

Kemble Water Eurobond Plc

**Annual report and financial statements
For the year ended 31 March 2017**



Contents

	Page
Directors and advisors	3
Strategic report	4
Directors' report	6
Statement of Directors' responsibilities in respect of the annual report and financial statements	8
Independent auditor's report to the members of Kemble Water Eurobond Plc	9
Income statement	10
Statement of financial position	11
Statement of changes in equity	12
Accounting policies	13
Notes to the financial statements	17

Directors and advisors

Directors

Sir Peter Mason KBE - Chairman
R Blomfield-Smith
K Bradbury
J Divoky
A Hall
G Lambert
P Noble
A Osorio
P Sochocki
G Tucker
C Van Heijningen
Y Wang

Registered auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Company Secretary and registered office

D Hughes
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their Strategic Report for Kemble Water Eurobond Plc ("the Company") for the year ended 31 March 2017.

Business review

The principal activity of the Company, to make certain financing arrangements on behalf of and to act as an intermediate holding company within the Kemble Water Holdings Limited group of companies ("the Group"), remains unchanged from the previous year. The Group's principal activity is the appointed supply of water and wastewater services to customers in the London, Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL") in accordance with TWUL's licence of appointment.

The Directors have reviewed the expected recoverable value of the Company's non-current asset investments and intercompany loan receivables owed from its subsidiary entities. On performing an impairment review for the year ended 31 March 2017, it was determined that the net investment held by the Company in Kemble Water Finance Limited ("KWF") was impaired and consequently a charge of £681.0 million has been recognised in the income statement as a provision for impairment. The impairment has arisen as a result of increased net debt which has reduced the net assets of KWF.

Further, in the previous year, the Directors determined that the carrying value of the amounts associated with Thames Water Commercial Ventures Holdings Limited ("TWCVHL"), a direct subsidiary, were impaired and consequently a charge of £8.2 million was recognised directly in the income statement as a provision for impairment. On performing a review for the year ended 31 March 2017 a part reversal of this impairment provision of £1.5 million has been recognised as a result of amounts received from TWCVHL during the year. No other loan receivable or investment balances are considered by the Directors to be impaired below their carrying value.

In addition to its role as an intermediate holding company, the Company has loans both with other companies within the Group as well as externally with the shareholders of its parent company, on which interest has been charged at pre-agreed rates. With the agreement of the immediate parent's shareholders the Directors have elected to defer some interest payments charged on the 2021 £310.4 million loan notes to a future period. The interest payable on the loan notes has decreased to £17.0 million (2016: £54.1 million) at 31 March 2017 as the Company made an interest payment of £77.2 million (2016: £nil).

The Directors have determined that the result before tax and the net assets or liabilities are the most appropriate key performance indicators for an understanding of the development, performance and position of the Company. For the year ended 31 March 2017 the Company made a loss before tax of £614.4 million (2016: profit before tax of £47.7 million) which has been primarily driven by the impairment loss recognised on the Company's intercompany interest receivable balance with KWF as described above. As at 31 March 2017, the Company had net liabilities of £131.3 million (2016: net assets of £495.7 million). This is in line with expectations, and the Directors have no concerns regarding the performance or position of the Company.

Principal risks and uncertainties

The Company's operations specifically expose it to a variety of financial risks that include credit and liquidity risk as follows:

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's intercompany receivable balances. Credit control policies and procedures are in place to minimise the risk of bad debt arising from trade receivables including, where appropriate, a review of the credit ratings of counterparty intercompany entities and any letters of support they may receive from the Group.

Strategic report (continued)

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due and arises principally on interest repayments on the Company's external borrowing arrangements. The Company has an agreement with the counterparties to the external 2021 £310.4 million loan notes whereby interest can be deferred if the Directors consider that there are insufficient available cash flows. All other loan agreements are with other companies within the Group. The Company has received a letter of support from the ultimate parent company confirming that it will provide support as necessary to enable it to meet its liabilities as they fall due for a period of twelve months from the signing of these financial statements.

The Directors are satisfied to place reliance on this support based on a review of the Groups budget and business plan, as well as consideration given that all borrowings are to other intercompany entities.

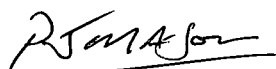
The Company's treasury operations are managed centrally by a specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors of the Company's ultimate parent company, Kemble Water Holdings Limited. The operation of the treasury function is governed by specific policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. The treasury policies and procedures are incorporated within the financial control procedures of the Company.

From the perspective of the Company all other risks and uncertainties not disclosed above, including those pertaining to its indirect investment in TWUL, are integrated with the principal risks of the Group and are not managed separately. The principal risks of the Group are disclosed in the financial statements of the ultimate controlling parent Kemble Water Holdings Limited. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company not disclosed above, are discussed in the Group's annual report which does not form part of this report. The Group's annual report is available from the address shown in note 14.

Future outlook

The Company is expected to continue to act as an intermediate holding company within the Group and make certain financing arrangements on behalf of the Group for the foreseeable future.

This Strategic Report was approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Sir Peter Mason KBE
Chairman

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

The Directors present their annual report and the audited financial statements of Kemble Water Eurobond Plc for the year ended 31 March 2017. The Directors consider that the annual report and financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's performance and strategy.

The registered number of the Company is 05957999 (England and Wales).

Future outlook

The future outlook of the Company is discussed in the Strategic Report.

Dividends

The Company has paid no dividends during either the current or preceding financial year and the Directors do not recommend the payment of a final dividend (2016: £nil).

Directors

The Directors who held office during the year ended 31 March 2017 and to the date of this report were:

Sir Peter Mason KBE - Chairman

E Beckley (resigned 30 August 2016)

R Blomfield-Smith

K Bradbury (appointed 31 May 2017)

M Braithwaite (appointed 30 August 2016, resigned 31 May 2017)

J Divoky

R Greenleaf (resigned 31 May 2017)

A Hall (appointed 31 May 2017)

G Lambert

P Noble

A Osorio

P Sochocki (appointed 31 May 2017)

G Tucker

C Van Heijningen

Y Wang

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 (2016: 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

G Tucker

P Noble

Y Wang

J Divoky

Alternate Director

P Mulholland

P Hofbauer (resigned 12 October 2016)

E Lewis (appointed 12 October 2016)

F Sheng

L Webb

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors (which extend to the performance of any duties as Director of any associated company) and these remain in force at the date of this report.

Directors' report (continued)

Financial risk management

The Company has access to the Chief Executive and the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Group on a day-to-day basis on behalf of the Directors of individual group companies. They receive 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 Company's operations expose it to a variety of financial risks which are described in the Strategic Report on pages 4 and 5.

Going Concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Company is in a net current liabilities position at the year end and consequently the Company's ultimate parent, Kemble Water Holdings Limited, has agreed to support the Company for a period of at least 12 months from the date of these financial statements.

The Directors have reviewed the Group's financial forecasts for the forthcoming financial year, considered the Group's compliance with its covenants and the cash, current asset investments and available borrowing facilities available at 31 March 2017 in making their assessment of the Group's going concern.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Political and charitable donations

No political or charitable donations were made by the Company during the year (2016: £nil).

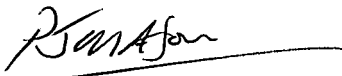
Disclosure of information to the auditor

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.

Auditor

Pursuant to Section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

Approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Sir P Mason KBE
Chairman

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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

The Directors are responsible for preparing the Strategic Report, the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework' ("FRS 101").

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 company and of the profit or loss of the Company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, including FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements;
- notify the Company's shareholders in writing about the use of the disclosure exemptions, if any, of FRS 101 used in the preparation of financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

Independent auditor's report to the members of Kemble Water Eurobond Plc

We have audited the financial statements of Kemble Water Eurobond Plc for the year ended 31 March 2017 set out on pages 10 to 24. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 'Reduced Disclosure Framework'.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 8, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2017 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and the Directors' Report for the financial year is consistent with the financial statements.

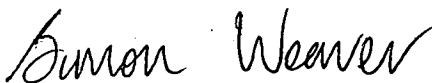
Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.



Simon Weaver (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
13 June 2017

Income Statement

For the year ended 31 March 2017

	Note	2017 £m	2016 £m
Finance income	3	473.4	430.8
Finance expense	3	(408.0)	(375.2)
Impairment of receivables and investment in subsidiary	4	(679.8)	(7.9)
Loss on ordinary activities before taxation		(614.4)	47.7
Taxation on loss on ordinary activities	5	(12.6)	(11.6)
Loss for the year		(627.0)	36.1

All amounts relate to continuing operations.

The Company has no recognised gains or losses other than the items set out above and therefore no separate statement of comprehensive income has been presented.

The accounting policies and notes on pages 13 to 24 are an integral part of these financial statements.

Statement of financial position

As at 31 March 2017

	Note	2017 £m	2016 £m
Non-current assets			
Investment in subsidiaries	6	1.0	1.0
Intercompany loans receivable	7	4,248.7	4,556.9
Deferred tax assets	8	-	3.4
		4,249.7	4,561.3
Current assets			
Trade and other receivables	9	0.3	0.3
Cash and cash equivalents		5.5	3.6
		5.8	3.9
Current liabilities			
Trade and other payables	10	(35.8)	(26.5)
Borrowings	11	(2,050.0)	(1,742.0)
		(2,085.8)	(1,768.5)
Net current liabilities		(2,080.0)	(1,764.6)
Non-current liabilities			
Borrowings	11	(2,301.0)	(2,301.0)
Net (liabilities)/assets		(131.3)	495.7
Equity			
Share capital	12	1.0	1.0
Retained earnings		(132.3)	494.7
Total equity		(131.3)	495.7

The accounting policies and notes on pages 13 to 24 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 13 June 2017 and signed on its behalf by:



Sir Peter Mason KBE
Chairman

Registered number: 05957999 (England & Wales)

Statement of changes in equity

For the year ended 31 March 2017

	Share capital £m	Retained earnings £m	Total equity £m
At 1 April 2015	1.0	458.6	459.6
Profit for the year	-	36.1	36.1
At 31 March 2016	1.0	494.7	495.7
Loss for the year	-	(627.0)	(627.0)
As at 31 March 2017	1.0	(132.3)	(131.3)

The accounting policies and notes on pages 13 to 24 are an integral part of these financial statements.

Accounting policies

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

General information

Kemble Water Eurobond Plc (the "Company") is a Company incorporated in England & Wales and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB.

The principal activity of the Company, to make certain financing arrangements on behalf of and to act as an intermediate holding company within the Kemble Water Holdings Limited group of companies ("the Group"), remains unchanged from the previous year.

Basis of Preparation

These financial statements were prepared in accordance with Financial Reporting Standard 101 *Reduced Disclosure Framework* ("FRS 101"). The financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006 and on a going concern basis.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken.

As permitted by FRS 101, the Company has taken advantage of the following exemptions:

- IFRS 7 *Financial instruments: Disclosures*
- Paragraphs 91 to 99 of IFRS 13 *Fair value measurement* (disclosure of valuation techniques and inputs used for fair value measurement of assets and liabilities)
- Paragraph 38 of IAS 1 *Presentation of financial statements* comparative information requirements in respect of:
 - paragraph 79(a)(iv) of IAS 1 (reconciliations between the carrying amount at the beginning and end of the period)
 - 10(d) (statement of cash flows)
- The following paragraphs of IAS 1 *Presentation of financial statements*:
 - 10(f) (a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements),
 - 16 (statement of compliance with all IFRS),
 - 38A (requirement for minimum of two primary statements, including cash flow statements),
 - 38B-D (additional comparative information),
 - 111 (cash flow statement information), and
 - 134-136 (capital management disclosures).
- IAS 7 *Statement of cash flows*
- Paragraph 30 and 31 of IAS 8 *Accounting policies, changes in accounting estimates and errors* (requirement for the disclosure of information when an entity has not applied a new IFRS that has been issued but is not yet effective)
- Paragraph 17 of IAS 24 *Related party disclosures* (key management compensation)
- The requirements in IAS 24 *Related party disclosures* to disclose related party transactions entered into between two or more members of a group.

Accounting policies (continued)

The Company's ultimate parent undertaking, Kemble Water Holdings Limited ("KWH") includes the Company in its consolidated financial statements. The address of the registered office of KWH is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The consolidated financial statements of KWH are prepared in accordance with EU adopted IFRSs and are available to the public and may be obtained from the Company Secretarial Department at this address.

The Company exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking and not about its group.

Going Concern

The Directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net current liabilities of the Company and the requirement for ongoing support from the ultimate parent, Kemble Water Holdings Limited ("KWH").

KWH has confirmed that it will continue to provide support to Kemble Water Eurobond Plc to enable it to meet its liabilities as they fall due for a period of at least twelve months from the date of signing of these financial statements. The Directors of the Company have considered it appropriate to place reliance on this support, based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Directors also took into account potential contingent liabilities and other risk factors in making their assessment.

The Directors believe, after due and careful enquiry, and taking into account the support of the ultimate parent company, that the Company has sufficient financial resources for its present requirements and is able to meet its 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. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Non-current asset investment in subsidiaries

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Reviews for impairment are performed annually.

Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, and interest bearing borrowings.

Trade and other receivables

Trade and other receivables are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs. 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 considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Accounting policies (continued)

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible into known amounts of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Interest bearing loans and borrowings

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs 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.

Impairment of financial assets

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

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

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience for receivables of a similar age.

De-recognition of financial instruments

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the income statement.

Offsetting financial instruments

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

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 Company. This occurs when the shareholders right to receive the payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements. Dividend income is recognised when there is a legal right to receive payment.

Accounting policies (continued)

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in the statement of comprehensive income.

Current income tax

Current tax is the expected tax payable or receivable on the taxable income 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 because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

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 difference and 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 liabilities

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.

Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

Impairment of receivables, including intercompany loans receivable

The Company makes an estimate of the recoverable value of trade and other receivables. When assessing impairment of trade and other receivables, management considers factors such as credit rating of the receivable, the ageing profile of receivables and historical experience. See note 4 for the net carrying value of the receivables and associated impairment provision.

Impairment of investments in subsidiaries

Determining whether the Company's investments in subsidiaries have been impaired requires estimations of the investments' values in use. The value-in-use calculations require the entity to estimate the future cash flows expected to arise from the investments and suitable discount rates in order to calculate present values. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes. See note 6 for the net carrying value of the investments and associated impairment provision.

Notes to the financial statements

1. Auditor remuneration

The auditor's remuneration was borne by Thames Water Limited in both the current and preceding financial year. The total amount payable relating to the Company was £3,500 (2016: £2,389). No other fees were payable to KPMG LLP in respect of this Company during the year (2016: £nil).

2. Employees and Directors

Employees

The Company had no employees during the year (2016: none).

The Directors received no remuneration in respect of their services to the Company, as none were qualifying services, in both current and preceding financial year and there are no retirement benefits accruing in either year.

Directors

The Directors of the Company, who are all Non-Executive Directors of the Group, receive emoluments in respect of their services as Directors of Kemble Water Holdings Limited, the ultimate parent company. No emoluments were paid in respect of their roles as Directors of the Company (2016: £nil) and there are no retirement benefits accruing in either year.

Aggregate emoluments for the Group are disclosed in the financial statements of the ultimate parent company.

3. Finance income and expense

Finance income

	2017 £m	2016 £m
Interest income on intercompany loans receivable	473.1	431.1
Reversal of impairment/(impairment) of receivables and investment in subsidiary	0.3	(0.3)
Total	473.4	430.8

Finance expense

	2017 £m	2016 £m
Interest expense on bank and other loans	40.2	40.0
Interest expense on intercompany loans payable	367.8	335.2
Total	408.0	375.2

Notes to the financial statements (continued)

4. Impairment of receivables and investment in subsidiary

	2017 £m	2016 £m
Reversal of impairment/(impairment) of receivables and investment in TWCVHL	1.2	(7.9)
Impairment of receivables and investment in KWF	(681.0)	-
Total	(679.8)	(7.9)

During the year, the Company reversed part of the impairment booked in the previous year on the loan receivables and non-current investments in its direct subsidiary Thames Water Commercial Ventures Holdings Limited. Reversal of interest receivable has been directly offset against the original impairment (see note 3).

Additionally, during the year the company impaired the carrying value of the interest receivable on a loan to its direct subsidiary Kemble Water Finance Limited.

5. Taxation

	2017 £m	2016 £m
Current tax		
Amounts payable in respect of group relief – current year	11.8	13.8
Adjustments in respect of previous periods – group relief	(2.6)	1.2
Deferred tax	1.2	(3.4)
Adjustments in respect of previous periods – deferred tax	2.2	-
Tax on (loss)/profit on ordinary activities	12.6	11.6

The current tax charge for the year ended 31 March 2017 is higher than (2016: higher than) the standard rate of corporation tax of 20% (2016: 20%) in the UK. The differences are explained below:

	2017 £m	2016 £m
(Loss)/profit on ordinary activities before taxation	(614.4)	47.7
Current tax at 20% (2016: 20%)	(122.9)	9.5
<i>Effects of:</i>		
Disallowable expenditure (impairment of receivables and investment in subsidiaries)	135.9	1.6
Net effect of change of tax rate to 18%	-	0.4
Adjustments to tax charge in respect of prior periods – current tax	(2.6)	1.3
Adjustments to tax charge in respect of prior periods – deferred tax	2.2	(1.2)
Total tax charge	12.6	11.6

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. As the company has no deferred tax asset or liability at 31 March 2017, there is no effect on the financial statements.

Notes to the financial statements (continued)

6. Investment in subsidiaries

	2017 £m	2016 £m
Cost		
At 1 April and 31 March	4.2	4.2
Impairment		
At 1 April	(3.2)	(1.0)
Impairment loss	-	(2.2)
At 31 March	(3.2)	(3.2)
Net book value	1.0	1.0

See note 15 for the principal interests held by Kemble Water Eurobond Plc at 31 March 2017.

The Directors have determined that the investment in Thames Water Commercial Ventures Holdings Limited is to be fully impaired to reflect estimated recoverable value. Following this, and in the opinion of the Directors, the recoverable value of the investments is not less than the amount included in the balance sheet.

7. Intercompany loans receivable

	2017 £m	2016 £m
Amounts owed by group undertakings:		
Kemble Water Finance Limited	3,100.6	3,100.6
Thames Water Commercial Ventures Holdings Limited	4.5	5.6
Provision for bad and doubtful debt	(174.5)	(175.6)
	2,930.6	2,930.6
Interest receivable on amounts owed by group undertakings		
Kemble Water Finance Limited	1,999.1	1,626.3
Thames Water Commercial Ventures Holdings Limited	0.1	0.4
Provision for bad and doubtful debt	(681.1)	(0.4)
	1,318.1	1,626.3
Total	4,248.7	4,556.9

The above intercompany loans are unsecured include the following agreements:

- £3,100.6m owed by Kemble Water Finance Limited, a subsidiary undertaking. The loan is unsecured, incurs interest at 10% (2016: 10%) and is repayable on demand.
- £4.5m owed by Thames Water Commercial Ventures Holdings Limited, a subsidiary undertaking, under a facility loan agreement. The facility is unsecured, incurs interest at LIBOR + 7% (2016: LIBOR + 7%) and is repayable on demand.

Notes to the financial statements (continued)

8. Deferred tax

An analysis of movement in the deferred tax assets recognised by the Company is set out below:

	2017 £m	2016 £m
At 1 April	3.4	-
(Charge)/credit to income in the current year	(1.2)	2.2
(Charge)/credit to income in respect of the prior year	(2.2)	1.2
Deferred tax assets	-	3.4

9. Trade and other receivables

	2017 £m	2016 £m
Receivable from subsidiary undertaking	0.3	0.3

The amounts receivable from subsidiary undertaking is repayable on demand and unsecured. The Directors have reviewed the carrying value of trade and other receivables and do not consider any impairment to be required.

10. Trade and other payables

	2017 £m	2016 £m
Group relief payable	35.8	26.5

11. Borrowings

	2017 £m	2016 £m
<i>Non-current:</i>		
Amounts owed to immediate parent undertaking	1,990.6	1,990.6
Loan notes	310.4	310.4
	2,301.0	2,301.0
<i>Current:</i>		
Interest payable on amounts owed to immediate parent undertaking	2,033.0	1,687.9
Interest payable on loan notes	17.0	54.1
	2,050.0	1,742.0
Total	4,351.0	4,043.0

Amounts owed to the immediate parent undertaking, Kemble Water Holdings Limited, comprise an intercompany loan of £1,990.6 million (2016: £1,990.6 million). The loan is unsecured and repayable on demand and incurs interest at 10% (2016: 10%).

The loan notes are owed to the shareholders of the Company's immediate parent company, Kemble Water Holdings Limited, and are unsecured, wholly repayable in 2021 and incur interest at 11% (2016: 11%). Interest payable on the loan notes is unsecured and can be deferred if the directors consider there are insufficient cash flows. If deferred, interest is charged at 11% on the outstanding interest payable balance.

Notes to the financial statements (continued)

12. Called up share capital

	2017 £m	2016 £m
<i>Allotted, called up and fully paid:</i>		
1,000,000 ordinary shares of £1 each (2016: £1)	1.0	1.0

The Company 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 Company.

13. Related parties

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of an exemption contained in FRS 101 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the group. The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address in note 14.

Trading transactions external to the Kemble Water Holdings group

As at 31 March 2017, the Macquarie Group held a 26.3% shareholding in the Kemble Water Holdings ("KWH") Group and qualified as an entity related to the KWH Group. During the year the Company paid £20.3 million (2016: £nil) to Kemble Water International Holdings Limited, a company managed by the Macquarie Group.

Outstanding balances external to the Kemble Water Holdings group

As at 31 March 2017 the Company had an outstanding payable balance in relation to loan principal and interest, of £86.2 million (2016: £95.9 million) with Kemble Water International Holdings Limited.

14. Ultimate parent company and parent company of larger group

The Directors consider the immediate and ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom, which owns 100% of the issued share capital of the Company. The parent company represents both the smallest and largest group to consolidate these financial statements.

The address of the registered office of Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. Copies of the accounts of the parent company may be obtained from The Company Secretary's Office at this address.

Notes to the financial statements (continued)

15. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2017 the Company held the following principle interests, all of which are either wholly or jointly owned either directly or indirectly through its subsidiary investments.

	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights and shares held
Direct				
Kemble Water Finance Limited	Holding company	United Kingdom	Ordinary	100%
Kemble Water Liberty Limited	Holding company	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Holdings Limited	Holding company	United Kingdom	Ordinary	100%
Kemble Water Investments Limited	Holding company	United Kingdom	Ordinary	100%
Indirect				
Thames Water Utilities Limited	Water & wastewater	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property company	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Limited	Finance company	Cayman Islands	Ordinary	100%
Thames Water Utilities Finance Limited	Finance company	United Kingdom	Ordinary	100%
Thames Water Limited	Holding company	United Kingdom	Ordinary	100%
Thames Water (Kemble) Finance Plc	Finance company	United Kingdom	Ordinary	100%
Kemble Water Structure Limited	Holding company	United Kingdom	Ordinary	100%
Kemble Water Limited	Holding company	United Kingdom	Ordinary	100%
Thames Water Holdings Limited	Holding company	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Finance Limited	Holding company	United Kingdom	Ordinary	100%
Thames Water Commercial Services Limited	Water and retail	United Kingdom	Ordinary	100%
Thames Water Insurance Company Limited	Insurance Company	Guernsey	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	Ordinary	100%
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Holdings Limited	Holding Company	Cayman Islands	Ordinary	100%
Country Wide Collections Limited	Dormant Company	United Kingdom	Ordinary	100%
Foudry properties Limited	Property Company	United Kingdom	Ordinary	50%
Shapeshare Limited	Property Company	United Kingdom	Ordinary	100%
PCI Membrane Systems Limited	Dormant Company	United Kingdom	Ordinary	100%
Portacel Limited	Holding Company	United Kingdom	Ordinary	100%
Chlorination Equipment Limited	Dormant Company	United Kingdom	Ordinary	100%
Simon N-Viro Limited	Dormant Company	United Kingdom	Ordinary	100%
Stella Meta-Filters Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products FWT Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products Overseas Limited	Dormant Company	United Kingdom	Ordinary	100%
PWT Projects Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water (UK) Pension Trustees Limited	Pension Trustees	United Kingdom	Ordinary	100%
Thames Water Developments Limited	Dormant Company	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	Ordinary	100%
Thames Water Drainage Services Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Environmental Services Limited	Dormant Company	United Kingdom	Ordinary	100%
Sub-Scan Limited	Dormant Company	United Kingdom	Ordinary	100%
S Holdings Limited	Dormant Company	United Kingdom	Ordinary	100%
Subtronic Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Pipeline Solutions Limited	Dormant Company	United Kingdom	Ordinary	100%
Total Pipeline Solutions Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Dorm 1 Limited	Dormant Company	United Kingdom	Ordinary	100%
B O P Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Healthcare Limited	Dormant Company	United Kingdom	Ordinary	100%

Notes to the financial statements (continued)

15. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continued)

	Principal undertaking	Country of incorporation	Class of shares held	Proportion of voting rights and shares held
Thames Water International Service Holdings Limited	Holding Company	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Legacy Investment	Singapore	Ordinary	100%
Thames Water International (Thailand) Limited	Legacy Investment	Thailand	Ordinary/ Pref	100%
Thames Water DO Brasil Limitada	Legacy Investment	Brazil	Ordinary	100%
Thames Water International Services Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	Ordinary	100%
Trans4M Limited	Joint Venture	United Kingdom	Ordinary	25%
Thames Water Nominees Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Overseas Consultancy Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Pension Trustees	United Kingdom	Ordinary	100%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	Ordinary	100%
Thames Water Procurement Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products Limited	Dormant Company	United Kingdom	Ordinary	100%
Memtech (UK) Limited	Dormant Company	United Kingdom	Ordinary	100%
T M Products Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products SH Limited	Dormant Company	United Kingdom	Ordinary	100%
Coplastix Limited	Dormant Company	United Kingdom	Ordinary	100%
Stockdale Filtration Systems Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products UPE Limited	Dormant Company	United Kingdom	Ordinary	100%
Haymills Engineering Limited	Dormant Company	United Kingdom	Ordinary/ Pref	100%
Thames Water Products Castings Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products Coatings Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products SGE Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Products UPEI Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water property Services Limited	Dormant Company	United Kingdom	Ordinary	100%
Surta Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Retail Limited	Dormant Company	United Kingdom	Ordinary	100%
The Water Quality Centre Limited	Dormant Company	United Kingdom	Ordinary	100%
Thames Water Puerto Rico Inc	Legacy Investment	Puerto Rico	Ordinary	100%
Thames-Dick Superaqueduct Partners Inc	Joint Venture	Puerto Rico	Ordinary	50%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	Ordinary	100%
Thames Water Share Scheme Trustees Limited	Pension Trustees	United Kingdom	Ordinary	100%
Water Projects International Limited	Legacy Investment	United Kingdom	Ordinary	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)
- Thames-Dick Superaqueduct Partners Inc (1018 Ashord Avenue, Suite 206, San Juan, 00907, Puerto Rico)
- Thames Water Puerto Rico Inc (FGR Corporate Services Inc, PO Box 363507, San Juan, 009363507, Puerto Rico)

Notes to the financial statements (continued)

15. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings (continued)

- Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited (PO Box 309GT, Ugland House, South Church Street, George Town, Grand Cayman, Cayman Islands)
- Thames Water International (Thailand) Limited (999/9 The offices at Central World, 29th Floor, Unit 2973K, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok)
- Thames Water DO Brasil Limitada (Praia De Botafogo, 501 10 Andar Parte- Torre Pao De Acucar, Botafogo, Rio De Janeiro -CEP22250-000RJ, Brazil)

Both Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited are, and always have been, residents in the United Kingdom for tax purposes.