page 15.

16. Cash and cash equivalents

		2020			2019	
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Cash at bank and in hand[1]	**16.7**	**-**	**16.7**	2.6	0.3	2.9
Short-term deposits	**798.5**	**2.6**	**801.1**	511.2	7.3	518.5
Total	**815.2**	**2.6**	**817.8**	513.8	7.6	521.4

[1] The total cash and cash equivalents balance includes £2.6m (31 March 2019: £2.6 million) which is held as a security for the SUURBS defined benefit pension scheme. The use of the cash is restricted to this purpose only.

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid at the reporting date.

Notes to the Group financial statements (continued)

17. Trade and other payables

	2020			Restated[1] 2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
Non-current:						
Contract liabilities	**707.3**	**-**	**707.3**	636.1	-	636.1
Current:						
Trade payables - operating	**229.7**	**-**	**229.7**	255.8	-	255.8
Amounts owed (from) / to group undertakings	**-**	**-**	**-**	0.4	-	0.4
Amounts owed to Bazalgette Tunnel Limited	**-**	**10.3**	**10.3**	-	11.1	11.1
Accruals[1]	**341.4**	**-**	**341.4**	337.7	-	337.7
Other taxation and social security	**7.2**	**-**	**7.2**	7.5	-	7.5
Other payables	**82.8**	**-**	**82.8**	85.8	-	85.8
	661.1	**10.3**	**671.4**	687.2	11.1	698.3
Current:						
Contract liabilities[1]	**123.8**	**0.3**	**124.1**	110.6	3.4	114.0
Total	**1,492.2**	**10.6**	**1,502.8**	1,433.9	14.5	1,448.4

Current contract liabilities at 31 March 2020 includes £78.2 million (2019: £75.6 million) of receipts in advance from customers for water and wastewater charges. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2020 includes £511.9 million (2019: £497.0 million) of deferred infrastructure charges, £166.0 million of deferred income for nil cost "adopted" assets (2019: £121.4 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 within the scope of IFRS 7 is approximately equal to their fair value.

[1] The restatement relates solely to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 and has been discussed on pages 49 to 51.

18. Borrowings

	2020 £m	2019 £m
Secured bank loans and private placements	**5,563.5**	3,973.8
Bonds	**8,642.5**	8,970.8
Amounts owed to group undertakings	**3,100.6**	3,100.6
	17,306.6	16,045.2
Interest payable on secured bank loans and other financing	**183.0**	186.1
Interest payable on amounts owed to group undertakings	**3,232.0**	3,069.9
	3,415.0	3,256.0
Total	**20,721.6**	19,301.2
Disclosed within current liabilities	**1,814.9**	1,550.8
Disclosed within non-current liabilities	**18,906.7**	17,750.4

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, have guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

Notes to the Group financial statements (continued)

18. Borrowings (continued)

Breakdown of secured bank loans and private placements:

	2020 £m	2019 £m
Thames Water Utilities Limited:		
£60.0m 1.230% index-linked loan due 2019 (h)	-	78.8
£60.0m 1.415% index-linked loan due 2020 (h)	-	78.5
£60.0m 1.513% index-linked loan due 2020 (h)	-	78.1
£60.0m 1.380% index-linked loan due 2020 (h)	-	77.9
£60.0m 1.356% index linked loan due 2020 (h)	-	77.9
£100.0m floating rate loan due 2020 (a), (c)	-	99.9
£75.0m 1.350% index linked loan due 2021 (e), (h)	**91.6**	89.2
£215.0m 0.460% index-linked loan due 2023 (a), (h)	**254.8**	248.1
£215.0m 0.380% index-linked loan due 2032 (a), (b), (h)	**209.5**	218.9
£100.0m 3.280% index-linked loan due 2043 (a), (d), (h)	**133.1**	129.6
£100.0m 0.790% index-linked loan due 2025 (a), (e), (h)	**112.8**	109.9
£125.0m 0.598% index-linked loan due 2026 (a), (e), (h)	**140.4**	136.7
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	**70.0**	70.0
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	**50.0**	50.0
£20.0m Class B floating rate loan due 2026 (a)	**20.0**	20.0
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	**38.5**	38.4
$55.0m 3.380% private placement due 2023 (a), (f)	**44.2**	42.3
$285.0m 3.570% private placement due 2025 (a), (f)	**229.0**	218.9
£216.0m 2.450% private placement due 2028 (a)	**215.4**	215.4
£210m 2.550% private placement due 2030 (a)	**209.3**	209.3
£40m 2.620% private placement due 2033 (a)	**39.8**	39.8
£150.0m floating rate loan due 2024 (a)	**149.7**	149.5
£125.0m floating rate loan due 2024 (a)	**124.4**	-
£50.0m floating rate loan due 2022 (a)	**49.9**	-
£63.1m floating rate loan due 2027 (a)	**62.9**	-
£63.1m floating rate loan due 2029 (a)	**62.9**	-
£63.1m floating rate loan due 2031 (a)	**62.8**	-
Thames Water Utilities Limited total	**2,371.0**	2,477.1
Thames Water Utilities Finance plc		
£245.0m 1.031% floating rate loan due 2019 (c), (g)	-	245.0
£214.3m 1.397% Class B floating rate loan due 2019 (c), (g)	-	214.3
£600.0m 1.029% floating rate loan due 2020 (c), (g)	**600.0**	-
£300.0m 1.029% floating rate loan due 2020 (c), (g)	**300.0**	-
£300.0m 1.001% floating rate loan due 2020 (c), (g)	**300.0**	-
£214.3m 1.082% Class B floating rate loan due 2020 (c), (g)	**214.3**	-
£150.0m 2.329% Class B floating rate loan due 2023 (c), (g)	**150.0**	-
$106.0m 4.070% private placement due 2026 (f)	**85.1**	-
$131.0m 4.270% private placement 2029 (f)	**105.1**	-
€50.0m 2.100% private placement due 2030 (f)	**44.1**	-
$150.0m 3.870% private placement due 2022 (f)	**120.7**	115.5
$200.0m 4.020% private placement 2024 (f)	**161.0**	153.9
$250.0m 4.220% private placement due 2027 (f)	**201.2**	192.4
Thames Water Utilities Finance plc total	**2,281.5**	921.1
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a)	**74.5**	74.0
£200.0m floating rate loan due 2025 (a)	**198.1**	197.6
£4.5m fixed rate due 2025 (a)	**4.4**	4.4
£5.5m fixed rate due 2025 (a)	**5.4**	5.4
£100.0m fixed rate due 2025 (a)	**98.3**	98.1
£200.0m fixed rate due 2025 (a)	**196.6**	196.1
£40.0m 5.39% fixed rate due 2026 (a)	**39.3**	
£3.3m 5.39% fixed rate due 2026 (a)	**3.2**	
£30.5m 5.39% fixed rate due 2026 (a)	**30.0**	
£58.0m 5.39% fixed rate due 2026 (a)	**57.0**	
£18.0m 5.39% fixed rate due 2026 (a)	**17.7**	
£190.0m floating rate loan due 2024 (a)	**186.5**	
Kemble Water Finance Limited total	**911.0**	575.6
Total secured bank loans and private placements	**5,563.5**	3,973.8

Notes to the Group financial statements (continued)

18. Borrowings (continued)

All loans are Class A except where highlighted.

(a) These loans and private placements are shown net of issue costs.
(b) This debt amortises in equal tranches from 2017 onwards.
(c) The interest margins of these loans are based on a ratings grid and will increase should the securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
(f) The Group has entered into Cross currency swap agreements which convert this debt into sterling debt.
(g) In March 2020 £1,200 million out of the £1,432.1 million Class A revolving credit facility was drawn, £214.3 million out of the £214.3 million Class B revolving credit facility was drawn and £150.0 million out of the £300.0m Class B term loan facility was drawn. In April 2020, £350.0 million of the Cass A drawdown and the £214.3 million Class B drawdown were repaid in May 2020, a further £40.0 million of the Class A drawdown was repaid.
(h) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

Breakdown of bonds:	**2020 £m**	2019 £m
Thames Water Utilities Finance plc		
£200.0m 5.050% fixed rate due 2020 (c), (g)	**200.3**	201.0
£225.0m 6.590% fixed rate due 2021 (k)	**233.7**	237.1
£175.0m 3.375% index-linked due 2021 (b), (d)	**290.4**	282.4
£330.0m 6.750% fixed rate due 2028 (b), (h)	**382.1**	385.5
£200.0m 6.500% fixed rate due 2032 (b), (c), (i)	**242.4**	244.4
£600.0m 5.125% fixed rate due 2037 (b), (c), (j)	**653.7**	655.2
£300.0m 1.680% index-linked due 2053 (b), (d)	**447.4**	435.3
£300.0m 1.681% index-linked due 2055 (b), (d)	**447.4**	435.3
€113.0m 2.300% CPI index-linked bond due 2022 (a), (c)	**108.0**	104.1
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	**298.5**	298.1
£300.0m 4.375% fixed rate bond due 2034 (b)	**295.9**	295.6
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	**149.4**	139.0
£50.0m 3.853% index-linked bond due 2040 (d)	**66.6**	64.9
£500.0m 5.500% fixed rate bond due 2041 (b)	**490.0**	489.8
£50.0m 1.980% index-linked bond due 2042 (d)	**70.4**	68.9
£55.0m 2.091% index-linked bond due 2042 (b), (d)	**74.7**	72.8
£40.0m 1.974% index-linked bond due 2045 (b), (d)	**46.3**	46.3
£300.0m 4.625% fixed rate bond due 2046 (b)	**293.4**	293.3
£100.0m 1.846% index-linked bond due 2047 (d)	**140.9**	137.8
£200.0m 1.819% index-linked bond due 2049 (b), (d)	**281.3**	275.2
£200.0m 1.771% index-linked bond due 2057 (b), (d)	**281.3**	275.2
£350.0m 1.760% index-linked due 2062 (b), (d)	**492.1**	481.5
£500.0m 4.000% fixed rate due 2025 (b)	**496.5**	495.9
£40.0m 0.750% index-linked loan due 2034 (b), (d)	**44.7**	43.5
£45.0m 0.721% index-linked loan due 2027 (b), (d)	**50.2**	48.9
£300.0m 3.500% fixed rate loan due 2028 ((b)	**297.0**	296.6
£400.0m 7.738% fixed rate bond due 2058 (b)	**419.3**	419.9
£250.0m 1.875% fixed rate bond due 2024 (b)	**248.5**	248.1
£250.0m 2.625% fixed rate bond due 2032 (b)	**247.6**	247.4
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	**299.1**	298.8
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	**247.3**	246.9
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	**141.1**	142.3
Fees (f)	**(9.3)**	(9.5)
Thames Water Utilities Finance Limited total	**8,468.2**	8,397.5
Thames Water (Kemble) Finance plc		
£400m 7.75% fixed rate bond due 2019 (b)	**-**	399.3
£175m 5.75% fixed rate bond due 2022 (b)	**174.3**	174.0
Thames Water (Kemble) Finance plc total	**174.3**	573.3
Total bonds	**8,642.5**	8,970.8

Notes to the Group financial statements (continued)

18. Borrowings (continued)

All bonds are Class A except where highlighted.

(a) The Group has entered into cross currency swap agreements which convert this debt into sterling debt.
(b) These bonds are shown net of issue costs.
(c) The Group has entered into swap agreements that convert this debt into £ index-linked debt.
(d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
(e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
(f) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
(g) This bond includes £0.3 million (2019: £1.0 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(h) This bond includes £54.3 million (2019: £58.0 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(i) This bond includes £44.5 million (2019: £46.6 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(j) This bond includes £57.1 million (2019: £58.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.
(k) This bond includes £8.7 million (2019: £12.1 million) fair value adjustments to carrying value at acquisition by Kemble Water Holdings Group.

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble Water Holdings Group is £166.5 million (2019: £178.1 million). Capitalised debt issuance costs in relation to the debt portfolio are £87.0 million (2019: £86.0 million).

Breakdown of amounts owed to group undertakings:

Kemble Water Eurobond plc	**2020 £m**	2019 £m
£3,100.6 fixed rate due on demand	**3,100.6**	**3,100.6**
Total owed to group undertakings	**3,100.6**	**3,100.6**

Notes to the Group financial statements (continued)

19. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities are as follows:	**2020 £m**	2019 £m
Financial assets:		
Fair value through profit and loss		
Cross currency swaps	**177.2**	73.1
Interest rate swaps	**87.7**	10.7
Index-linked swaps	**109.4**	78.5
	374.3	162.3
Amortised cost		
Trade and other receivables (excluding prepayments)	**522.7**	804.2
Short-term investments	**300.0**	-
Cash and cash equivalents	**817.8**	521.4
Total	**2,014.8**	1,487.9

	2020 £m	2019 Restated[1] £m
Financial liabilities:		
Fair value through profit and loss		
Cross currency swaps	**(51.3)**	(60.0)
Interest rate swaps	**(252.1)**	(180.7)
Index-linked swaps	**(757.5)**	(995.5)
Derivatives designated as hedging instruments		
Forward starting interest rate swaps – cash flow hedges	**-**	(26.2)
Amortised cost		
Trade and other payables (excluding other taxation and social security)	**(664.3)**	(597.3)
Borrowings	**(20,721.6)**	(19,301.2)
Lease liabilities	**(70.3)**	(72.5)
Total	**(22,517.1)**	(21,233.4)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51.

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 31 March 2020:

	Level 2[1]	
	2020 £m	2019 £m
Financial assets - derivative financial instruments:		
Cross currency swaps	**177.2**	73.1
Interest rate swaps	**87.7**	10.7
Index-linked swaps	**109.4**	78.5
	374.3	162.3
Financial liabilities - derivative financial instruments:		
Cross currency swaps	**(51.3)**	(60.0)
Interest rate swaps	**(252.1)**	(180.7)
Index-linked swaps	**(757.5)**	(995.5)
Forward starting interest rate swaps	**-**	(26.2)
	(1,060.9)	(1,262.4)
Net total	**(686.6)**	(1,100.1)

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

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

During November 2019, the maturity dates of three index-linked swaps, with a total notional of £400.0 million, was extended. These swaps are measured at fair value through the income statement. At the restructuring date the fair value of these instruments, as indicated by their fair value immediately prior to the restructuring, could not be supported by observable inputs alone. In management's view the reduction in value of £38.0 million is supported by unobservable factors including the counterparty's credit, capital, funding and trading charges. Therefore, such movement was deferred on the balance sheet in compliance with IFRS 9 and will be recognised in the income statement on a straight-line basis over the life of the underlying derivative instrument. As at 31 March 2020, £37.3 million (31 March 2019: £nil) remained capitalised and £0.7 million had been recognised in the income statement.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Group's trade and other receivables, lease liabilities, cash equivalents, short-term investments 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 table below:

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Non-current				
Derivative financial instruments				
Cross currency swaps	**177.2**	**177.2**	73.1	73.1
Interest rate swaps	**87.7**	**87.7**	10.7	10.7
Index-linked swaps	**109.4**	**109.4**	78.5	78.5
	374.3	**374.3**	162.3	162.3
Current				
Short-term investments	**300.0**	**300.0**	-	-
Cash and cash equivalents	**817.8**	**817.8**	521.4	521.4
Total	**1,492.1**	**1,492.1**	683.7	683.7

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

	2020		2019 restated[1]	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(4,133.2)**	**(4,322.8)**	(3,009.4)	(3,291.1)
Bonds	**(8,440.9)**	**(10,402.1)**	(8,570.5)	(10,738.4)
Amounts owed to group undertakings	**(3,100.6)**	**(3,100.6)**	(3,100.6)	(3,100.6)
Interest payable	**(3,232.0)**	**(3,232.0)**	(3,069.9)	(3,069.9)
Derivative financial instruments:				
Cross currency swaps	**(51.3)**	**(51.3)**	(60.0)	(60.0)
Interest rate swaps	**(252.1)**	**(252.1)**	(180.7)	(180.7)
Index-linked swaps	**(742.5)**	**(742.5)**	(956.9)	(956.9)
Forward starting interest rate swaps	**-**	**-**	(26.2)	(26.2)
Current				
Borrowings:				
Secured bank loans and private placements	**(1,430.3)**	**(1,436.5)**	(964.4)	(977.7)
Bonds	**(201.6)**	**(200.4)**	(400.3)	(400.3)
Interest payable	**(183.0)**	**(183.0)**	(186.1)	(186.1)
Derivative financial instruments:			-	-
Index-linked swaps	**(15.0)**	**(15.0)**	(38.6)	(38.6)
Lease liabilities	**(7.9)**	**(7.9)**	(7.4)	(7.4)
Total	**(21,790.4)**	**(23,946.2)**	(20,571.0)	(23,033.9)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51.

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.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively overseas the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain the Company's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The Group guarantees the funding activity of Thames Water Utilities Finance plc which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- Interest cover ratios
- Gearing ratios
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index linked
- Unsecured debt ratios

The Securitisation Group complied with these ratios throughout the financial year.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

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

	2020 £m	2019 Restated[1] £m
Secured bank loans, private placements and other financing	**(14,206.0)**	(12,944.6)
Amounts owed to group undertakings	**(3,100.6)**	(3,100.6)
Interest payable on secured bank loans, private placements and other financing	**(183.0)**	(186.1)
Interest payable on amounts owed to group undertakings	**(3,232.0)**	(3,069.9)
Lease liability[1]	**(70.3)**	(67.4)
Cash and cash equivalents[2]	**815.2**	521.4
Short-term investments	**300.0**	-
Net debt (statutory basis)	**(19,676.7)**	(18,847.2)
Amounts owed to group undertakings	**3,100.6**	3,100.6
Interest payable on secured bank loans, private placements and other financing	**183.0**	186.1
Interest payable on amounts owed to group undertakings	**3,232.0**	3,069.9
Unamortised debt issuance costs and discount	**(87.0)**	(86.0)
Derivative financial liabilities	**(110.6)**	(222.0)
Fair value adjustment on acquisition to loans	**166.5**	178.1
Unamortised IFRS9 adjustment	**25.1**	25.8
Cash held by non-covenant entities	**(29.3)**	(26.6)
Net debt (covenant basis)	**(13,196.4)**	(12,621.3)

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 which are discussed on page 51. The restatement has resulted in an adjustment of £5.8m to the equity disclosed.

Net debt (covenant basis) excludes accrued interest, amounts owed to group undertakings, unamortised debt issuance costs and discounts, fair value adjustment made to the Thames Water Group's borrowing on acquisition by Kemble Water consortium, cash held by non-covenant entities, unamortised IFRS 9 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 swaps.

[2] The cash and cash equivalents balance excludes £2.6m (31 March 2019: £2.6 million) which is held as security for the SUURBS defined benefit pension scheme. The use of the cash is restricted for this purpose only.

A summary of the Group's net debt (covenant basis) by different types of debt is as follows:

	2020 £m	2019 £m
Securitised Class A debt	**(11,718.9)**	(10,646.1)
Securitised Class B debt	**(1,393.3)**	(1,243.3)
Subordinated debt	**(1,099.8)**	(1,159.3)
Cash net of cash held by non-covenant entities	**1,085.9**	494.8
Lease liability[1]	**(70.3)**	(67.4)
Net debt (covenant basis)	**(13,196.4)**	(12,621.3)

[1] The impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 is discussed on pages 49 to 51.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2020			2019		
	Borrowings £m	**Net derivative financial liabilities £m**	**Lease liabilities [4]**	Borrowings £m	Net derivative financial liabilities[3] £m	Lease liabilities [4]
Opening balance	**(19,301.2)**	**(1,100.1)**	**(72.5)**	(17,753.2)	(1,153.3)	(75.3)
Non-Current	**(17,750.4)**	**(1,061.5)**	**(65.1)**	(17,451.1)	(1,149.5)	(72.5)
Current	**(1,550.8)**	**(38.6)**	**(7.4)**	(302.1)	(3.8)	(2.8)
Cash flows						
New loans raised	**(3,474.4)**	**-**	**-**	(1,452.7)	-	-
Repayment of borrowings	**2,366.5**	**-**	**-**	670.2	-	-
Repayment of lease principal	**-**	**-**	**11.0**			10.1
Derivative paydown [1]	**-**	**123.2**	**-**	-	(2.8)	-
Interest paid[2]	**905.1**	**-**	**-**	436.8		-
Interest received	**-**	**(48.7)**	**-**	-	(8.5)	-
	(202.8)	**74.5**	**11.0**	(345.7)	(11.3)	10.1
Non-cash changes						
Interest accrued / Fees amortised	**(1,072.7)**	**65.2**	**-**	(1,010.0)	8.9	-
Foreign exchange movement	**(52.1)**	**-**	**-**	(68.0)	-	-
Accretion	**(105.1)**	**-**	**-**	(110.1)	-	-
Unamortised IFRS9 adjustment	**0.7**	**-**	**-**	(25.8)	-	-
Lease additions	**-**	**-**	**(5.1)**			(3.4)
Interest accrued on IFRS 16 leases	**-**	**-**	**(3.7)**			(3.9)
Fair value changes	**-**	**273.8**	**-**	-	55.6	-
Fair value amortisation	**11.6**	**-**	**-**	11.6	-	-
	(1,217.6)	**339.0**	**(8.8)**	(1,202.3)	64.5	(7.3)
Closing balance	**(20,721.6)**	**(686.6)**	**(70.3)**	(19,301.2)	(1.100.1)	(72.5)
Non-Current	**(18,906.7)**	**(671.6)**	**(62.4)**	(17,750.4)	(1,061.5)	(65.1)
Current	**(1,814.9)**	**(15.0)**	**(7.9)**	(1,550.8)	(38.6)	(7.4)

[1] Derivative paydown of £123.2 million (2019: £13.4 million) relates to index-linked swaps where accretion is payable periodically.

[2] Interest paid of £905.1 million (2019: £436.8 million) includes £97.6 million of capitalised borrowing costs (2019: £109.3 million) and excludes £0.2 million of bank charges (2019: £0.5 million).

[3] The reconciliation of liabilities from financing activities in respect of derivative financial liabilities includes a net derivative financial liability position, prior year numbers have been updated accordingly.

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk, exchange rate risk and inflation risk), credit risk, and liquidity risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described below and overleaf.

(a) Market risk

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk.:

As at 31 March 2020:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	**Total £m**
Interest bearing loans and borrowings Net of corresponding swap assets				
- £ Sterling	7,777.3	2,206.9	7,241.5	17,225.7
Total	7,777.3	2,206.9	7,241.5	17,225.7

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	Total £m
Interest bearing loans and borrowings				
Net of corresponding swap assets				
- £ Sterling	9,637.4	901.2	5,524.7	16,063.3
Total	9,637.4	901.2	5,524.7	16,063.3

The weighted average interest rates of the debt held by the Group, after taking into account the derivative financial instruments used to manage market risk, and the period until maturity for which the rate is fixed and index-linked, are given below:

	Weighted average interest rate		Weighted average period until maturity	
	2020	2019	**2020**	2019
	%	%	**Years**	Years
Fixed	**7.2**	6.7	**13.4**	13.0
Index-Linked	**3.6**	4.4	**18.1**	20.9

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements. For details of the interest rate swaps please see the Cash flow hedges section of this note on page 83.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2020. This analysis considers the effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**294.1**	**(344.3)**	275.0	(338.0)
Equity	**294.1**	**(344.3)**	287.7	(350.9)

(ii) Exchange rate risk sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2020. This analysis assumes that all other variables in the valuation remain constant.

	2020		2019	
	+10%	**-10%**	+10%	-10%
	£m	**£m**	£m	£m
Profit	**(28.4)**	**24.5**	(20.9)	8.4
Equity	**(28.4)**	**24.5**	(20.9)	8.4

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2020. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1%	**-1%**	+1%	-1%
	£m	**£m**	£m	£m
Profit	**(740.1)**	**699.1**	(635.7)	511.4
Equity	**(740.1)**	**699.1**	(635.7)	511.4

(b) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, insurance receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15. For non-household customers, the credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to conditions that exist within the non-household market.

Under the terms of the WBS agreement, counterparties to the Group's short-term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement. No collateral was held as at 31 March 2020 (2019: nil).

The following table summarises amounts held on short-term investments by credit rating of counterparties.

	2020	2019
	£m	£m
A+	**150.0**	-
A	**150.0**	-
Total	**300.0**	-

The following table summarises fair value of derivatives asset by credit rating of counterparties.

	2020	2019
	£m	£m
A+	**228.2**	88.1
A	**43.3**	36.0
A-	**9.4**	-
AA-	**93.4**	38.2
Total	**374.3**	162.3

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

(C) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different markets and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions Details of the nature and management of the Group's liquidity risk is provided on page 15.

The maturity profile of interest-bearing loans and borrowings disclosed in the statement of financial position are given below.

	2020 **£m**	2019 £m
Within one year	**1,632.0**	1,364.7
Between one and two years	**753.8**	215.9
Between two and three years	**468.3**	739.1
Between three and four years	**1,130.4**	409.3
Between four and five years	**961.3**	1,113.4
After more than five years	**12,360.8**	12,202.8
Total	**17,306.6**	16,045.2

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2020** **£m**	2019 £m
Within one year	**(2,750.4)**	(2,416.3)
Between one and two years	**(1,206.4)**	(627.3)
Between two and three years	**(893.3)**	(1,175.1)
Between three and four years	**(1,568.4)**	(795.0)
Between four and five years	**(1,360.6)**	(1,540.6)
After more than five years	**(21,591.3)**	(23,831.5)
Total	**(29,370.4)**	(30,385.8)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps and cross currency swaps), based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	**2020** **£m**	2019 £m
Within one year	**168.0**	(46.9)
Between one and two years	**150.1**	(19.5)
Between two and three years	**77.8**	24.9
Between three and four years	**(13.8)**	(68.6)
Between four and five years	**(86.1)**	(137.4)
After more than five years	**(1,238.4)**	(1,521.5)
Total	**(942.4)**	(1,769.0)

Notes to the Group financial statements (continued)

19. Financial instruments (continued)

Cash flow hedges

The Group has designated a number of contracts which qualify, in accordance with IFRS 9: Financial Instruments, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 48.

In mid-2014 the Group executed £2.25 billion of forward-starting floating to fixed interest rate swaps of a 5-7 year maturity with various financial institutions. At inception the swaps were designated as a cash flow hedge of the future interest cost of debt to be issued from 2017 to 2020. The effective portion of the fair value movements on these swaps was recognised in the cash flow hedge reserve, to be reclassified to the income statement over the life of the underlying hedged debt.

As of the start of this year £2.0 billion of these swaps had already commenced. The remaining £250.0 million, due to commence in September 2019, were restructured in July 2019. The cash flow hedge relationship was terminated at the restructuring date because changes in the expected cash flows would result in significant ineffectiveness. The fair value movements prior to termination were recognised in the cash flow hedge reserve and will be reclassified to the income statement over the life of the underlying hedged debt which, although delayed, was still expected to be issued. Fair value movements subsequent to termination were recognised in the income statement. In September 2019, on commencement, the £250 million swaps were reclassified from forward starting swaps to interest rate swaps.

During the year a £4.1 million loss (2019: loss of £8.9 million) was recognised in the cash flow hedge reserve and a £34.9 million loss (2019: £34.2 million loss) was reclassified from the cash flow hedge reserve to the income statement, see statement of changes in equity. The amount reclassified of £34.9 million consisted of a £31.6 million loss related to hedged exposure that crystallised during the year and a £3.3 million loss due to ineffectiveness relating to the swaps that were restructured during the year due to the delay in issuance of the related debt.

The Group's cash flow hedge reserve disclosed on the statement of changes in equity on page 36 relate to forward starting interest rate swaps.

	£m
At 1 April 2018	**(139.0)**
Loss on cash flow hedge	**(8.9)**
Cash flow hedge transferred to income statement	**34.2**
Deferred tax	**(4.3)**
At 31 March 2019	**(118.0)**
Loss on cash flow hedge	**(4.1)**
Cash flow hedge transferred to income statement	**34.9**
Deferred tax charge on cash flow hedge gains including impact of deferred tax rate change	**(3.0)**
At 31 March 2020	**(90.2)**

Following are the effects of forward starting interest rate swaps on the Group's financial position and performance:

	2020 £m	2019 £m
Carrying amount	**-**	26.2
Notional amount	**-**	250.0
Change in fair value during the year	**4.1**	5.5
Change in the value of hedged item used to determine hedge effectiveness	**4.1**	5.6
Maturity date	**-**	September 2024
Hedge ratio	**-**	1:1

Undiscounted amounts payable	**2020 £m**	2019 £m
The expected cash flows of the Group's cash flow hedging instruments are as follows:		
Within one year	**-**	(2.4)
Between one and two years	**-**	(4.9)
Between two and three years	**-**	(4.9)
Between three and four years	**-**	(4.9)
Between four and five years	**-**	(4.9)
After more than five years	**-**	(2.4)
Total	**-**	(24.4)

Notes to the Group financial statements (continued)

20. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedge £m	Other £m	**Total £m**
At 31 March 2018	(1,159.0)	32.2	158.8	79.3	**(888.7)**
Restatement for IFRS 16[1]	-	-	-	1.6	**1.6**
At 1 April 2018 (Restated)	(1,159.0)	32.2	158.8	80.9	**(887.1)**
Credit/(charge) to income	15.0	3.7	(3.4)	(33.0)	**(17.7)**
Credit/(charge) to other comprehensive income	-	4.3	(4.3)	-	**-**
At 31 March 2019	(1,144.0)	40.2	151.1	47.9	**(904.8)**
Credit/(charge) to income	(153.2)	(5.2)	(33.9)	6.3	**(186.0)**
Charge to other comprehensive income	-	(27.0)	(3.0)	-	**(30.0)**
At 31 March 2020	(1,297.2)	8.0	114.2	54.2	**(1,120.8)**

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' and other restatements on 1 April 2019, which have been discussed on pages 49 and 51.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within TWUL mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- Retirement benefit obligations: A deferred tax asset is provided on the net retirement benefit obligations booked in the accounts. The £8.0M deferred tax asset carried forward is the net of an asset of £39.7m (19% of the deficit on the TWPS pension scheme of £209.1m) less a liability of £33.0m (35% of the surplus on the MIPS pension scheme of £94.5m) and an asset of £1.3m (19% of the SUURBS surplus of £7.0m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.

- Cash flow hedge: A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.

- Other: A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation. A deferred tax asset is also provided on fair values on loans booked on consolidation; there will be no current tax impact in future but deferred tax charges will arise as these fair values are amortised in the accounts.

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

	2020 £m	2019 £m
Deferred tax asset	**176.4**	239.2
Deferred tax liability	**(1,297.2)**	(1,144.0)
Total	**(1,120.8)**	(904.8)

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset not recognised at 19% (2019: 17%) is:

	2020 £m	2019 £m
Deferred tax asset not recognised in respect of tax losses	**7.4**	6.6

Notes to the Group financial statements (continued)

21. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Capital Infrastructure provision £m	Dilapidations £m	Other provisions £m	**Total £m**
At 1 April 2019 (restated[1])	4.6	59.3	20.5	10.2	25.3	**119.9**
Utilised during the period	(4.6)	(25.9)	(4.1)	-	(11.2)	**(45.8)**
Charge/(credit) to income statement	-	51.7	-	0.8	18.9	**71.4**
Charge/(credit) to capital project	-	-	-	-	(1.0)	**(1.0)**
Transfer from current liabilities	-	-	1.1	-	-	**1.1**
At 31 March 2020	**-**	**85.1**	**17.5**	**11.0**	**32.0**	**145.6**

[1] The prior year results have been restated due to the impact of the recording of a provision for property dilapidations which is discussed on page 51.

At 1 April 2019, emissions provisions relate to the obligation to purchase carbon emissions allowances. This scheme was discontinued by the government as at 31 March 2019 and therefore this amount has been utilised during the period.

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 increase in insured liabilities in current year to £85.1 million (2019: £59.3 million) relates to an incident in Finsbury Park that occurred in October 2019. The receivable is disclosed in note 15. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs arising from the construction of infrastructure assets. Due to the uncertain timing of these costs the Group considers it appropriate to classify these 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 (either before or following court proceedings) and associated costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

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 subject to early stage correspondence between the parties and/or litigation. 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. There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

The Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Notes to the Group financial statements (continued)

22. Share capital and other reserves

Share capital

	2020 £m	2019 £m
Allotted, called-up and fully paid:		
1,000,001 ordinary shares of £1 each	**1.0**	1.0

The Group has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Group.

Other reserves

	2020 £m	Restated[1] 2019 £m
Cash flow hedge reserve	**(90.2)**	(118.0)
Retained earnings	**(4,068.5)**	(3,878.1)
Total	**(4,158.7)**	(3,996.1)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

[1] The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 16 'Leases' on 1 April 2019 as discussed on pages 49 to 51 as well as other restatements which are discussed on page 51.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations

Background

The Group operates four material pension schemes, one of which is a defined contribution scheme and the other three are defined benefit schemes.

	What are they?	How do they impact the Group'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 £13.1 million (2019: £11.0 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 £1.6 million (2019: £1.5 million) of outstanding contributions at the year-end recognised in the statement of financial position. These were paid in the following financial year. The Group has no exposure to investment or other experience risks.
Defined Benefit Schemes Defined benefit arrangements for the Group's eligible employees are provided through three defined benefit pension schemes: • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Thames Water Pension Scheme ("TWPS"); • Thames Water Mirror Image Pension Scheme ("TWMIPS"); and • The SUURBS Arrangement ("SUURBS"). The SUURBS Arrangement provides retirement benefits to a previous director, and their spouse, of Thames Water Limited, a subsidiary entity in the Group. The scheme is an unfunded arrangement but is secured against assets held by Thames Water Limited Both now 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 TWPS since April 2011. New entrants 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 charge was recognised in the income statement of £33.2 million (2019: £41.3 million) relating to the following: • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; • the net interest expense on pension scheme assets and liabilities; and • the effect of restriction in the surplus. A gain of £168.9 million (2019: loss of £23.4 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. A pension asset of £94.5 million (2019: £45.8 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £209.1 million (2019: £338.8 million) is recognised in the statement of financial position for the TWPS scheme. A pension deficit of £7.0 million (2019: surplus of £7.7 million) is recognised in the statement of financial position for the SUURBS scheme As at 31 March 2020, the net pension deficit is £121.6 million (2019:£285.3 million). 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.

During the year ended 31 March 2020, pension assets in SUURBS valued at £12.8 million were disposed of with a fair value loss on disposal of £0.6 million. Additionally, £2.6 million of cash, previously held as an asset of the pension scheme was reclassified as restricted cash. This, along with other income statement and actuarial movements resulted in a movement of the scheme to an overall deficit of £7.0 million (2019: surplus of £7.7 million).

In addition to the cost of the UK 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 31 March 2020 these related payments amounted to £0.3 million (2019: £0.1 million).

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

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 the schemes have sufficient funds to meet future benefit payments. The most recent full actuarial valuation of the defined benefit pension scheme was carried out at 31 March 2019 on behalf of the trustees by David Gardiner of Aon, the actuary of the schemes. This resulted in a combined funding deficit across the two schemes of £148.9 million (2016: £364.9 million) with the market value of the assets being £2,313.3 million (2016: £1,905.5 million).

The triennial 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 2019 to 31 March 2020. The 2019 funding valuation has been updated to an accounting valuation as at 31 March 2020 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.

The most recent full valuation of the SUURBS Arrangement was carried out at 28 February 2018 on behalf of the pension Trustees by Hymans Robertson LLP, the independent and professionally qualified consulting actuaries to the scheme. This resulted in a funding surplus of £1.2 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 the time of the most recent valuation to 31 March 2018. The 2016 funding valuation has been updated to an accounting valuation as at 31 March 2019 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.

Amounts included in the financial statements

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	**19.5**	**2.7**	**-**	18.1	3.6	-
Past service cost including curtailments[1]	**-**	**-**	**-**	6.8	2.2	-
Scheme administration expenses	**3.1**	**1.5**	**-**	2.7	1.3	-
Net interest cost/(income)	**7.4**	**(1.2)**	**0.2**	7.9	(1.3)	(0.2)
Total	**30.0**	**3.0**	**0.2**	35.5	5.8	(0.2)

[1] Refer to the GMP equalisation section below for information on the past service costs including curtailments.

The net expense is recognised in the following captions within the income statement:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	**22.6**	**4.2**	**-**	27.6	7.1	-
Net finance expense/(income)	**7.4**	**(1.2)**	**0.2**	7.9	(1.3)	(0.2)
Total	**30.0**	**3.0**	**0.2**	35.5	5.8	(0.2)

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

	2020 £m	2019 £m
Cumulative actuarial gains recognised at 1 April	**(495.1)**	(471.7)
Actual return less expected return on pension scheme assets	**88.4**	76.5
Experience gain /(loss) arising on scheme liabilities	**19.0**	1.3
(Loss)/gain arising due to change in assumptions	**145.5**	(158.0)
Gain arising due to change in demographic assumption	**(84.0)**	56.8
Total actuarial (loss)/gain	**168.9**	(23.4)
Cumulative actuarial losses recognised at 31 March	**(326.2)**	(495.1)

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Statement of financial position

The net pension (liability)/asset recognised within the statement of financial position is as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	**1,595.3**	**805.8**	**-**	1,508.2	805.2	15.4
Present value of defined benefit obligations	**(1,804.4)**	**(711.3)**	**(7.0)**	(1,847.0)	(759.4)	(7.7)
(Deficit)/surplus	**(209.1)**	**94.5**	**(7.0)**	(338.8)	45.8	7.7
Net pension deficit			**(121.6)**			(285.3)

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,847.0**	**759.4**	**7.7**	1,743.7	755.0	7.5
Current service cost	**19.5**	**2.7**	**-**	18.1	3.6	-
Past service cost including curtailments	**-**	**-**	**-**	6.8	2.2	
Interest cost	**43.9**	**17.4**	**0.2**	45.7	19.1	0.2
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Benefits paid	**(51.5)**	**(44.5)**	**(0.4)**	(47.9)	(40.0)	(0.4)
Termination benefits	**1.4**	**0.3**	**-**	0.1	-	-
Actuarial gains	**(56.0)**	**(24.0)**	**(0.5)**	80.4	19.5	0.4
At 31 March	**1,804.4**	**711.3**	**7.0**	1,847.0	759.4	7.7

The movements in the fair value of scheme assets were as follows:

	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	**1,508.2**	**805.2**	**15.4**	1,442.9	805.6	14.6
Interest income on scheme assets	**36.5**	**18.6**	**-**	37.8	20.4	0.4
Disposal of assets	**-**	**-**	**(12.2)**	-	-	-
Fair value loss on disposal of assets	**-**	**-**	**(0.6)**	-	-	-
Reclassification of cash[1]	**-**	**-**	**(2.6)**	-	-	-
Contributions by sponsoring employers	**39.8**	**3.2**	**0.4**	18.8	3.1	0.4
Contributions from scheme members	**0.1**	**-**	**-**	0.1	-	-
Administration costs paid from scheme assets	**(3.1)**	**(1.5)**	**-**	(2.7)	(1.3)	-
Benefits paid	**(51.5)**	**(44.5)**	**(0.4)**	(47.9)	(40.0)	(0.4)
Contributions for termination benefits	**1.4**	**0.3**	**-**	0.1	-	-
Gains on assets above interest	**63.9**	**24.5**	**-**	59.1	17.4	0.4
At 31 March	**1,595.3**	**805.8**	**-**	1,508.2	805.2	15.4

[1] £2.6 million of cash, previously held as an asset of the pension scheme was reclassified as restricted cash

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Analysis of assets

	2020				2019			
	Quoted £m	**Unquoted £m**	**Total £m**	**Total (%)**	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	**29.7**	**-**	**29.7**	**1.1**	33.5	-	33.5	1.4
Rest of World	**358.2**	**1.1**	**359.3**	**12.7**	335.9	2.2	338.1	14.6
Bonds								
Government – UK	**16.2**	**-**	**16.2**	**1.0**	21.2	-	21.2	0.9
Government – Rest of World	**116.2**	**1.1**	**117.3**	**4.8**	203.8	-	203.8	8.8
Corporates – UK	**48.4**	**3.4**	**51.8**	**3.2**	10.0	-	10.0	0.4
Corporates – Rest of World	**166.3**	**2.0**	**168.3**	**6.3**	215.5	-	215.5	9.3
Property								
UK	**4.5**	**-**	**4.5**	**0.2**	6.2	1.4	7.6	0.3
Rest of world	**1.9**	**-**	**1.9**	**0.1**	4.4	-	4.4	0.2
Alternative assets								
Liability driven instruments	**1,433.1**	**-**	**1,433.1**	**62.3**	1,262.4	-	1,262.4	54.6
Other (including derivatives)	**109.7**	**3.5**	**113.2**	**0.0**	113.1	2.4	115.5	5.0
Cash	**105.8**	**-**	**105.8**	**4.6**	101.4	-	101.4	4.4
Total market value of assets	**2,390.0**	**11.1**	**2,401.1**	**100.0**	2,307.4	6.0	2,313.4	99.9

The assets of the defined benefit schemes do not include any directly held shares issued by the Group or property occupied by the Group.

The Pension Trustees determine the investment strategy of the defined benefit pension schemes after taking advice from their investment advisor, Willis Towers Watson. 62.3% of the scheme assets are invested in Liability Driven Investment ("LDI") portfolios managed by Schroder Investment Management Limited. These use government bonds and derivative instruments such as interest rate swaps, inflation swaps and gilt repurchase transactions to hedge the impact of interest rate and inflation movements on the long-term liabilities of the schemes.

Under the LDI strategies, if interest rates fall the value of investments rises to help match the increase in actuarial liabilities arising from the resulting fall in discount rate. Similarly, if interest rates rise, the value of the LDI investments will fall, as will the liabilities, as a result of the increase in the discount rate. Interest rates and inflation risks are not fully matched by the LDI portfolios, representing the residual interest rate and inflation risk to which the schemes remain exposed.

The credit risk arising on the derivatives held in the LDI mandate depends on whether the derivative is traded on an exchange or over the counter ("OTC"). OTC derivative contracts are not guaranteed by any regulated exchange and therefore the schemes are subject to risk of failure of the counterparty. The credit risk for OTC swaps held in the LDI portfolio is reduced by collateral arrangements and the counterparty exposure of each scheme is appropriately diversified.

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 discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2020.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows 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 TWPS and TWMIPS 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.

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

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

	2020			2019		
	TWPS	**TWMIPS**	**SUURBS**	TWPS	TWMIPS	SUURBS
Price inflation – RPI	**2.55%**	**2.65%**	**2.65%**	3.25%	3.30%	3.30%
Price inflation – CPI	**1.75%**	**1.85%**	**1.85%**	2.25%	2.30%	2.30%
Rate of increase to pensions in payment – RPI	**1.75%**	**1.85%**	**1.85%**	3.25%	3.30%	3.30%
Rate of increase to pensions in payment – CPI	**2.35%**	**2.35%**	**2.35%**	2.25%	2.30%	2.30%
Discount rate	**2.55%**	**2.65%**	**2.65%**	2.40%	2.35%	2.35%

Both the TWPS and TWMIPS 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.

In valuing the liabilities of the pension schemes, mortality assumptions have been made as indicated below, however in respect of the SUURBS Arrangement as mortality assumptions have been made regarding the schemes only member and their spouse they have not been disclosed. These 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.

	2020		2019	
	TWPS Years	**TWMIPS Years**	TWPS Years	TWMIPS Years
Life expectancy from age 60:				
Male	**27.6**	**26.8**	26.9	26.0
Female	**29.7**	**28.9**	28.9	28.5
Life expectancy from age 60 currently age 40:				
Male	**28.3**	**27.9**	28.4	27.6
Female	**30.8**	**30.1**	30.5	30.1

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:

	Reduction in liability					
	2020			2019		
	TWPS £m	**TWMIPS £m**	**SUURBS £m**	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	**320.0**	**90.0**	**0.7**	325.0	90.0	0.8
Change in rate of inflation (-1% p.a.)	**210.0**	**70.0**	**0.7**	210.0	75.0	0.8
Change in life expectancy (-1 year)	**70.0**	**40.0**	**0.3**	75.0	30.0	0.3

Notes to the Group financial statements (continued)

23. Retirement benefit obligations (continued)

Future expected cash flows

The Group made a pension deficit repair payment of £28.5 million on 1 April 2019 in relation to 2019/20 having made a similar payment of £22.7 million on 31 March 2019 in relation to 2018/19. The average duration of the benefit obligation at the end of the year is 20 years for TWPS and 13 years for TWMIPS (2019: 20 years for TWPS and 13 years for TWMIPS).

In June 2017, the funding valuation as at 31 March 2016 for TWMIPS and TWPS was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2020	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	24.1	24.1	24.7	10.7	10.2	17.9	17.9	17.9

The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2016. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

24. Capital commitments

	2020 £m	2019 £m
Property, plant and equipment	**281.7**	395.7
Intangible assets	**7.5**	17.2
Contracted for but not provided	**289.2**	412.9

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network.

25. Contingent liabilities

As at 31 March 2020, there was an ongoing legal claim in respect of a non-appointed activity. At the time of reporting, the Group is unaware of the amount of claim against them, nor has certainty over the number of claimants and is yet to prepare their defence. As such no further information can be provided. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future developments and will only become known on conclusion of this claim. The outcome could result in an economic outflow.

As at 31 March 2020, there were ongoing commercial negotiations arising in the ordinary course of business in respect of closing out AMP6 contracts. At present the Directors consider an outflow of economic benefit is possible, however, cannot be reliably estimated. The outcome is contingent on future discussions and will only become known on conclusion of the negotiation. The outcome could result in either an economic outflow, inflow or neither. In respect of these negotiations, the Group has also taken the option under paragraph 92 of IAS 37 for non-disclosure of certain information relating to provisions and contingent liabilities in extremely rare cases where this can be expected to seriously prejudice the entity in a dispute.

Financial guarantees

The Group is part of a Whole Business Securitisation (“WBS”) group as described in note 19. Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

Notes to the Group financial statements (continued)

26. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases not in the scope of IFRS 16;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of IT support, legal services, supply chain, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Group.

The Group is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiary, Thames Water Utilities Finance plc are Obligators under the whole business securitisation entered into in 2007. The Obligators have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligator will guarantee the obligations of each other Obligator with their future cash flows. The guaranteed debt as at 31 March 2020 was £13.1 billion (2019: £11.9 billion).

27. Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt at 31 March 2020 was £13.1 billion (2019: £11.9 billion).

At 31 March 2020 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m million (2019: £20.0 million). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8 million (2019: £0.8 million).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance plc (the “Kemble Financing Group”) have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance plc pursuant to any secured indebtedness it may raise. The total amount outstanding at the Kemble Water Finance Limited level at 31 March 2020 amounts to £924.8 million (2019: £585.0 million). The total amount of guaranteed secured debt raised at the Thames Water (Kemble) Finance plc level outstanding at 31 March 2020 is £175.0 million (2019: £574.0 million).

In addition there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No un-provided loss is expected to arise under these arrangements.

Notes to the Group financial statements (continued)

28. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2020			Restated[1] 2019		
	Underlying £m	**BTL £m**	**Total £m**	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	**(389.7)**	**58.0**	**(331.7)**	(482.6)	44.4	(438.2)
Less finance income	**(73.2)**	**-**	**(73.2)**	(18.8)	-	(18.8)
Add finance expense	**1,081.9**	**-**	**1,081.9**	1,020.7	-	1,020.7
Add interest paid on lease liability	**3.7**	**-**	**3.7**	3.9	-	3.9
Less net gains/(add net losses) on fair value of financial instruments	**(190.8)**	**-**	**(190.8)**	37.7	-	37.7
Taxation on (loss)/profit on ordinary activities	**61.2**	**6.1**	**67.3**	(96.0)	2.8	(93.2)
Operating profit	**493.1**	**64.1**	**557.2**	464.9	47.2	512.1
Depreciation on property, plant and equipment	**569.0**	**-**	**569.0**	545.0	-	545.0
Depreciation on right of use assets	**8.2**	**-**	**8.2**	7.6	-	7.6
Amortisation of intangible assets	**32.9**	**-**	**32.9**	22.0	-	22.0
Write off of property, plant and equipment and intangible assets	**9.9**	**-**	**9.9**	-	-	-
Loss on sale of property, plant and equipment	**4.1**	**-**	**4.1**	7.0	-	7.0
Difference between pension charge and cash contribution	**(1.8)**	**-**	**(1.8)**	12.4	-	12.4
(Increase)/decrease in inventory	**(0.1)**	**-**	**(0.1)**	5.9	-	5.9
(Increase)/decrease in trade and other receivables	**(46.5)**	**(60.2)**	**(106.7)**	10.2	(48.3)	(38.1)
Increase in contract assets	**(17.9)**	**(0.6)**	**(18.5)**	(30.9)	(0.9)	(31.8)
(Decrease)/Increase in trade and other payables	**(8.0)**	**(0.8)**	**(8.8)**	72.0	7.6	79.6
Decrease/(increase) in contract liabilities	**84.5**	**(3.1)**	**81.4**	33.6	(0.6)	33.0
Increase/(decrease) in provisions	**25.7**	**-**	**25.7**	(24.2)	-	(24.2)
Cash generated from/(used in) operations	**1,153.1**	**(0.6)**	**1,152.5**	1,125.5	5.0	1,130.5

[1] The prior year results have been restated due to the impact of the transition to the new accounting standard IFRS 16 'Leases' as discussed on pages 49 to 51 as well as other restatements relating to the recording of a provision for property dilapidations and the capitalisation of leakage detection costs, which are discussed on page 51.

Non-cash transactions

Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

	2020 £m	**2019 £m**
Unrestricted cash movement	**11.2**	(14.6)
Movement in short-term deposits	**282.6**	379.5
Total	**293.8**	364.9

The restricted cash above relates to collateral posted by derivative counterparties that have failed to meet minimum credit rating criteria assigned by Moody's.

29. Ultimate parent company and controlling party

Kemble Water Eurobond plc, a company incorporated in the United Kingdom, is the immediate parent company. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the only group to consolidate these financial statements.

Copies of the accounts of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Notes to the Group financial statements (continued)

30. Related party transactions

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

Group

Transactions between subsidiaries within the Group, which are related parties, have been eliminated on consolidation and are not included in this note.

Key management personnel

Key management personnel comprise the members of the Board of Directors and the Executive Committee of the Group's principal trading subsidiary Thames Water Utilities Limited during the year. Information regarding transactions with post-employment benefits plans is included in note 23.

	2020	2019
	£'000	£'000
Short term employee benefits	**9,255**	6,485
Post-employment benefits	**507**	542
Other long-term benefits	**-**	-
Termination benefits	**3,249**	282
Other	**124**	202
Total	**13,135**	7,511

Company

During the year, the Company paid interest of £613.2 million (2019: £561.0 million) on a loan from Kemble Water Eurobond plc ("KWE"), the Company's immediate parent. As at 31 March 2020, the amount payable to KWE, including loan principal and interest thereon, was £6.2 billion (2019: £5.6 billion).

The Company receives dividend income, in some cases passing it on the immediate and ultimate parent. It also pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £nil million (2019: £1.0 million) and total net interest payable during the year was £625.9 million (2019: £605.6 million).

As at 31 March 2020 net amounts owed by the Company to parent and subsidiary undertakings were £6,581.3 million (2019: £6,393.2 million). As at 31 March 2020 and 31 March 2019, no related party receivables and payables were secured and no guarantees were issued. Balances will be settled in accordance with normal credit terms.

The Company's borrowings include a £100.0 million fixed rate note due 2025 with a book value of £98.1 million. The noteholder is OCM Credit Portfolio LP. OCM Credit Portfolio LP is a member of the Ontario Municipal Employees Retirement System ("OMERS") group which, via a separately managed group of companies within the OMERS group owns, indirectly, 31.8% of the Company. The terms of the notes, including the coupon payable, are the same market rates as all fixed rate notes issued by the Company in 2018 and due in 2025, a total of £310.0 million.

31. Post balance sheet events

As at the time of reporting, the developing and uncertain situation in respect of the COVID-19 pandemic continues to be closely monitored. The impact of COVID-19 on the Group's ability to provide essential water and wastewater services and improve operational performance has been mitigated through Government's recognition that these services are essential. The Group responded quickly to enable effective working practices in the challenging operational environment.

Management has assessed the likely impact of COVID-19 to the financial position of the Group, with particular focus on operating cashflows and the AMP7 capital programme and predicts a significant reduction in cash receipts over a prolonged period following the virus spread and a deferral of a reasonable portion of the capital programme into future AMP7 years. To mitigate the impact to operating cashflows and related covenant tests, Management are closely reviewing the operating cashflow, assessing and implementing changes to the collections process and the cost base in a considered manner to ensure optimal financial and operational performance.

Financing

In April 2020, £350.0 million Class A sterling bonds were issued by Thames Water Utilities Finance plc, with a maturity of 2040. In May 2020, £40.0 million Class A sterling bonds were issued by Thames Water Utilities Finance plc, with a maturity of 2050. The proceeds from both bonds were used to repay drawdowns from the Class A revolving credit facility. In May 2020, Thames Water Utilities Finance plc signed a new £110 million Class A term loan facility maturing in November 2023.

Notes to the Group financial statements (continued)

32. Restatements to the prior year

This is the first reporting year that the Group has presented its financial statements under IFRS 16 'Leases', with the date of transition being 1 April 2019. These accounting policies replace IAS 17 'Leases.

The Group's accounting policies under IFRS 16 have been applied retrospectively at the date of transition and therefore the Group's "as previously stated" results have been restated. In addition, the Group has restated the prior years as a result of changes in accounting policies and amendments to its account approach. Refer to pages 49 to 51 for more information on adjustments that have impacted prior years.

Reconciliation of consolidated profit and loss for the year ended 31 March 2019

		As previously stated			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Revenue	1	2,037.1	47.5	2,084.6	-	-	**2,037.1**	**47.5**	**2,084.6**
Operating expenses	2	(1,685.7)	(0.3)	(1,686.0)	3.2	16.9	**(1,665.6)**	**(0.3)**	**(1,665.9)**
Other operating income	4	93.4	-	93.4	-	-	**93.4**	**-**	**93.4**
Operating profit		444.8	47.2	492.0	3.2	16.9	**464.9**	**47.2**	**512.1**
Finance income	5	18.8	-	18.8	-	-	**18.8**	**-**	**18.8**
Finance expense	6	(1,020.7)	-	(1,020.7)	(3.9)	-	**(1,024.6)**	**-**	**(1,024.6)**
Net gain on financial instruments	7	(37.7)	-	(37.7)	-	-	**(37.7)**	**-**	**(37.7)**
Profit on ordinary activities before taxation		(594.8)	47.2	(547.6)	(0.7)	16.9	**(578.6)**	**47.2**	**(531.4)**
Taxation on (profit) / loss on ordinary activities	8	98.8	(2.8)	96.0	0.1	(2.9)	**96.0**	**(2.8)**	**93.2**
Profit for the period		(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**

Reconciliation of consolidated statement of comprehensive income for the year ended 31 March 2019

		As previously stated			*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Profit for the period		(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**
Other comprehensive income									
Will not be reclassified to the income statement:									
Net actuarial gain on pension schemes	23	(23.4)	-	(23.4)	-	-	**(23.4)**	**-**	**(23.4)**
Deferred tax on net actuarial (gains)	20	4.3	-	4.3	-	-	**4.3**	**-**	**4.3**
May be reclassified to the income statement:									
Gains on cash flow hedges		(8.9)	-	(8.9)	-	-	**(8.9)**	**-**	**(8.9)**
Cash flow hedges transferred to income statement		34.2	-	34.2	-	-	**34.2**	**-**	**34.2**
Deferred tax (charge) on cash flow hedges	20	(4.3)	-	(4.3)	-	-	**(4.3)**	**-**	**(4.3)**
Other comprehensive income for the period		1.9	-	1.9	-	-	**1.9**	**-**	**1.9**
Total comprehensive income / (loss) for the period		(494.1)	44.4	(449.7)	(0.6)	14.0	**(480.7)**	**44.4**	**(436.3)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position as at 1 April 2018

			IAS 17		*IFRS 16* Transition	Restatement	**Restated**		
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Non-current assets									
Goodwill		1,468.1	-	1,468.1	-	-	**1,468.1**	**-**	**1,468.1**
Intangible assets	11	169.0	-	169.0	-	-	**169.0**	**-**	**169.0**
Property, plant and equipment	12	15,184.1	-	15,184.1	-	11.9	**15,196.0**	**-**	**15,196.0**
Right-of-use assets	13	-	-	-	54.9	2.9	**57.8**	**-**	**57.8**
Derivative financial assets	19	76.4	-	76.4	-	-	**76.4**	**-**	**76.4**
Trade and other receivables	15	35.7	56.7	92.4	-	-	**35.7**	**56.7**	**92.4**
Retirement benefit surplus SUURBS		7.1	-	7.1	-	-	**7.1**		**7.1**
Retirement benefit surplus TWMIPS	23	50.6	-	50.6	-	-	**50.6**	**-**	**50.6**
		16,991.0	56.7	17,047.7	54.9	14.8	**17,060.7**	**56.7**	**17,117.4**
Current assets									
Inventories and current intangible assets	14	18.1	-	18.1	-	-	**18.1**	**-**	**18.1**
Contract assets	13	186.2	0.4	186.6	-	-	**186.2**	**0.4**	**186.6**
Derivative financial assets	19	8.5	-	8.5	-	-	**8.5**	**-**	**8.5**
Trade and other receivables	15	706.2	3.4	709.6	(1.8)	-	**704.4**	**3.4**	**707.8**
Cash and cash equivalents	16	153.8	2.6	156.4	-	-	**153.8**	**2.6**	**156.4**
Short-term investments		-		-	-	-	**-**	**-**	**-**
		1,072.8	6.4	1,079.2	(1.8)	-	**1,071.0**	**6.4**	**1,077.4**
Current liabilities									
Contract liabilities	17	(123.1)	(4.1)	(127.2)	-	-	**(123.1)**	**(4.1)**	**(127.2)**
Trade and other payables	17	(613.2)	(3.5)	(616.7)	8.0	-	**(605.2)**	**(3.5)**	**(608.7)**
Borrowings	18	(302.1)	-	(302.1)	-	-	**(302.1)**	**-**	**(302.1)**
Lease liabilities	13	-	-	-	(2.8)	-	**(2.8)**	**-**	**(2.8)**
Derivative financial liabilities	19	(12.3)	-	(12.3)	-	-	**(12.3)**	**-**	**(12.3)**
		(1,050.7)	(7.6)	(1,058.3)	5.2	-	**(1,045.5)**	**(7.6)**	**(1,053.1)**
Net current (liabilities) / assets		22.1	(1.2)	20.9	3.4	-	**25.5**	**(1.2)**	**24.3**
Non-current liabilities									
Contract liabilities	17	(589.8)	-	(589.8)	-	-	**(589.8)**	**-**	**(589.8)**
Borrowings	18	(17,480.4)	-	(17,480.4)	-	-	**(17,480.4)**	**-**	**(17,480.4)**
Lease liabilities	13	-	-	-	(72.5)	-	**(72.5)**	**-**	**(72.5)**
Derivative financial liabilities	19	(1,225.9)	-	(1,225.9)	-	-	**(1,225.9)**	**-**	**(1,225.9)**
Deferred tax	20	(888.7)	-	(888.7)	2.4	(0.8)	**(887.1)**	**-**	**(887.1)**
Provisions for liabilities and charges	21	(134.2)	-	(134.2)	-	(9.8)	**(144.0)**	**-**	**(144.0)**
Pension deficit	23	(300.8)	-	(300.8)	-	-	**(300.8)**	**-**	**(300.8)**
		(20,619.8)	-	(20,619.8)	(70.1)	(10.6)	**(20,700.5)**	**-**	**(20,700.5)**
Net assets		(3,606.7)	55.5	(3,551.2)	(11.8)	4.2	**(3,614.3)**	**55.5**	**(3,558.8)**
Equity									
Called-up share capital		1.0	-	1.0	-	-	**1.0**	**-**	**1.0**
Cash flow hedge reserve		(139.0)	-	(139.0)	-	-	**(139.0)**	**-**	**(139.0)**
Retained earnings		(3,468.7)	55.5	(3,413.2)	(11.8)	4.2	**(3,476.3)**	**55.5**	**(3,420.8)**
Total equity		(3,606.7)	55.5	(3,551.2)	(11.8)	4.2	**(3,614.3)**	**55.5**	**(3,558.8)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of financial position as at 31 March 2019

			IAS 17		*IFRS 16* Transition	Restatement		**Restated**	
	Note	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Non-current assets									
Goodwill		1,468.1	-	1,468.1	-	-	**1,468.1**	-	**1,468.1**
Intangible assets	9	218.2	-	218.2	-	-	**218.2**	-	**218.2**
Property, plant and equipment	12	15,747.3	-	15,747.3	-	29.5	**15,776.8**	-	**15,776.8**
Right-of-use assets	13	-	-	-	51.6	2.6	**54.2**	-	**54.2**
Derivative financial assets	19	162.3	-	162.3	-	-	**162.3**	-	**162.3**
Trade and other receivables	15	44.2	101.9	146.1	-	-	**44.2**	**101.9**	**146.1**
Retirement benefit surplus SUURBS	23	7.7		7.7	-	-	**7.7**	-	**7.7**
Retirement benefit surplus TWMIPS	23	45.8	-	45.8	-	-	**45.8**	-	**45.8**
		17,693.6	101.9	17,795.5	51.6	32.1	**17,777.3**	**101.9**	**17,879.2**
Current assets									
Inventories and current intangible assets	14	13.5	-	13.5	-	-	**13.5**	-	**13.5**
Contract assets	15	217.5	0.9	218.4	-	-	**217.5**	**0.9**	**218.4**
Trade and other receivables	15	802.6	4.1	806.7	(1.7)	-	**800.9**	**4.1**	**805.0**
Cash and cash equivalents	16	513.8	7.6	521.4	-	-	**513.8**	**7.6**	**521.4**
Short-term investments	19	-	-	-	-	-	-	-	-
		1,547.4	12.6	1,560.0	(1.7)	-	**1,545.7**	**12.6**	**1,558.3**
Current liabilities									
Contract liabilities	17	(110.6)	(3.4)	(114.0)	-	-	**(110.6)**	**(3.4)**	**(114.0)**
Trade and other payables	17	(679.5)	(11.1)	(690.6)	7.7	-	**(671.8)**	**(11.1)**	**(682.9)**
Borrowings	18	(1,550.8)	-	(1,550.8)	-	-	**(1,550.8)**	-	**(1,550.8)**
Lease liabilities	13	-	-	-	(7.4)	-	**(7.4)**	-	**(7.4)**
Derivative financial liabilities	19	(38.6)	-	(38.6)	-	-	**(38.6)**	-	**(38.6)**
		(2,379.5)	(14.5)	(2,394.0)	0.3	-	**(2,379.2)**	**(14.5)**	**(2,393.7)**
Net current (liabilities) / assets		(832.1)	(1.9)	(834.0)	(1.4)	-	**(833.5)**	**(1.9)**	**(835.4)**
Non-current liabilities									
Contract liabilities	17	(636.1)	-	(636.1)	-	-	**(636.1)**	-	**(636.1)**
Borrowings	18	(17,750.4)	-	(17,750.4)	-	-	**(17,750.4)**	-	**(17,750.4)**
Lease liabilities	13	-	-	-	(65.1)	-	**(65.1)**	-	**(65.1)**
Trade and other payables	17	-	-	-	-	-	-	-	-
Derivative financial liabilities	19	(1,223.8)	-	(1,223.8)	-	-	**(1,223.8)**	-	**(1,223.8)**
Deferred tax	20	(903.6)	-	(903.6)	2.5	**(3.7)**	**(904.8)**	-	**(904.8)**
Provisions for liabilities and charges	21	(109.7)	-	(109.7)	-	**(10.2)**	**(119.9)**	-	**(119.9)**
Pension deficit	23	(338.8)	-	(338.8)	-	-	**(338.8)**	-	**(338.8)**
		(20,962.4)	-	(20,962.4)	(62.6)	**(13.9)**	**(21,038.9)**	-	**(21,038.9)**
Net assets		(4,100.9)	100.0	(4,000.9)	(12.4)	18.2	**(4,095.1)**	**100.0**	**(3,995.1)**
Equity									
Called-up share capital		1.0	-	1.0	-	-	**1.0**	-	**1.0**
Cash flow hedge reserve		(118.0)	-	(118.0)	-	-	**(118.0)**	-	**(118.0)**
Retained earnings		(3,983.9)	100.0	(3,883.9)	(12.4)	18.2	**(3,978.1)**	**100.0**	**(3,878.1)**
Total equity		(4,100.9)	100.0	(4,000.9)	(12.4)	18.2	**(4,095.1)**	**100.0**	**(3,995.1)**

Notes to the Group financial statements (continued)

32. Restatements to the prior year (continued)

Reconciliation of consolidated statement of cash flows as at 31 March 2019

	IAS 17			*IFRS 16* Transition	Restatement	**Restated**		
	Underlying £m	BTL £m	Total £m	Underlying £m	Underlying £m	**Underlying £m**	**BTL £m**	**Total £m**
Operating activities:								
Profit / (loss) on ordinary activities before taxation	(496.0)	44.4	(451.6)	(0.6)	14.0	**(482.6)**	**44.4**	**(438.2)**
Less finance income	(18.8)	-	(18.8)	-	-	**(18.8)**	**-**	**(18.8)**
Add finance expense	1,020.7	-	1,020.7	-	-	**1,020.7**	**-**	**1,020.7**
Add interest paid on lease liabilities	-	-	-	3.9	-	**3.9**	**-**	**3.9**
Add loss on fair value of financial instruments	37.7	-	37.7	-	-	**37.7**	**-**	**37.7**
Add/(less) taxation on profit / (loss) on ordinary activities	(98.8)	2.8	(96.0)	(0.1)	2.9	**(96.0)**	**2.8**	**(93.2)**
Operating profit	444.8	47.2	492.0	3.2	16.9	**464.9**	**47.2**	**512.1**
Depreciation on property, plant and equipment	544.8	-	544.8	-	0.2	**545.0**	**-**	**545.0**
Amortisation of intangible assets	22.0	-	22.0			**22.0**	**-**	**22.0**
Depreciation of right of use asset	-	-	-	7.3	**0.3**	**7.6**	**-**	**7.6**
Profit on sale of property, plant and equipment	7.0	-	7.0	-	**-**	**7.0**	**-**	**7.0**
Difference in pension charge and cash contribution	12.4	-	12.4	-	**-**	**12.4**	**-**	**12.4**
Decrease in inventory	5.9	-	5.9	-	**-**	**5.9**	**-**	**5.9**
Decrease in contract assets	(30.9)	(0.9)	(31.8)			**(30.9)**	**(0.9)**	**(31.8)**
Decrease/(Increase) in trade and other receivables	10.3	(48.3)	(38.0)	(0.1)	**-**	**10.2**	**(48.3)**	**(38.1)**
Increase in contract liabilities	33.6	(0.6)	33.0		**-**	**33.6**	**(0.6)**	**33.0**
Increase / (decrease) in trade and other payables	72.3	7.6	79.9	(0.3)	**-**	**72.0**	**7.6**	**79.6**
Decrease in provisions	(24.6)	-	(24.6)	-	**0.4**	**(24.2)**	**-**	**(24.2)**
Cash generated from operations	1,097.6	5.0	1,102.6	10.1	17.8	**1,125.5**	**5.0**	**1,130.5**
Payments for group relief	(0.1)	-	(0.1)	-	-	**(0.1)**	**-**	**(0.1)**
Net cash generated by operating activities	1,097.5	5.0	1,102.5	10.1	17.8	**1,125.4**	**5.0**	**1,130.4**
Investing activities:								
Increase in current asset investments	-	-	-	-	**-**	**-**	**-**	**-**
Purchase of property, plant and equipment	(1,117.8)	-	(1,117.8)	-	(17.8)	**(1,135.6)**	**-**	**(1,135.6)**
Purchase of intangible assets	(71.2)	-	(71.2)	-	**-**	**(71.2)**	**-**	**(71.2)**
Proceeds from sale of property, plant and equipment	2.6	-	2.6	-	**-**	**2.6**	**-**	**2.6**
Interest received	10.7	-	10.7	-	**-**	**10.7**	**-**	**10.7**
Net cash used in investing activities	(1,175.7)	-	(1,175.7)	-	(17.8)	**(1,193.5)**	**-**	**(1,193.5)**
Financing activities:								
New loans raised	1,452.7	-	1,452.7	-	**-**	**1,452.7**	**-**	**1,452.7**
Repayment of borrowings	(670.2)	-	(670.2)	-	**-**	**(670.2)**	**-**	**(670.2)**
Repayment of lease principal	-	-	-	(10.1)	**-**	**(10.1)**	**-**	**(10.1)**
Derivative paydown	2.8	-	2.8	-	**-**	**2.8**	**-**	**2.8**
Interest paid	(328.0)	-	(328.0)	-	**-**	**(328.0)**	**-**	**(328.0)**
Fees paid	(19.1)	-	(19.1)	-	**-**	**(19.1)**	**-**	**(19.1)**
Net cash generated by/(used in) financing activities	438.2	-	438.2	(10.1)	**-**	**428.1**	**-**	**428.1**
Net increase in cash and cash equivalents	360.0	5.0	365.0	-	**-**	**360.0**	**5.0**	**365.0**
Net cash and cash equivalents at beginning of period	153.8	2.6	156.4	-	**-**	**153.8**	**2.6**	**156.4**
Net cash and cash equivalents at end of period	513.8	7.6	521.4	-	**-**	**513.8**	**7.6**	**521.4**

Notes to the Company financial statements

33. Investment in subsidiaries

	2020 **£m**	2019 £m
Cost of shares in subsidiary undertakings	**4,292.3**	4,306.7
Provision for impairment	**-**	(14.4)
Net book value	**4,292.3**	4,292.3

A full listing of direct and indirect subsidiary and associated undertakings has been included in note 41 to these financial statements.

34. Trade and other receivables

	2020 **£m**	2019 £m
Other receivables	**0.6**	8.2
Amounts owed by group undertakings	**379.1**	170.6
Amounts receivable in respect of group relief	**195.6**	534.3
	575.3	713.1
Disclosed within non-current assets	**367.0**	178.8
Disclosed within current assets	**208.3**	534.3

All amounts owed by group undertakings are unsecured, interest free and repayable on demand.

35. Deferred tax

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

	Other timing differences £m	**Total** **£m**
At 1 April 2018	10.9	10.9
(Charge) to income	(1.6)	(1.6)
At 31 March 2019	9.3	9.3
(Charge)/credit to income	(0.9)	(0.9)
At 31 March 2020	8.4	8.4

36. Cash and cash equivalents

	2020 **£m**	2019 £m
Cash at bank and in hand	**0.3**	0.3
Short term deposits	**28.4**	348.9
Total	**28.7**	349.2

Notes to the Company financial statements (continued)

37. Trade and other payables

	2020 **£m**	2019 £m
Other payables	**0.1**	1.2
Amounts owed to group undertakings	**0.3**	14.9
	0.4	16.1
Disclosed within non-current liabilities	**0.3**	14.9
Disclosed within current liabilities	**0.1**	1.2

All amounts owed to group undertakings are unsecured, interest free and repayable on demand. During the year, management have reviewed the classification of intercompany payables and have taken the decision to reclassify some balances from current to non-current.

38. Borrowings

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

	2020 **£m**	2019 £m
Secured bank loans and private placements	**911.1**	575.6
Amounts owed to group undertakings	**3,426.2**	3,825.3
	4,337.3	4,400.9
Interest payable on secured bank loans, private placements	**14.8**	9.7
Interest payable on amounts owed to group undertakings	**3,270.6**	3,121.9
Total	**7,622.7**	7,532.5
Disclosed within current liabilities	**17.0**	426.7
Disclosed within non-current liabilities	**7,605.7**	7,105.8

Amounts owed to group undertakings relate to the following:

- Loans totalling £174.3 million (2019: £572.3 million) owed to Thames Water (Kemble) Finance plc, the financing subsidiary of the Company, which on-lends all financing raised at equivalent interest rates to the external borrowing rate, plus an annual margin of £10,000 (2019: £10,000).
- A loan totalling £3,100.6 million (2019: £3,100.6 million) owed to the immediate parent company, Kemble Water Eurobond plc. This amount is repayable on demand and incurs interest at 10%.
- A loan totalling £15.0 million (2019: £15.0 million) from fellow subsidiary undertaking, Thames Water Investments Limited, which is repayable on demand and incurs interest at LIBOR + 0.5%
- A loan of £136.3 million (2019: £136.3 million) from fellow subsidiary undertaking, Thames Water Limited, which is repayable on demand and incurs interest at LIBOR + 0.5%.

Notes to the Company financial statements (continued)

39. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies. The Company does not hold any derivative financial assets or liabilities (2019: none).

Categories of financial instruments

The carrying values of the financial assets and liabilities are as follows:

	2020 £m	2019 £m
Financial assets:		
Amortised cost		
Trade and other receivables	**575.3**	713.1
Cash and cash equivalents	**28.7**	349.2
Total	**604.0**	1,062.3
Financial liabilities:		
Amortised cost		
Trade and other payables	**(0.4)**	(16.2)
Borrowings	**(7,622.7)**	(7,532.5)
Total	**(7,623.1)**	(7,548.7)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Comparison of fair value of financial instruments with their carrying amounts

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

	2020		2019	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Financial assets:				
Current				
Cash and cash equivalent	**28.7**	**28.7**	349.2	349.2
Total	**28.7**	**28.7**	349.2	349.2
Financial liabilities:				
Non-current				
Borrowings:				
Secured bank loans and private placements	**(911.1)**	**(877.2)**	(575.6)	(620.7)
Amounts owed to group undertakings	**(3,426.2)**	**(3,426.2)**	(3,426.0)	(3,426.0)
Interest payable	**(3,268.4)**	**(3,268.4)**	(3,104.2)	(3,104.2)
Derivative financial instruments:				
Interest rate swaps	-	-	-	-
Current				
Borrowings:				
Amounts owed to group undertakings	**-**	**-**	(399.3)	(399.3)
Interest payable	**(17.0)**	**(17.0)**	(27.4)	(27.4)
Total	**(7,622.7)**	**(7,588.8)**	7,532.5	7,577.6

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

Capital risk management

Details of the Group's capital risk management strategy can be found on page 14. The capital structure of the Company is as follows:

	2020 **£m**	2019 £m
Cash and cash equivalents	**28.7**	349.2
Secured bank loans	**(911.1)**	(575.6)
Interest payable on secured bank loans	**(14.8)**	(9.7)
Amounts owed to group undertakings	**(3,426.2)**	(3,825.2)
Interest payable on amounts owed to group undertakings	**(3,270.6)**	(3,121.9)
Net debt	**(7,594.0)**	(7,183.2)
Deficit attributable to the owners of the Group	**(2,718.4)**	(2,184.8)

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described on page 15. The Company's activities expose it to credit and liquidity risk.

(a) Market risk

Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk:

As at 31 March 2020:	Total at fixed rates £m	Total at floating rates £m	Total £m
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,726.9	610.4	4,337.3
Total	3,726.9	610.4	4,337.3

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	**Total** **£m**
Interest bearing loans and borrowings			
Net of corresponding swap assets			
- £ Sterling	3,977.9	422.9	4,400.8
Total	3,977.9	422.9	4,400.8

Notes to the Company financial statements (continued)

39. Financial instruments (continued)

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below:

	Weighted average interest rate for fixed rate and index-linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and index-linked debt	
	2020 %	2019 %	**2020 Years**	2019 Years
Interest bearing loans and borrowings Net of corresponding swap assets				
- £ Sterling	**9.2**	9.2	**15.3**	15.0
Total	**9.2**	9.2	**15.3**	15.0

Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2020. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2020		2019	
	+1% £m	**-1% £m**	+1% £m	-1% £m
Profit	**(4.7)**	**4.7**	(2.8)	2.8
Equity	**(4.7)**	**4.7**	(2.8)	2.8

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, therefore the maximum exposure to credit risk at the year-end date was £574.7 million (2019: £704.9 million).

(c) Liquidity risk

Details of the nature and management of the Group's liquidity risk is provided on page 15.

The maturity profile of the Company's financial liabilities disclosed in the statement of financial position are given below.

	2020 £m	2019 £m
Within one year	**-**	399.3
Between one and two years	**-**	-
Between two and three years	**248.8**	-
Between three and four years	**-**	248.0
Between four and five years	**186.5**	-
After more than five years	**3,902.0**	3,753.5
Total	**4,337.3**	4,400.8

Cash flows from non-derivative financial liabilities. The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis, which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

Undiscounted amounts payable	**2020 £m**	2019 £m
Within one year	**53.3**	471.6
Between one and two years	**53.2**	40.7
Between two and three years	**296.5**	40.7
Between three and four years	**39.7**	283.7
Between four and five years	**224.9**	26.6
After more than five years	**3,940.6**	3,810.1
Total	**4,608.2**	4,673.4

Notes to the Company financial statements (continued)

40. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2020	2019
	£m	£m
Loss for the financial year	**(533.6)**	(508.2)
Add finance expense	**674.5**	627.7
Less finance income	**(12.7)**	(0.7)
Less investment income	**-**	(1.0)
Decrease in intercompany receivables	**53.9**	80.2
Decrease in intercompany payables	**(14.6)**	-
Taxation on loss on ordinary activities	**(126.5)**	(118.3)
Cash generated in operations	**41.0**	79.7

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2020 the Company held the following principal interests, all of which are either wholly or jointly owned either directly or indirectly through its subsidiary investments**.**

	Principal undertaking	Country of incorporation	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
Direct					
Thames Water (Kemble) Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Indirect					
Thames Water Utilities Limited	Water & wastewater	United Kingdom	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Finance plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Shapeshare Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International Service Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Non-trading Company	Singapore	Singapore	Ordinary	100%
Thames Water International (Thailand) Limited	Non-trading Company	Thailand	Thailand	Ordinary/ Preference	100%
Thames Water International Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Subsidiaries in liquidation process					
PCI Membrance Systems Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Overseas Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Environmental Services Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Nominees Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Developments Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Liquidations completed during the year ended 31 March 2020					
Thames Water Puerto Rico Inc	Legacy Investment	Puerto Rico	Puerto Rico	Ordinary	100%
Thames-Dick Superaqueduct Partners Inc	Joint Venture	Puerto Rico	Puerto Rico	Ordinary	50%
Stella Meta-Filters Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Portacel Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Dorm 1 Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products SH Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products UPE Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Prourement Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%

Notes to the Company financial statements (continued)

41. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continued)

The address of the registered office of all the above companies is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB with the exception of:

- Thames Water Asia Pte Limited (80 Robinson Road #02-00, Singapore, 68898)
- Thames Water International (Thailand) Limited (999/9 The offices at Central World, 29th Floor, Unit 2973K, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok)

INDEX OF DEFINED TERMS

"**2006 ISDA Definitions**" means the definitions published by the International Swaps and Derivatives Association Inc. to be used in the documentation of interest rate and currency exchange transactions;

"**Accounting Principles**" means accounting principles, policies, standards, bases and practices which, at the relevant time; are generally accepted in the United Kingdom;

"**Additional Finance Documents**" means:

(a) in respect of a Loan Facility other than those made available under the Working Capital Facility, the Finance Documents as defined in the facility agreement governing the terms of such Loan Facility; and

(b) any Additional Hedging Agreement;

"**Additional Finance Parties**" means in respect of a Loan Facility other than those made available under the Working Capital Facility Agreement, the Finance Parties (as defined in the relevant Additional Finance Documents); provided that such parties have acceded to the Intercreditor Agreement by executing a Secured Creditor Accession Deed;

"**Additional Hedge Counterparties**" means in respect of any Additional Hedging Agreements, the hedge counterparties under such documents;

"**Additional Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by an Obligor and an Additional Hedge Counterparty for the purpose of hedging liabilities after the date of this Prospectus;

"**Additional Note Documents**" means in respect of an issue of Notes by the Issuer other than the initial issuance of Notes, any additional documents governing the terms of such Notes and any loan drawdown documents pursuant to the Issuer/Guarantor Loan Agreement;

"**Additional Note Parties**" means in respect of an issue of Additional Notes by the Issuer, the Noteholders of such Additional Notes and the Note Trustee (on its own behalf and on behalf of the relevant Noteholders) and any agents in respect of such issue of Notes under the relevant Additional Note Documents; provided that any such agents which are not already party to the Intercreditor Agreement have become Secured Creditors by executing Secured Creditor Accession Deeds;

"**Additional Notes**" means any Notes issued under Additional Note Documents;

"**Affiliate**" means in relation to any person, a Subsidiary of that person or a Holding Company of that person or any other Subsidiary of that Holding Company;

"**Agency Agreement**" means the agency agreement relating to the Programme originally dated 25 March 2011 and as amended or restated from time to time between the Issuer, the Guarantor, Deutsche Trustee Company Limited as Note Trustee, Deutsche Bank AG, London Branch as initial Issuing and Paying Agent and the other agents mentioned in it;

"**Alternative Clearing System**" means Euroclear, Clearstream, Luxembourg or any other permitted clearing system;

"**Approved Bank**" means:

(a) any lender under the Working Capital Facility Agreement;

(b) any bank or financial institution which has a rating for its long-term debt obligations of A- or higher by Fitch or A3 or higher by Moody's (or equivalent ratings by such rating agencies in the event of any change in rating scale) or a comparable rating from an internationally recognised credit rating agency; or

(c) any other bank or financial institution which is otherwise approved as such by the Note Trustee (acting as directed by an Extraordinary Resolution of the Noteholders);

"**Arranger**" means NatWest Markets Plc;

"**Auditors**" means one of PricewaterhouseCoopers, Ernst & Young, KPMG or Deloitte & Touche or any other reputable audit firm reasonably acceptable to the Note Trustee;

"**Bearer Note**" means a Note that is in bearer form, and includes any replacement Bearer Note issued pursuant to the Conditions and any temporary Global Note or permanent Global Note;

"**BMR**" means EU Regulation 2016/1011;

"**Business Day**" means a day (other than a Saturday or a Sunday) on which banks are open for general business in London, and:

(a) (in relation to any date for payment or purchase of a currency other than euro) the principal financial centre of the country of that currency; or

(b) (in relation to any date for payment or purchase of euro) any TARGET2 Business Day;

"**Calculation Date**" means each of 31 March and 30 September, starting on 30 September 2011;

"**Calculation Period**" means:

(a) in respect of a Calculation Date falling on 31 March, the immediately preceding 12 months and the immediately succeeding 12 months; and

(b) in respect of a Calculation Date falling on 30 September, the immediately preceding 6 months and the immediately succeeding 6 months;

"**Capital Expenditure**" or "**Capex**" means, for any period, expenditure which should be treated as capital expenditure in accordance with the Accounting Principles (and so that, to the extent the relevant expenditure is financed under a finance lease, the total amount expended by the relevant lessor during such period shall be included as Capital Expenditure);

"**Cash**" means cash in hand or credit balances or amounts on deposit which are freely transferable and freely convertible and are accessible by a member of the Group on demand with any Approved Bank and which is not subject to any security interest (other than one existing under the Transaction Security Documents);

"**Cash Equivalents**" means:

(a) securities denominated in pounds sterling and issued on or unconditionally guaranteed by the government of the United States, the United Kingdom, France or Germany or by any agency of such a government having an equivalent credit rating;

(b) commercial paper denominated in pounds sterling not issued or guaranteed by a member of the Group, for which a recognised trading market exists and maturing within 90 days of being acquired and having a rating of at least A-1 from Fitch and at least P-1 from Moody's;

(c) certificates of deposit or bankers' acceptances maturing within 90 days of being acquired issued by any bank or financial institution having a long term unsecured debt rating of at least A-1 from Fitch and at least P-1 from Moody's; and

(d) any Authorised Investments (as defined in the Master Definitions Agreement from time to time).

"**Certificate**" means a registered certificate representing one or more Registered Notes of the same Series and, save as provided in the Conditions, comprising the entire holding by a Noteholder of his Registered Notes of that Series;

"**Classic Global Note**" or "**CGN**" means a classic global note;

"**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January;

"**Clearstream, Luxembourg**" means Clearstream Banking, S.A.;

"**Commitments**" means:

(a) prior to the taking of Enforcement Action:

  (i) in respect of any Loan Facility, the total commitments under such Loan Facility; and

  (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

  (iii) in respect of any Hedging Agreement, zero; and

(b) following the taking of Enforcement Action:

  (i) in respect of any Loan Facility, the principal amount outstanding under such Loan Facility;

  (ii) in respect of any series of Notes, the principal amount outstanding (including, if applicable, any accretion due to indexation) under all of such series of Notes; and

  (iii) in respect of any Hedging Agreement, the aggregate Positive Value of the Hedging Liabilities under such Hedging Agreement;

"**Common Safekeeper**" means in relation to a Series where the relevant Global Note is a NGN or the relevant Global Certificate is held under the NSS, the common safekeeper for Euroclear and Clearstream, Luxembourg appointed in respect of such Notes;

"**Common Terms Agreement**" means the common terms agreement entered into on 30 August 2007 between, among others, TWUL and Deutsche Trustee Company Limited, in relation to the Securitisation;

"**Compliance Certificate**" means a certificate supplied by the Issuer and Guarantor to the Note Trustee certifying compliance with, and setting out, among other things, calculation of, the financial covenants set out in the Trust Deed;

"**Conditions**" means, in respect of the Notes of each Series, the terms and conditions applicable thereto which shall be substantially in the form set out in the section entitled "*Terms and Conditions of the Notes*" in this Prospectus, as modified, with respect to any Notes represented by a Global Certificate or a Global Note, by the provisions of such Global Certificate or Global Note, shall incorporate any additional provisions forming part of such terms and conditions set out in Part A of the relevant Final Terms or Drawdown Prospectus relating to the Notes of that Series and shall be endorsed on the Definitive Notes, subject to amendment and completion and any reference to a particularly numbered Condition shall be construed accordingly;

"**Couponholder**" has the meaning given to it in the Conditions;

"**Coupons**" means the bearer coupons relating to interest bearing Bearer Notes or, as the context may require, a specific number of them and includes any replacement Coupons issued pursuant to the Conditions;

"**CTA**" means the Corporation Tax Act 2010;

"**Cure Investment**" means a subscription by the immediate holding company of the Guarantor for shares in the Guarantor or any subordinated debt made available by one or more of its direct or indirect shareholders to the Guarantor;

"**Currency Hedging Agreement"** means any hedging agreement with a Hedge Counterparty in respect of a currency exchange transaction;

"**Current Commercial Assets**" means trade and other debtors in respect of operating items, prepayments and trading stock;

"**Current Commercial Liabilities**" means trade and other creditors in respect of operating items (not being in respect of Financial Indebtedness) and accrued expenses, accrued costs and deferred income;

"**Customer Rebates**" means, in respect of any financial year, an amount equal to the difference between the total revenue that is projected by TWUL to be raised during such financial year on the basis of the announced changes and the revenue that would have accrued if TWUL had established prices at the full price cap available to it under the Instrument of Appointment;

"**Date Prior**" means, at any time, the date which is one day before the next Periodic Review Effective Date;

"**Dealers**" means Banco Santander, S.A, BNP Paribas, HSBC Bank plc, Morgan Stanley & Co. International plc, NatWest Markets Plc and RBC Europe Limited and any other entity which the Issuer and the Guarantor may appoint as a dealer in accordance with the Dealership Agreement;

"**Dealership Agreement**" means the Dealership Agreement relating to the Programme originally dated 25 March 2011 and as amended or restated from time to time between the Issuer, the Guarantor, the Dealers and any other entity which the Issuer and the Guarantor may appoint as a dealer in accordance with the Dealership Agreement;

"**Default**" means an Event of Default or a Potential Event of Default;

"**Defeasance Account**" means an account in the name of the Issuer or the Guarantor, secured in favour of the Security Trustee on behalf of the Secured Creditors, the proceeds of which shall, prior to an Event of Default, only be used in payment of outstanding Financial Indebtedness of the Obligors and, following an Event of Default, shall be applied in accordance with the priorities set out in clause 11 (*Application of Proceeds*) of the Intercreditor Agreement;

"**Defeasance Cash**" means the amount standing to the credit of the Defeasance Account from time to time;

"**Definitive Note**" means a Bearer Note in definitive form having, where appropriate, Coupons, Receipt(s) and/or a Talon attached on issue and, unless the context requires otherwise, means a Certificate (other than a Global Certificate) and includes any replacement Note or Certificate issued pursuant to the Conditions;

"**Depreciation**" means, in relation to any period of time, the "total RCV run-off" (or other term(s) used to mean the depreciation charges applicable to the RCV) in respect of such period (interpolated as necessary for Out-turn Inflation) as last determined and notified to TWUL by Ofwat at the most recent Periodic Review or other procedure through which from time to time Ofwat may make such determination on an equally definitive basis to that of such a Periodic Review;

"**Disposal**" means a sale, lease, licence, transfer, loan or other disposal by a person of any asset, undertaking or business (whether by a voluntary or involuntary single transaction or series of transactions);

"**EEA Regulated Market**" means a market which complies with the requirements set out in Article 4.1(21) of Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments;

“**Enforcement Action**” means:

(a) the acceleration of any Liabilities or any declaration that any Liabilities are prematurely due and payable (other than as a result of it becoming unlawful for a Secured Creditor to perform its obligations under, or of any mandatory prepayment arising under, the Transaction Documents) or payable on demand or the premature termination or close out of any Hedging Liabilities (other than such a close out on a voluntary basis which would not result in a breach of the relevant Hedging Agreement), in each case in accordance with the Underlying Credit Documents;

(b) the taking of any steps to enforce or require the enforcement of any Transaction Security (including the crystallisation of any floating charge forming part of the Transaction Security);

(c) the making of any demand against the Issuer or the Guarantor in relation to any guarantee, indemnity or other assurance against loss in respect of any Liabilities or exercising any right to require either the Issuer or the Guarantor to acquire any Liability;

(d) following the occurrence of an Event of Default (as defined in the Intercreditor Agreement), the exercise of any right of set-off against the Issuer or the Guarantor in respect of any Liabilities;

(e) the suing for, commencing or joining of any legal or arbitration proceedings against the Issuer or the Guarantor to recover any Liabilities;

(f) the entering into of any composition, assignment or arrangement with the Issuer or the Guarantor (unless approved by the Majority Secured Creditors); or

(g) the petitioning, applying or voting for, or the taking of any steps (including the appointment of any liquidator, receiver, administrator or similar officer) in relation to, the winding up, dissolution, administration or reorganisation of the Issuer or the Guarantor or any suspension of payments or moratorium of any indebtedness of the Issuer or the Guarantor, or any analogous procedure or step in any jurisdiction;

“**Enterprise Act**” means the Enterprise Act 2002 which received Royal Assent on 7 November 2002, and any subsequent amendments thereto;

“**Entrenched Rights**” means the rights of the Secured Creditors provided by the terms of clause 22.1 of the Intercreditor Agreement and summarised in the section entitled “*Intercreditor, Enforcement and the Working Capital Facility Agreement*” of this Prospectus;

“**EURIBOR**” means the Euro-zone Inter-Bank Offered Rate;

“**Euro**” “**euro**” or “**€**” means the currency introduced at the third stage of European Economic and Monetary Union pursuant to the Treaty on the functioning of the European Community, as amended from time to time;

“**Euroclear**” means Euroclear Bank SA/NV;

“**Euronext Dublin**” means the Irish Stock Exchange plc trading as Euronext Dublin;

“**Eurosystem**” means the European Central Bank and the national central banks of EU Member States that have adopted the Euro;

“**Event of Default**” means an event described in Condition 10 (*Events of Default*) that, if so required by that Condition, has been certified by the Note Trustee to be, in its opinion, materially prejudicial to the interests of the Noteholders;

“**Exchange Date**” means, in relation to a temporary Global Note, the day falling after the expiry of 40 days after its issue date and, in relation to a permanent Global Note, a day falling not less than 60 days after that on which the notice requiring exchange is given and on which banks are open for business in the city in which the specified office of the Issuing and Paying Agent is located and in the city in which the relevant clearing system is located;

"**Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders of a single series of Notes duly convened and held in accordance with the Trust Deed by a majority of at least 75 per cent. of the votes cast;

"**Facilities**" means the facilities made available to the Guarantor under the Working Capital Facility Agreement;

"**FCA**" means the Financial Conduct Authority in the UK;

"**Final Determination**" means the final price determination made by Ofwat on a five-yearly basis;

"**Final Terms**" means in relation to a Tranche, the Final Terms issued specifying the relevant issue details of such Tranche, substantially in the form set out in the section entitled "*Form of Final Terms*" in this Prospectus;

"**Finance Documents**" means the Working Capital Finance Documents and the Additional Finance Documents;

"**Finance Party**" has the meaning given to it in the Finance Documents;

"**Financial Indebtedness**" means any indebtedness of any member of the Group for or in respect of the following (without double counting):

(a) monies borrowed or raised and debit balances at banks or other financial institutions:

   (i) which shall be, calculated net of applicable credit balances where such monies are borrowed by a member of the Group as part of netting arrangements with a financial institution; and

   (ii) which shall include accretions by indexation in respect of index-linked swaps entered into by a member of the Group;

(b) any acceptance credit or bill discounting facility (including any dematerialised equivalent);

(c) any bond, note, debenture, loan stock or other similar instrument;

(d) any share in any member of the Group which is not held by another member of the Group and which by its terms (or any the terms of any security into which it is convertible or for which it is exchangeable, in each case at the option of the holder of that security) or upon the happening of any event matures or is mandatorily redeemable or is redeemable at the option of its holder in whole or in part on or prior to the Discharge Date (as defined in the Intercreditor Agreement);

(e) any agreement treated as a finance or capital lease in accordance with the Accounting Principles;

(f) receivables sold or discounted (except to the extent that there is no recourse);

(g) the acquisition cost of any asset or service to the extent payable after its acquisition or possession by the party liable where the deferred payment is arranged primarily as a method of raising finance or financing the acquisition or construction of that asset or the acquisition of that service (but excluding trade credit on customary commercial terms) and is due more than three months after the date of acquisition or supply;

(h) the net liability under any Treasury Transaction (and, except for non-payment of an amount, the then mark to market value of such Treasury Transaction will be used to calculate its amount);

(i) any other transaction which has the commercial effect of a borrowing and is treated as such under the applicable Accounting Principles;

(j) any counter-indemnity obligation in respect of any guarantee, indemnity, bond, letter of credit or other instrument issued by a bank or financial institution in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs; or

(k) any guarantee in respect of an underlying liability of any person which is of the nature referred to in the above paragraphs,

provided that:

(i) any amount owed by one member of the Group to another member of the Group shall not be taken into account;

(ii) any amounts outstanding under an intra-group loan agreement entered into on or about 29 November 2006 between the Guarantor (as borrower) and Kemble Water Structure Limited (as lender) and as subsequently assigned to Kemble Water Eurobond plc and any other amounts referred to in paragraph (e) of the definition of "Permitted Security" shall, in each case, not be taken into account;

(iii) to the extent that an amount otherwise falling under the categories in paragraphs (j) or (k) above by reason of a guarantee given by a member of the Group relates to an obligation of any member of the Non-Reg Group, it shall not be taken into account if and for so long as the relevant obligation is contingent and has not become crystallised; and

(iv) where such Financial Indebtedness is denominated other than in pounds sterling, the nominal amount outstanding will be calculated into an equivalent amount in pounds sterling:

(I) in respect of Financial Indebtedness with associated Currency Hedging Agreements, by reference to the applicable hedge rates specified in the relevant Currency Hedging Agreements; and

(II) in respect of Financial Indebtedness with no associated Currency Hedging Agreements, by reference to the spot rate at 11.00 a.m. on the date that the calculation of the currency exchange rate is required;

"**Financial Year**" means the annual accounting period of the Group ending on or about 31 March in each year;

"**Fitch**" means Fitch Ratings Ltd., or any successor to the rating agency business of Fitch Ratings Ltd.;

"**Fixed Rate Note**" means a Note on which interest is calculated at a fixed rate payable in arrear on a fixed date or fixed dates in each year and on redemption or on such other dates as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus);

"**Floating Rate Note**" means a Note on which interest is calculated at a floating rate payable in arrear in respect of such period or on such date(s) as may be agreed between the Issuer and the relevant Dealer(s) (as indicated in the applicable Final Terms or Drawdown Prospectus;

"**FSMA**" means the Financial Services and Markets Act 2000, as amended from time to time;

“**Fund**” means any unit trust, investment trust, investment company, limited partnership, general partnership or other collective investment scheme, investment professional (as defined in Article 19(5)(d) of the Financial Services and Markets Act (Financial Promotion) Order 2005), high net worth company, unincorporated association or high value trust (as defined in Article 49(2)(a) to (c) of the Financial Services and Markets Act (Financial Promotion) Order 2005), pension fund, insurance company, authorised person under the FSMA or any body corporate or other entity, in each case the assets of which are managed professionally for investment purposes;

“**Global Certificate**” means a Certificate representing Registered Notes of one or more Tranches of the same Series that are registered in the name of a nominee for one or more clearing systems;

“**Global Note**” means a temporary Global Note and/or, as the context may require, a permanent Global Note, a CGN and/or a NGN, as the context may require;

“**Group**” means the Guarantor and its Subsidiaries from time to time, excluding the Non-Reg Group;

“**Group EBITDA**” means the consolidated operating profit of the Group:

(a) before taking into account IP Related Revenue;

(b) before taking into account IP Related Operating Expenses;

(c) before deducting any amount attributable to depreciation or amortisation;

(d) before taking into account any items treated as exceptional or extraordinary items;

(e) before deducting any amount of Tax on profits, gains or income paid or payable by a member of the Group;

(f) before taking into account any accrued interest received, receivable or capitalised to any member of the Group;

(g) before taking into account any accrued interest, commission, fees, discounts, prepayment penalties or premiums and other finance payments in respect of Total Net Debt, whether paid, payable or capitalised by any member of the Group;

(h) before taking into account any unrealised or realised gains or losses on any financial instruments;

(i) after adding back (to the extent otherwise deducted) any loss against book value incurred by a member of the Group on the Disposal of any asset during the Test Period and any loss arising on any revaluation of any asset during the Test Period;

(j) after deducting (to the extent otherwise included) any gain over book value arising in favour of a member of the Group on the Disposal of any asset during the Test Period and any gain arising on any revaluation of any asset during the Test Period;

(k) before deducting any Transaction Costs;

(l) after deducting the amount of any profit of any member of the Group which is attributable to minority interests;

(m) after adding back, to the extent not included in the financial statements of the Group, the amount of any dividends or profit distribution (net of withholding tax) received in cash by any member of the Group during such Test Period from companies which are not members of the Group;

(n) after deducting the amount of any profit of any investment or entity (which is not itself a member of the Group) in which any member of the Group has an ownership interest to the extent that the amount of such profit included in the financial statements of the Group exceeds the amount (net of applicable withholding tax) received in cash by members of the Group through distributions by such investment or entity;

(o) after adding back the amount of any cash received by members of the Group through distribution by any investment or entity (which is not itself a member of the Group) in which any member of the Group has an ownership interest to the extent that the amount of such cash (net of applicable withholding tax) exceeds the amount of profit of such investment or entity included in the financial statements of the Group;

(p) after adding back Customer Rebates not collected by TWUL during such Test Period; and

in each case to the extent added, deducted or taken into account, as the case may be, for the purposes of determining profits of the Group from ordinary activities (or in the case of Customer Rebates, to the extent not collected by TWUL).

"**Group Payment Arrangement**" means the arrangement entered into pursuant to Section 59F Taxes Management Act 1970 under which Thames Water Limited has agreed to discharge the Tax liabilities of the Thames Water Group;

"**Group RAR**" means the ratio of Total Net Debt to RCV;

"**Group Tax Relief**" means any right to allocate or reallocate Tax or Relief between members of a group including by way of the surrender of losses under Part 5 CTA;

"**Guarantor**" means Kemble Water Finance Limited;

"**Guarantor Notes**" means the £10,000,000 5.30% senior secured series 1 notes due 2025 issued by the Guarantor on 29 November 2018, the £100,000,000 5.30% senior secured series 1A notes due 2025 issued by the Guarantor on 29 November 2018, the £200,000,000 senior secured series 2 notes due 2025 issued by the Guarantor on 20 December 2018, the £149,800,000 5.39% senior secured series 3 notes due 2026 issued by the Guarantor on 1 April 2019, the £50,000,000 5.26% senior secured notes due 2027 issued by the Guarantor on 23 July 2020 and the £50,000,000 5.27% senior secured notes due 2028 issued by the Guarantor on 14 August 2020;

"**Hedge Counterparty**" means a person which is or becomes a party to the Intercreditor Agreement as a Hedge Counterparty in accordance with the provisions of the Intercreditor Agreement;

"**Hedging Agreement**" means any master agreement, confirmation, schedule or other agreement entered into or to be entered into by the Guarantor or the Issuer and a Hedge Counterparty for the purpose of hedging interest rate liabilities;

"**Hedging Liabilities**" means the Liabilities owed by the Guarantor, or the Issuer (as applicable) to the Hedge Counterparties under or in connection with the Hedging Agreements;

"**Holding Company**" of any other person, means a person in respect of which that other person is a subsidiary;

"**ICSD**" means International Central Securities Depositories;

"**IDOK**" means an interim determination of K (as that term is defined in the Instrument of Appointment) as provided for in Part IV of Condition B of the Instrument of Appointment;

"**Initial Investor Affiliate**" means in relation to an Initial Investor any Fund, Trust or company (including any unit trust, investment trust, limited partnership or general partnership) which is controlled by, which is advised by, or which is, or the assets of which are, managed from time to time by:

(a) that Initial Investor; or

(b) any Fund, Trust or company which is controlled by that Initial Investor and which forms part of that Initial Investor's consolidated group for accounting purposes,

and this shall include any wholly-owned subsidiary of such Fund, Trust or company but, for the avoidance of doubt, shall not include an investee company of an Initial Investor;

"**Initial Investors**" means Aquila GP Inc. in its capacity as the general partner of the Aquila Sonnet Limited Partnership, BriTel Fund Trustees Limited as custodian trustee of the BT Pension Scheme, Church Water Investment Limited, Cicero Investment Corporation, Infinity Investments S.A., Omers Farmoor 2 Holdings B.V., OMERS Farmoor 3 Holdings B.V., Omers Farmoor SGP LP, QIC Infrastructure Management PTY LTD, Stichting Pensioenfonds Zorg en Welzijn, Terrace IRR GP Inc and Wren House Infrastructure Investments Limited (including any successors in title);

"**Insolvency Act**" means the Insolvency Act 1986;

"**Instrument of Appointment**" or "**Licence**" means the instrument of appointment dated August 1989 granted by the Secretary of State for Environment for TWUL as a water undertaking under Sections 11 and 14 of the Water Act 1989 (now Sections 6, 7, 11 and 12 of the WIA), as modified or amended from time to time;

"**Intercreditor Agreement**" means the intercreditor agreement originally dated 25 March 2011 as amended or restated from time to time between, among others, the Issuer, the Guarantor, the Working Capital Lenders, the Note Trustee and the Security Trustee;

"**Interest**" means, in respect of any period, interest and amounts in the nature of interest or commitments fees paid or received, payable or accruing (as applicable) under any liabilities of the Total Net Debt excluding any Financial Indebtedness in respect of the IP Liability after taking into account any hedging arrangements;

"**Interest Cover Ratio**" means, in respect of a Test Period, the ratio of Group EBITDA for that Test Period to Total Interest Service for the same Test Period;

"**Intermediate Subsidiary**" means, in respect of the Guarantor, any Subsidiary of the Guarantor that is a Holding Company of TWUL but is not a member of the Securitisation Group;

"**Investor's Currency**" means the currency in which the investor's financial activities are principally denominated;

"**IP**" means the company designated by the Secretary of State or Ofwat under the SIP Regulations to deliver the TTT Project;

"**IP Charges**" means the amount which the IP is allowed to charge to TWUL in accordance with the IP Project Licence;

"**IP Liability**" means any liability:

(a) in respect of a historical period, which is shown in the financial statements of TWUL arising as a result of the treatment of the Thames Tideway Tunnel in the financial statements of TWUL and described as such in the notes to the financial statements; or

(b) in respect of a forward looking period, which is anticipated to arise as a result of the treatment of the Thames Tideway Tunnel in the financial statements of TWUL and which is anticipated to be described as such in the notes to the financial statements.

In each case, the IP Liability shall not include any financial liability which arises (or is anticipated to arise) from amounts being overdue for payment or which represents (or is anticipated to represent) a legal repayment obligation of TWUL;

"**IP Project Licence**" means the project licence to be granted to the IP pursuant to section 17FA of the WIA (as given effect by the SIP Regulations);

"**IP Related Operating Expenses**" means that part of payments made or, in respect of a forward looking period, anticipated to be made in respect of amounts of the IP Charges that form part of operating expenses;

"**IP Related Revenue**" means such revenue collected or, in respect of a forward looking period, anticipated to be collected in respect of customer charges permitted under the IP Project Licence;

"**ISDA**" means the International Swaps and Derivatives Association Inc.;

"**Issuer**" means Thames Water (Kemble) Finance PLC;

"**Issuer/Guarantor Loan**" means the loan made pursuant to an Issuer/Guarantor Loan Agreement;

"**Issuer/Guarantor Loan Agreement**" means the loan agreement entered into between the Issuer, the Guarantor and the Security Trustee on or around 7 April 2011 and any other loan agreement entered into between the Issuer, the Guarantor and the Security Trustee in relation to the proceeds of the Notes from time to time;

"**Issuing and Paying Agent**" means the person named as such in the Conditions or any Successor Issuing and Paying Agent, in each case, at its specified office;

"**Junior Group**" means the Holding Companies of the Guarantor;

"**Kemble Shareholders**" means Aquila GP Inc. in its capacity as the general partner of the Aquila Sonnet Limited Partnership, BriTel Fund Trustees Limited as custodian trustee of the BT Pension Scheme, Church Water Investment Limited, Cicero Investment Corporation, Infinity Investments S.A., Omers Farmoor 2 Holdings B.V., OMERS Farmoor 3 Holdings B.V., Omers Farmoor SGP LP, QIC Infrastructure Management PTY LTD, Stichting Pensioenfonds Zorg en Welzijn, Terrace IRR GP Inc and Wren House Infrastructure Investments Limited (including any successors in title);

"**Legal Opinion**" means any legal opinion delivered to the Note Trustee in accordance with the covenants set out in the Trust Deed;

"**Legal Reservations**" means:

(a) the principle that equitable remedies may be granted or refused at the discretion of a court and the limitation of enforcement by laws relating to insolvency, reorganisation and other laws generally affecting the rights of creditors;

(b) the time barring of claims under the Limitation Acts, the possibility that an undertaking to assume liability for or indemnify a person against non-payment of UK stamp duty may be void and defences of set-off or counterclaim;

(c) similar principles, rights and defences under the laws of any Relevant Jurisdiction; and

(d) any other matters which are set out as qualifications or reservations as to matters of law of general application in the Legal Opinions;

"**Liabilities**" means all present and future liabilities, obligations and indebtedness at any time of the Issuer or the Guarantor to any Secured Creditor or any Subordinated Lender (both actual and contingent and whether incurred solely or jointly or in any other capacity) together with any of the following matters relating to or arising in respect of those liabilities and obligations:

(a) any refinancing, novation, deferral or extension;

(b) any claim for damages or restitution; and

(c) any claim as a result of any recovery by the Issuer or the Guarantor of a payment or discharge on the grounds of preference,

and any amounts which would be included in any of the above but for any discharge, non-provability or unenforceability of those amounts in any insolvency or other proceedings;

"**LIBOR**" means the London inter-bank offered rate;

"**Licence**" has the same meaning as Instrument of Appointment;

"**Licence Holder**" means TWUL or any successor which is a member of the Group;

"**Limitation Acts**" means the Limitation Act 1980 and the Foreign Limitation Periods Act 1984;

"**Loan Facility**" means a loan facility made available to the Issuer or the Guarantor;

"**Lock-Up**" has the meaning given to it in "Overview of the Key Documents – Trust Deed – Lock Up";

"**London Stock Exchange**" means the London Stock Exchange plc;

"**Main Market**" means the main market of the Financial Conduct Authority trading at London Stock Exchange;

"**Majority Secured Creditors**" means:

(a) in respect of any Special Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing at least in the aggregate 66 2/3 per cent. of Total Commitments; and

(b) in respect of any Ordinary Decisions, such Secured Creditor Representative or Secured Creditor Representatives representing greater than in the aggregate 50 per cent. of Total Commitments;

"**Master Definitions Agreement**" or "**MDA**" means the master definitions agreement dated 30 August 2007 (as amended and/or restated from time to time) between, among others, TWUL, the Securitisation Issuer and Deutsche Trustee Company Limited;

"**Material Adverse Effect**" means a material adverse effect on or material adverse change in:

(a) the financial condition, assets or business of the Group taken as a whole;

(b) the ability of the Guarantor to perform and comply with its payment obligations under any Finance Document and/or its obligations under the financial covenants set out in the Trust Deed; or

(c) subject in each case to Legal Reservations, the validity, legality or enforceability of any Finance Document or the rights or remedies of any Finance Party thereunder (including, for the avoidance of doubt, the priority and ranking of any Transaction Security);

"**Member State**" means a member state of the European Union;

“**MiFID II**” means Directive 2014/65/EU, as amended;

“**Moody’s**” means Moody’s Investor Services, Limited, or any successor to the rating agency business of Moody’s Investors Service, Limited;

“**New Global Note**” or “**NGN**” means new global note;

“**New Safekeeping Structure**” or “**NSS**” means the new safekeeping structure which applies to Registered Notes held in global form by a Common Safekeeper for Euroclear and Clearstream, Luxembourg and which is required for such Registered Notes to be recognised as eligible collateral for Eurosystem monetary policy and intra day credit operations;

“**Non-Reg Group**” means any Subsidiary of the Guarantor which is not a Holding Company of TWUL, other than;

(a) TWUL or a Subsidiary of TWUL; and

(b) the Issuer;

“**Note Documents**” means the Trust Deed, the Issuer/Guarantor Loan Agreement, the Dealership Agreement and the Agency Agreement;

“**Note Trustee**” means Deutsche Trustee Company Limited at the date of this Prospectus and, where the context so admits, includes any other note trustee for the time being appointed pursuant to the Trust Deed;

“**Noteholder**” has the meaning given to it in the Conditions;

“**Notes**” means the medium-term notes to be issued by the Issuer pursuant to the Dealership Agreement, guaranteed by the Guarantor, constituted by the Trust Deed and for the time being outstanding or, as the context may require, a specific number of them;

“**Obligors**” means the Issuer and the Guarantor;

“**Official List**” means the official list of the Financial Conduct Authority;

“**Ofwat**” means the Water Services Regulation Authority for England and Wales, including any successor body or office;

“**Ordinary Decision**” means any decision of the Majority Secured Creditors which is not a Special Decision;

“**Original Hedge Counterparties**” means those financial institutions who become a party to the Intercreditor Agreement in accordance with clause 5 thereof by providing a Secured Creditor Accession Deed on or before 7 April 2011;

“**Out-turn Inflation**” has the meaning given to it in the MDA;

“**Page**” means such page, section, caption, column or other part of a particular information service (including the Reuters Money 3000 Service (“**Reuters**”)) as may be specified in the relevant Final Terms or Drawdown Prospectus as a Relevant Screen Page, or such other page, section, caption, column or other part as may replace the same on that information service or on such other information service, in each case as may be nominated by the person or organisation providing or sponsoring the information appearing there for the purpose of displaying comparable rates or prices

“**Paying Agents**” means the persons (including the Issuing and Paying Agent) referred to as such in the Conditions or any Successor Paying Agents, in each case, at their respective specified offices;

“**Periodic Review**” has the meaning given to it in the MDA;

"**Periodic Review Effective Date**" means the date with effect from which the new K will take effect, following a Periodic Review;

"**Permanent Dealers**" means all Dealers in respect of the Programme and excludes those appointed as such solely in respect of one or more specified Tranches;

"**Permanent Global Note**" means a Global Note representing Bearer Notes of one or more Tranches of the same Series, either on issue or upon exchange of a temporary Global Note, or part of it;

"**Permitted Development**" means the divestiture of part of TWUL's business into a separate licensed entity, provided that:

(a) the resultant change does not cause Group RAR to exceed 0.925:1; and

(b) Ofwat approves the divestiture; and

(c) the resultant change does not have or could not reasonably be expected to have a Material Adverse Effect;

"**Permitted Disposal**" means any disposal:

(a) of assets by the Guarantor or any Intermediate Subsidiary in its ordinary course of trade and on arm's length terms entered into for bona fide commercial purposes for the benefit of its business;

(b) for cash and on arm's length terms by the Guarantor or any Intermediate Subsidiary of any: (i) surplus plant or material; and any (ii) obsolete or worn-out assets which in each case in the reasonable opinion of such company are not required for the efficient operation of its business or which are to be replaced by other similar assets comparable or superior as to type, value or quality;

(c) by the Guarantor or any Intermediate Subsidiary of cash where such disposal is not otherwise prohibited by this Agreement;

(d) by the Guarantor or any Intermediate Subsidiary of assets, the disposal of which is permitted by the Finance Documents;

(e) of Cash Equivalents by the Guarantor or any Intermediate Subsidiary on arm's length terms for cash or in exchange for other Cash Equivalents; and

(f) any transactions required as part of a Group reorganisation, including in respect of tax restructurings;

"**Permitted Distribution**" means, in each case provided that no Event of Default has occurred and is continuing:

(a) the payment of a dividend, any other distribution or payment of any amount under any loan from a member of the Group to the Guarantor and/or the Issuer or from the Guarantor to its parent company, in each case where such payment is made by a member of the Group to the Guarantor and/or the Issuer or from the Guarantor to its parent company to enable payments in respect of any employment costs, insurance premia or professional advisers' fees incurred by it, provided that, in the case of employment costs, insurance premia or professional advisers' fees, such costs, premia and fees in aggregate shall not exceed £750,000 (or its equivalent) leaving the Group in any financial year; or

(b)

(i) the surrender of Group Tax Relief by any member of the Group; provided that, in the reasonable commercial opinion of the Group, such Group Tax Relief could not (on a commercially reasonable basis and within the relevant accounting period) be used within the Group;

(ii) the payment on or prior to receiving the Group Tax Relief, by any member of the Group of any amount in respect of Group Tax Relief not exceeding the amount of Tax saved or to be saved by that member of the Group by virtue of that surrender;

(iii) any payments on account of any Tax liabilities paid by Thames Water Limited under the Group Payment Arrangement; provided that, if such payment is made in respect of the Tax liabilities of any member of the Junior Group (a "Junior Group Payment"), Thames Water Limited has received a cash amount equal to such Junior Group Payment from the Junior Group on or prior to making the Junior Group Payment under the Group Payment Arrangement;

(iv) notwithstanding any other provision of this Agreement, any amount due by a member of the Junior Group to a member of the Group in respect of any surrender of Group Tax Relief within (b)(i) may be left outstanding on inter-company account;

"**Permitted Enforcement Action**" means the steps that a Secured Creditor is entitled to take to enforce its rights against an Obligor provided by the terms of the Intercreditor Agreement and summarised in the section entitled "*Intercreditor, Enforcement and the Working Capital Facility Agreement*" of this Prospectus;

"**Permitted Financial Indebtedness**" means Financial Indebtedness:

(a) arising under any of the Finance Documents;

(b) arising under any Subordinated Debt;

(c) arising under a foreign exchange transaction for spot or forward delivery entered into in connection with protection against fluctuation in currency rates where that foreign exchange exposure arises in the ordinary course of trade, but not a foreign exchange transaction for investment or speculative purposes;

(d) arising under a Permitted Loan or a Permitted Guarantee;

(e) of any person acquired by the Guarantor or any Intermediate Subsidiary after the date of this Agreement which is incurred under arrangements in existence at the date of acquisition, but not incurred or increased or its maturity date extended in contemplation of, or since, that acquisition, and outstanding only for a period of six months or less following the date of acquisition;

(f) arising under any netting or set-off arrangements permitted pursuant to paragraph (d) of the definition of "Permitted Security", the maximum aggregate net amount of which does not exceed £15,000,000;

(g) arising under the Notes or the Note Documents;

(h) permitted in accordance with the terms of the Intercreditor Agreement;

(i) any Financial Indebtedness ("**Existing Financial Indebtedness**") entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any Financial Indebtedness replacing all or part of any Existing Financial Indebtedness (which term shall include any such replacement Financial Indebtedness), provided that the amount of such replacement Financial Indebtedness does not exceed the amount of the Existing Financial Indebtedness; or

(j) arising after the date hereof provided that:

(i) the net proceeds of such additional Financial Indebtedness is either:

(A) applied to repay outstanding Financial Indebtedness on a pound for pound basis; or

(B) deposited into a Defeasance Account and applied at the relevant time to repay outstanding Financial Indebtedness;

(ii) such additional Financial Indebtedness does not rank senior to the Facilities and the Notes;

(iii) such additional Financial Indebtedness is secured and the creditors (and/or their representative) of such Financial Indebtedness accede to the Intercreditor Agreement as Secured Creditors on or prior to advancing funds to the Issuer or, as the case may be, the Guarantor; and

(iv) no Lock-Up or Default would occur as a result of the incurrence of such Financial Indebtedness;

"**Permitted Guarantee**" means:

(a) any guarantee arising under any Finance Document, the Notes or the Note Documents;

(b) any guarantee or indemnity (each an "**Existing Guarantee**") entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any guarantee or indemnity replacing all or part of any Existing Guarantee (which term shall include any such replacement guarantee or indemnity), provided that the amount guaranteed or indemnified under such replacement guarantee or indemnity does not exceed the amount guaranteed or indemnified under the Existing Guarantee;

(c) the endorsement of negotiable instruments in the ordinary course of trade;

(d) any guarantee given in respect of the netting or set-off arrangements permitted pursuant paragraph (c) of the definition of Permitted Security;

(e) any guarantee permitted by the definition of Permitted Financial Indebtedness;

(f) any customary indemnity given under the terms of any sale and purchase agreement to any purchaser of an asset, provided that such indemnity is capped at an amount not exceeding the consideration received in respect of such asset (such capped amount, the "Capped Amount"), provided that for so long as such indemnity is outstanding: (i) an amount (the "Ring-Fenced Deposit Amount") equal to the Capped Amount shall be deposited in a new bank account of any member of the Group and such Ring-Fenced Deposit Amount shall not be debited from such account (including for the purposes of paying dividends); and (ii) such Ring-Fenced Deposit Amount shall be excluded from Cash and Cash Equivalents for the purposes of calculating Total Net Debt; and

(g) any guarantee not permitted by the preceding paragraphs and the outstanding principal amount of which does not exceed £2,000,000 (or its equivalent) in aggregate for the Group at any time;

"**Permitted Loan**" means, in respect of the Guarantor or an Intermediate Subsidiary:

(a) any trade credit extended to its customers on normal commercial terms and in the ordinary course of its trading activities;

(b) a loan made to a member of the Group;

(c) a loan made to any member of the Junior Group (provided that Lock-Up shall apply to any such loan);

(d) any loan (each an "**Existing Loan**") entered into by the Guarantor or any Intermediate Subsidiary before the date hereof (or any loan replacing all or part of any Existing Loan (which term shall include any such replacement loan), provided that the amount of such loan under such replacement loan does not exceed the amount of the Existing Loan;

(e) a loan made to an employee or director if the amount of that loan when aggregated with the amount of all loans to employees and directors by members of the Group does not exceed £2,000,000 (or its equivalent) at any time;

(f) any loan made pursuant to any Finance Document, the Notes or the Note Documents;

(g) any loan made by the Issuer to the Guarantor pursuant to the Issuer/Guarantor Loan Agreement; and

(h) any loan not otherwise permitted above (other than a loan made by one member of the Group to another member of the Group) if the amount of that loan when aggregated with the amount of all other loans does not exceed £3,000,000 (or its equivalent) at any time;

"**Permitted Security**" means:

(a) any Security or Quasi-Security arising under any Finance Document (including any Transaction Security Document), the Notes or the Note Documents;

(b) any lien arising by operation of law and in the ordinary course of trading and not as a result of any default or omission of the Guarantor or any Intermediate Subsidiary;

(c) any cash management, netting or set-off arrangement entered into by the Guarantor or any Intermediate Subsidiary in the ordinary course of its banking arrangements for the purpose of netting debit and credit balances of the Group;

(d) any payment or close out netting or set-off arrangement pursuant to any hedging transaction entered into by the Guarantor or any Intermediate Subsidiary for the purpose of:

(i) hedging any risk to which any member of the Group is exposed in its ordinary course of trading; or

(ii) its interest rate or currency management operations which are carried out in the ordinary course of business and for non-speculative purposes only,

excluding, in each case, any Security or Quasi-Security under a credit support arrangement in relation to a hedging transaction;

(e) any Security or Quasi-Security over or affecting any asset acquired by the Guarantor or any Intermediate Subsidiary after the date of this Agreement if:

(i) the Security or Quasi-Security was not created in contemplation of the acquisition of that asset by the Guarantor or such Intermediate Subsidiary;

(ii) the principal amount secured has not been increased in contemplation of or since the acquisition of that asset by the Guarantor or such Intermediate Subsidiary; and

(iii) the Security or Quasi-Security is removed or discharged within six months of the date of acquisition of such asset;

(f) any Security or Quasi-Security arising under any retention of title, hire purchase or conditional sale arrangement or arrangements having similar effect in respect of goods supplied to the Guarantor or any Intermediate Subsidiary in the ordinary course of trading and not arising as a result of any default or omission by the Guarantor or any Intermediate Subsidiary;

(g) any Security or Quasi-Security arising as a result of a disposal which is not prohibited by the terms of any of the Transaction Documents;

(h) any Security or Quasi-Security permitted under the terms of the Intercreditor Agreement;

(i) any Security or Quasi-Security existing as at the date of this Agreement (the "**Existing Security**") (or any Security or Quasi-Security replacing all or part of such existing security (or replacement of such Existing Security), provided that the amount secured under such replacement security does not exceed the amount secured under the Existing Security; or

(j) any Security or Quasi-Security securing indebtedness the outstanding principal amount of which (when aggregated with the outstanding principal amount of any other indebtedness which has the benefit of Security or Quasi-Security given by any member of the Group other than any permitted under paragraphs (a) to (i) above) does not exceed £5,000,000 (or its equivalent in other currencies);

"**Permitted Transaction**" means:

(a) any disposal required, Financial Indebtedness incurred, guarantee, indemnity or Security or Quasi-Security given, or other transaction arising, under, or in connection with, the Notes, the Note Documents or any Finance Document;

(b) transactions (other than: (i) any sale, lease, license, transfer or other disposal in circumstances where such sale, lease, license, transfer or other disposal is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset; and (ii) the granting or creation of Security or the incurring or permitting to subsist of Financial Indebtedness) conducted in the ordinary course of trading on arm's length terms;

(c) any transaction in relation to the acquisition of part of the business of TWUL by the Guarantor or any Intermediate Subsidiary, or in relation to the separation (by contract or otherwise) of part of such business, in each case where such transaction is in preparation for or otherwise in connection with the introduction of retail competition or other market or regulatory reform in the water markets in England, provided that:

    (i) the resultant change does not cause Group RAR to exceed 0.925:1; and

    (ii) such transaction could not reasonably be expected to have a Material Adverse Effect;

(d) any Permitted Development;

(e) in respect of Thames Water Limited, any transaction in respect of the ordinary course of business of the Non-Reg Group and any disposal of any member of the Non-Reg Group;

(f) any transaction between members of the Group;

(g) any corporate reconstruction of the Group (including, but not limited to any capital reduction of a member of the Group, the insertion of any new holding companies, the removal of holding companies, any tax restructurings or a Permitted Disposal) provided that the Guarantor continues to comply with the financial covenants set out in the Trust Deed; and

(h) any other transaction agreed to by the Note Trustee (if directed to do so by an Extraordinary Resolution of the Noteholders);

"**Positive Value**" means in respect each Hedge Counterparty, the positive amount (if any) due to that Hedge Counterparty from the Issuer or the Guarantor (as applicable) following termination of the relevant Hedging Agreements;

"**Potential Event of Default**" means an event or circumstance that would, with the giving of notice, lapse of time, issue of a certificate and/or fulfilment of any other requirement provided for in Condition 10 (*Events of Default*), become an Event of Default;

"**PRIIPs Regulation**" means Regulation (EU) No 1286/2014, as amended;

"**Programme**" means the £1,000,000,000 guaranteed secured medium term note programme established by the Issuer and listed on the main market of London Stock Exchange;

"**Programme Limit**" means the maximum aggregate nominal amount of Notes that may be issued and outstanding at any time under the Programme, as such limit may be increased pursuant to the Dealership Agreement;

"**Prospectus Regulation**" means Regulation (EU) 2017/1129;

"**Quasi-Security**" means:

(a) the sale, transfer or disposal by any other means of assets on terms whereby they are or may be leased to or re-acquired by the Issuer or the Guarantor or any Intermediate Subsidiary;

(b) the sale, transfer or disposal by any other means of receivables on recourse terms;

(c) the entry into any arrangement under which money or the benefit of a bank or other account may be applied, set-off or made subject to a combination of accounts; or

(d) the entry into any other preferential arrangement having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset;

"**Rating Agencies**" means Fitch and Moody's;

"**RCV**" means, in relation to any date:

(a) the regulatory capital value for such date as last determined (excluding any draft determination of the regulatory capital value by Ofwat) and notified to TWUL by Ofwat at the most recent Periodic Review or IDOK or other procedure through which in future Ofwat may make such determination on an equally definitive basis to that of a Periodic Review or IDOK (interpolated as necessary and adjusted as appropriate for Out-turn Inflation) provided that for any Calculation Period for which there is no Final Determination RCV shall be TWUL's good faith, present estimate of its regulatory capital value on the last day of such Calculation Period; plus

(b) an amount equal to the Variances attributable to investment in Major Capex Projects (each as defined in the MDA);

"**Receiptholder**" means the holders of Receipts;

"**Receipts**" means the receipts for the payment of principal in respect of Bearer Notes of which the principal is repayable and includes any replacement Receipts issued pursuant to the Conditions;

"**Redemption Amount**" means the Final Redemption Amount, Early Redemption Amount or Optional Redemption Amount, as the case may be, all as defined in the Conditions;

"**Register**" means the register maintained by the Registrar;

"**Registered Holder**" means the person in whose name a Registered Note is registered; "Registered Note" means a Note in registered form;

"**Registrar**" means the person named as such in the Conditions or any Successor Registrar, in each case at its specified office;

"**Regulated Business**" means the business of a "relevant undertaker" (as that term is defined in the WIA) in the United Kingdom carried out by the Group;

"**Regulated Entity**" means Thames Water Utilities Limited and any other member of the Group from time to time which carries out Regulated Business;

“**Regulation S**” means the Regulation S adopted under the Securities Act;

“**Relevant Date**” has the meaning set out in the Terms and Conditions of the Notes;

“**Relevant Jurisdiction**” means, in relation to the Guarantor:

(a) its jurisdiction of incorporation; and

(b) any jurisdiction whose laws govern any of the Transaction Security Documents entered into by it;

“**Relief**” includes any relief, loss, allowance, exemption, set-off, deduction or credit in computing or against profits or Tax;

“**Responsible Person(s)**” means the Issuer and the Guarantor, as applicable;

“**Secured Creditor Accession Deed**” means a deed of accession, substantially in the form set out in Schedule 2 (*Form of Secured Creditor Accession Deed*) in the Intercreditor Agreement;

“**Secured Creditor Representative**” means:

(a) in respect of the Initial Notes and any Additional Notes, the Note Trustee;

(b) in respect of the Working Capital Finance Documents, the Working Capital Facility Agent;

(c) in respect of a Loan Facility, the agent in respect of that Loan Facility; and

(d) in respect of a Hedging Agreement, the relevant Hedge Counterparty;

“**Secured Creditors**” means:

(a) the Note Trustee (on its own behalf and on behalf of the Noteholders) and the initial Noteholders;

(b) the Issuing and Paying Agent, the Transfer Agent, the Paying Agent, the Calculation Agent and the Registrar;

(c) any Additional Note Parties;

(d) the Working Capital Finance Parties;

(e) any Additional Finance Parties;

(f) the Original Hedge Counterparties;

(g) any Additional Hedge Counterparties; and

(h) the Security Trustee,

provided that, for the avoidance of doubt, Noteholders and holders of coupons in respect of Notes may only act through the Note Trustee;

“**Securities Act**” means the United States Securities Act of 1933 and any subsequent amendments thereto;

“**Securitisation**” has the meaning given to it in “Risk Factors- TWUL is subject to certain restrictions in paying dividends as part of its covenant-based ring-fencing”;

“**Securitisation Group**” means Thames Water Utilities Holdings Limited, TWUL, the Securitisation Issuer and such other subsidiaries as constitute Permitted Subsidiaries under the Securitisation Programme from time to time;

“**Securitisation Issuer**” means Thames Water Utilities Finance plc;

"**Securitisation Programme**" means the £10,000,000,000 Multicurrency Programme for the issue of guaranteed bonds issued by Thames Water Utilities Finance plc established on 30 August 2007;

"**Security**" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having a similar effect;

"**Security Agreement**" means the security agreement between, among others, the Security Trustee, the Issuer and the Guarantor dated on or around 7 April 2011 and as supplemented on 26 March 2015;

"**Security Trustee**" means Deutsche Trustee Company Limited or any other security trustee appointed pursuant to the Intercreditor Agreement;

"**Senior RAR**" means, on any Calculation Date, the ratio of Senior Net Indebtedness to RCV as at such Calculation Date or, in the case of any forward-looking ratios for Test Periods ending after such Calculation Date, as at the 31 March falling in such Test Period;

"**Series**" means a series of Notes comprising one or more Tranches, whether or not issued on the same date, that (except in respect of the first payment of interest and their issue price) have identical terms on issue and are expressed to have the same series number;

"**SIP Regulations**" means the Water Industry (Specified Infrastructure Projects) (English Undertakers) Regulations 2013 (as amended from time to time);

"**Special Decision**" means any decision of the Majority Secured Creditors relating to any matters which:

(a) would release any of the Transaction Security (unless equivalent replacement security is taken at the same time) unless such release is permitted in accordance with the terms of the Intercreditor Agreement;

(b) would change:

  (i) any material definitions which relate to the key structural principles on which the voting mechanics of the Special Decisions have been founded; or

  (ii) any of the matters requiring Special Decisions;

(c) would relate to the removal of the Security Trustee in accordance with clause 13.1.7 of the Intercreditor Agreement; or

(d) relate to any Enforcement Action,

provided that, for the avoidance of doubt, the Majority Secured Creditors may not take any decisions relating to Entrenched Rights without the relevant Secured Creditor's consent;

"**Specified Currency**" has the meaning given to it in the relevant Final Terms or Drawdown Prospectus;

"**Specified Denomination**" has the meaning given to it in the relevant Final Terms or Drawdown Prospectus;

"**Stabilising Manager(s)**" means any Dealer designated as a Stabilising Manager; "Sterling", "Pounds" or "£" means the lawful currency of the United Kingdom;

"**Subordinated Debt**" means Financial Indebtedness (ignoring for this purpose the words "(other than indebtedness owed by one member of the Group to another member of the Group)") which is non-cash pay or, if owed by a member of the Group to any direct or indirect shareholder in the Guarantor, which has no mandatory cash pay, which matures after the latest Maturity Date of any Notes and which is otherwise subordinated to the Notes or, if owed by the Guarantor to any direct or indirect shareholder in the Guarantor, on the same basis as the subordination of that shareholder's initial investment into the Guarantor;

"**Subordinated Lender Accession Deed**" means a deed of accession, substantially in the form set out in Schedule 3 (*Form of Subordinated Creditor Accession Deed*) to the Intercreditor Agreement;

"**Subordinated Lenders**" means Kemble Water Eurobond Plc and any person who becomes a Subordinated Lender by executing a Subordinated Lender Accession Deed;

"**Subordinated Liabilities**" means the Liabilities owed by the Obligors to the Subordinated Lenders;

"**Subsidiary**" means a subsidiary within the meaning of section 1159 of the Companies Act 2006 and, for the purpose of the Financial Ratios and in relation to financial statements of the Group, a subsidiary undertaking within the meaning of section 1162 of the Companies Act 2006;

"**Successor**" means, in relation to an Agent, such other or further person as may from time to time be appointed by the Issuer and the Guarantor as such Agent with the written approval of, and on terms approved in writing by, the Note Trustee and notice of whose appointment is given to Noteholders;

"**Talons**" means talons for further Coupons or, as the context may require, a specific number of them and includes any replacement Talons issued pursuant to the Conditions;

"**TARGET2**" means the Trans-European Automated Real-time Gross Settlement UK Express Transfer payment system which utilises a single shared platform and which was launched on 19 November 2007;

"**TARGET2 Business Day**" means any day on which TARGET2 is open for the settlement of payments in euro;

"**Tax**" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any related penalty or interest);

"**TEFRA**" means the United States Tax Equity and Fiscal Responsibility Act of 1982;

"**Temporary Global Note**" means a Global Note representing Bearer Notes of one or more Tranches of the same Series on issue;

"**Test Period**" means:

(a) the period of 12 months ending on 31 March in the then current year;

(b) the period of 12 months starting on 1 April in the same year;

(c) each subsequent 12 month period up to the Date Prior; and

(d) if the Calculation Date falls within the 13 month period immediately prior to the Date Prior, the 12 month period from the Date Prior,

provided that for the Calculation Dates on 30 September 2007 and 31 March 2008, the first Test Period shall be from 1 April 2007 to 31 March 2008, in the case of the Calculation Date on 30 September 2007 the second Test Period shall be the period of 12 months starting on 1 April in the following year, and interest shall be annualised on the basis of the interest charge from the Initial Issue Date to 31 March 2008;

"**Thames Tideway Tunnel**" has the meaning given to it in the TWUL Prospectus; "Thames Water Group" means Kemble Water Holdings Limited and its subsidiaries; "Total Commitments" means:

(a) prior to the taking of Enforcement Action: (i) the total commitments under the Finance Documents; plus (ii) the aggregate principal amount outstanding (including, if applicable, any accretion due to indexation) under the Notes issued under the Note Documents; and

(b) following the taking of Enforcement Action: (i) the aggregate principal amount outstanding under the Finance Documents and the Notes issued under the Note Documents (including, if applicable, any accretion due to indexation); plus (ii) the aggregate Positive Value of the Hedging Liabilities,

provided that, in respect of an amount denominated in a currency other than pounds sterling, such amount expressed in pounds sterling on the basis of the applicable exchange rate (as determined in accordance with the Intercreditor Agreement);

"**Total Interest Service**" for the Group for any period means the aggregate of the Interest paid by the Group for such period less interest received for that period;

"**Total Net Debt**" in respect of the Group at any time means the aggregate at that time of the Financial Indebtedness of the members of the Group less: (i) Cash and Cash Equivalents; and (ii) Defeasance Cash and excluding:

(a) any amount thereof which represents accruing interest (but no capitalised interest);

(b) any amounts outstanding or mark to market under Treasury Transactions (excluding for the avoidance of doubt the accreting portion of any index-linked swaps);

(c) any pensions deficit; and

(d) any Financial Indebtedness in respect of the IP Liability;

"**Tranche**" means, in relation to a Series, those Notes of that Series that are issued on the same date at the same issue price and in respect of which the first payment of interest is identical;

"**Transaction Costs**" means all non-periodic fees, costs and expenses, stamp, registration and other Taxes incurred by the Issuer or any other member of the Group in connection with the Finance Documents or any Note Document.

"**Transaction Documents**" means:

(a) the Trust Deed, the Issuer/Guarantor Loan Agreement and the Agency Agreement;

(b) the Working Capital Finance Documents (other than the Intercreditor Agreement and the Transaction Security Documents);

(c) the Intercreditor Agreement;

(d) the Transaction Security Documents;

(e) any Additional Note Documents;

(f) any Hedging Agreements; and

(g) any other Underlying Credit Documents,

and in each case any agreement specified to be a Transaction Document by the Security Trustee;

"**Transaction Security**" means the Security created, evidenced or expressed to be created or evidenced pursuant to the Transaction Security Documents;

"**Transaction Security Documents**" means:

(a) only in so far as it relates to the definitions of Cash or Cash Equivalents, the Security Agreement, the Supplemental Security Deed and any other document entered into by any member of the Group creating, evidencing or expressed to create or evidence any Security and any other Security granted under any covenant for further assurance in any of the Transaction Documents; and

(b) in any other context not covered by paragraph (a) above, the Security Agreement, the Supplemental Security Deed and any other document entered into at any time by any of the Obligors creating, evidencing or expressed to create or evidence any Security in favour of the Security Trustee for the Secured Creditors (or any of them) and any Security granted under any covenant for further assurance in any of the Transaction Documents;

"**Transfer Agents**" means the persons (including the Registrar) referred to as such in the Conditions or any Successor Transfer Agents, in each case at their specified offices;

"**Treasury Transaction**" means any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate, price or index;

"**Trust**" includes a superannuation fund, managed investment scheme or custodial responsibility;

"**Trust Deed**" means the trust deed dated on or around 25 March 2011 as amended and restated on 26 June 2015, 2 September 2020 and as further amended and restated on or around the date of this Prospectus between the Issuer, the Guarantor and the Note Trustee;

"**TTT Project**" means the project to deliver the tunnelling project and association works known as the Thames tideway tunnel;

"**TWUL**" means Thames Water Utilities Limited;

"**TWUL Prospectus**" means the prospectus dated 26 October 2021 in respect of the Thames Water Utilities Finance plc £10,000,000,000 Multicurrency programme for the issuance of Guaranteed Bonds;

"**TWUL Supplemental Prospectus**" means the supplemental prospectus prepared by TWUL pursuant to Part 8, Paragraph 51 of the Irish Prospectus Regulations;

"**U.S. Dollars**" or "**$**" means the lawful currency of the United States of America;

"**Water**" means in relation to:

(a) a company, or a group of companies; or

(b) an asset or business; or

(c) any borrowings or other liabilities; or

(d) any payment or dividends or other cashflows,

that the same is or will be comprised in, or derives from, the RCV and therefore includes all of (a) to (d) above which relate to TWUL save for its non-regulated excluded income;

"**WIA**" means the Water Industry Act 1991;

"**Working Capital Facility Agent**" means National Westminster Bank PLC, as facility agent under the Working Capital Facility Agreement;

"**Working Capital Facility Agreement**" means the facility agreement for certain revolving facilities between, among others, the lenders named therein dated on or around 25 October 2018;

"**Working Capital Finance Documents**" has the meaning given to "Finance Documents" in the Working Capital Facility Agreement;

"**Working Capital Finance Parties**" has the meaning given to "Finance Parties" in the Working Capital Facility Agreement; and

"**Working Capital Lenders**" means the "Lenders" as defined in Working Capital Facility Agreement.

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