

Kemble Water Eurobond Plc

Annual report and financial statements
For the year ended 31 March 2019



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Directors and advisors

Directors

M McNicholas
K E Bradbury
S Deeley
J Divoky
G Lambert
A Hall
P Noble
G Pestrak
M Bloch-Hansen
E Lewis
F Sheng
T Song
C Pham
J Cogley
B Moncik

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
Forbury Road
Reading
RG1 3JH

Company Secretary and registered office

D Hughes
S Billett
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 2019.

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 by its subsidiary entities. As part of the transition to IFRS 9 an adjustment was made to impair an intercompany loan to Kemble Water Finance Limited. This impairment was necessary due to an IFRS 9 requirement to look at lifetime expected losses and resulted in an impairment of £1,753.0 million.

In the current year, an impairment with respect to amounts receivable from Thames Water Commercial Venture Holdings Limited of £0.4 million (2018: £0.3 million) was recognised. 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, Kemble Water Holdings Limited, 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 increased to £95.2 million (2018: £54.0 million) at 31 March 2019 as the Company made no interest payment during the year (2018: £nil).

Key performance indicators

The Directors have determined that the profit or loss 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 2019 the Company made a loss before tax of £237.2 million (2018: loss before tax of £461.4 million). The variance has been primarily driven by the impairment losses recognised in the prior year on the Company's intercompany interest receivable balance with Kemble Water Finance Limited.

As at 31 March 2019, the Company had net liabilities of £2,631.8 million (2018: £614.6 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)

Principal risks and uncertainties (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, whereby the interest on the £310.4 million loan 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 at least 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 Group's budget and business plan, as well as consideration given that all borrowings are to other intercompany entities.

The Group'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 Group.

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 11.

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 27 June 2019 and signed on its behalf by:



A Hall
Director

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 2019. 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).

Directors

The Directors who held office during the year ended 31 March 2019 and to the date of this report were:

M McNicholas	(appointed 4 April 2019)
K Bradbury	
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
G Pestrak	
G Tucker	(resigned 20 May 2019)
M Bloch-Hansen	
E Lewis	
Y Wang	(resigned 22 October 2018)
P Mulholland	(resigned 20 May 2019)
C Pham	
F Sheng	
T Song	(appointed 22 October 2018)
J Cogley	(appointed 20 May 2019)
B Moncik	(appointed 20 May 2019)

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 (2018: 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
K Bradbury	M Bloch-Hansen
P Noble	E Lewis
J Cogley	B Moncik
F Sheng	T Song
Y Wang	F Sheng
G Tucker	P Mulholland

Future outlook

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

Directors' Report (continued)

Dividends

The Company has paid no dividends during the current or preceding financial year and the Directors do not recommend the payment of a final dividend (2018: £nil).

Financial risk management

During the period, the Company has had 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 2019 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.

Research and development

The Company undertakes no research and development activity, this remains unchanged from the prior year.

Political and charitable donations

No political or charitable donations were made by the Company during the year (2018: £nil).

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.

Disclosure of information to the auditors

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.

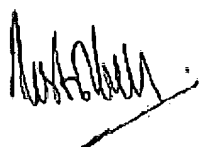
Directors' report (continued)

Independent auditors

PricewaterhouseCoopers LLP have replaced KPMG LLP as auditors for the year ended 31 March 2019.

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 27 June 2019 and signed on its behalf by:



A Hall
Director
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 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 financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). 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 the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, 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 company will continue in business.

The Directors are also responsible for safeguarding the assets of the 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 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.



A Hall
Director
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Independent auditors' report to the members of Kemble Water Eurobond Plc

Report on the audit of the financial statements

Opinion

In our opinion, Kemble Water Eurobond Plc's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 March 2019 and of its loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); 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 financial statements (the "Annual Report"), which comprise: the statement of financial position as at 31 March 2019; the income statement, the statement of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

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 company 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

ISAs (UK) require us to report to you when:

- 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 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.

We have nothing to report in respect of the above matters.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union are not clear, and it is difficult to evaluate all of the potential implications on the company's trade, customers, suppliers and the wider economy.

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.

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

Reporting on other information (continued)

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 2019 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 company and its 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 9, 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 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 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.

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

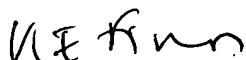
Other required reporting

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 financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading

27 June 2019

Income statement

For the year ended 31 March

	Note	2019 £m	2018 £m
Finance income	3	246.6	510.0
Finance expense	3	(483.8)	(439.4)
Impairment of receivables and investment in subsidiary	4	-	(532.0)
Loss before income tax		(237.2)	(461.4)
Income tax expense	5	(27.0)	(21.9)
Loss for the year		(264.2)	(483.3)

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 16 to 26 are an integral part of these financial statements.

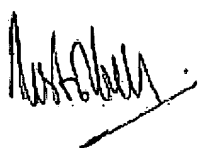
Statement of financial position

As at 31 March

	Note	2019 £m	2018 £m
Non-current assets			
Investment in subsidiaries	6	1.0	1.0
Trade and other receivables	7	2,720.4	4,226.8
		2,721.4	4,227.8
Current assets			
Cash and cash equivalents		5.6	5.5
		5.6	5.5
Trade and other payables due within one year	8	(179.9)	(111.6)
		(179.9)	(111.6)
Net current liabilities		(174.3)	(106.1)
Total assets less current liabilities		2,547.1	4,121.7
Trade and other payables - amounts falling due after more than one year	8	(5,178.9)	(4,736.3)
Net liabilities		(2,631.8)	(614.6)
Equity			
Called up share capital	9	1	1.0
Accumulated losses		(2,632.8)	(615.6)
Total shareholder's funds		(2,631.8)	(614.6)

The accounting policies and notes on pages 16 to 26 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:



A Hall
Director

Registered number: 05957999 (England & Wales)

Statement of changes in equity

For the year ended 31 March

	Called up share capital £m	Accumulated losses £m	Total shareholder's funds £m
At 1 April 2017	1.0	(132.3)	(131.3)
Loss for the year	-	(483.3)	(483.3)
At 31 March 2018	1.0	(615.6)	(614.6)
Adjustment on transition to IFRS 9	-	(1,753.0)	(1,753.0)
As at 1 April 2018		(2,368.6)	(2,368.6)
Loss for the year	-	(264.2)	(264.2)
As at 31 March 2019	1.0	(2,632.8)	(2,632.8)

The accounting policies and notes on pages 16 to 26 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, Berkshire, 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), and
- The following paragraphs of IAS 1 *Presentation of financial statements*:
 - 10(d) (statement of cash flows).
 - 16 (statement of compliance with all IFRS),
 - 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)

Basis of preparation (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 International Financial Reporting Standards as adopted by the European Union ("EU adopted IFRSs") and are available to the public and may be obtained from The Company Secretary's Office at this address.

The Company is 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 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.

New standards and amendments

IFRS 9: Financial Instruments and IFRS 15: Revenue from Contracts with Customers are new accounting standards that are effective for the year ended 31 March 2019.

IFRS 9 impact assessment

IFRS 9: Financial Instruments has been endorsed by the European Union (EU), was effective from the 1 January 2018 (and thus 1 April 2018 to the Company). This standard replaces IAS 39 Financial Instruments: Recognition and Measurement and sets out the requirements for classifying, recognising and measuring financial assets and financial liabilities.

As part of the transition to IFRS 9 an adjustment was made to impair an intercompany loan to Kemble Water Finance Limited. This impairment was necessary due to an IFRS 9 requirement to look at lifetime expected losses and resulted in an impairment of £1,753.0 million.

	IAS 39 Carrying Amount* As previously stated 31 March 2018 £m	Re-measurement £m	IFRS 9 Carrying Amount* 1 April 2018 £m
Non-current assets			
Trade and other receivables	4,226.8	(1,753.0)	(2,473.8)
Subtotal	4,226.8	(1,753.0)	(2,473.8)
Equity			
Retained earnings	(615.6)	(1,753.0)	(2,368.6)
Subtotal	(615.6)	(1,753.0)	(2,368.6)

Accounting policies (continued)

New standards and amendments (continued)

IFRS 15 impact assessment

IFRS 15: Revenue from Contracts with Customers has been endorsed by the European Union (EU), was effective from 1 January 2018, and replaces a number of standards and interpretations including IAS 18 Revenue. Management has concluded that IFRS 15 does not have a material impact on the Company as no income from revenue was recognised during the year.

Future standards and amendments

IFRS 16: Leases is a new accounting standard which will be effective from 1 April 2019. The Company does not have any leases and does not intend to enter into any contracts for leases in the future. As a result, this standard is expected to have no impact on the Company.

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 trade and other payables.

Trade and other receivables

Trade and other receivables are largely comprised of amounts owed by group undertakings and interest on amounts owed by group undertakings. 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.

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. 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.

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.

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.

Impairment of financial assets (including receivables)

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on their net assets position.

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 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.

Critical accounting estimates and judgements

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.

Critical accounting estimates and assumptions

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 trade and other receivables

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. Regarding amounts owed by group undertakings the key estimates include future Regulatory Capital Value ("RCV"), RCV premium, future gearing and expected interest settlements. See note 7 for the net carrying value of the receivables and, where applicable, any 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.

Critical judgements in applying the entity's accounting policies

Management have not made any critical judgements in applying the entity's accounting policies.

Notes to the financial statements

1. Auditors' remuneration

The auditors', PricewaterhouseCoopers LLP, 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 (2018: £3,595 – KPMG LLP). No other fees were payable to PricewaterhouseCoopers LLP in respect of this Company during the year (2018: £nil – KPMG LLP).

2. Employees and Directors

Employees

The Company had no employees during the year (2018: none).

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 (2018: £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

	2019 £m	2018 £m
Interest income on intercompany loans receivable	247.0	510.3
Impairment of receivables and investment in subsidiary	(0.4)	(0.3)
Total	246.6	510.0

Finance expense

	2019 £m	2018 £m
Interest expense on bank and other loans	41.2	37.0
Interest expense on intercompany loans payable	442.6	402.4
Total	483.8	439.4

Net finance (expense)/income

	2019 £m	2018 £m
Interest income	246.6	510.0
Interest expense	(483.8)	(439.4)
Net finance (expense)/income	(237.2)	70.6

Notes to the financial statements (continued)

4. Impairment of receivables and investment in subsidiary

	2019 £m	2018 £m
Impairment of receivables and investment in Kemble Water Finance Limited	-	(532.0)
Total	-	(532.0)

5. Tax on loss

	2019 £m	2018 £m
Current tax		
Amounts payable in respect of group relief – current year	24.8	20.7
Adjustments in respect of previous periods – group relief	2.2	1.2
Tax on loss	27.0	21.9

The current tax charge for the year ended 31 March 2019 is higher than (2018: higher than) the standard rate of corporation tax of 19% (2018: 19%) in the UK. The differences are explained below:

	2019 £m	2018 £m
Loss before taxation	(237.2)	(461.4)
Current tax at 19% (2018: 19%)	(45.1)	(87.7)
<i>Effects of:</i>		
Disallowable expenditure (impairment of receivables and investment in subsidiaries)	59.8	101.2
Interest payable not eligible for tax relief	10.1	7.2
Adjustments to tax charge in respect of prior periods – current tax	2.2	1.2
Adjustments to tax charge in respect of prior periods – deferred tax	-	-
Total tax charge	27.0	21.9

A reduction to the UK corporation tax rate to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. As the company has no recognised deferred tax asset or liability at 31 March 2019, there is no effect on the financial statements.

There is an unrecognised deferred tax asset in respect of other temporary differences where the Company does not anticipate tax relief in the future. The amount of deferred tax asset unrecognised at 31 March 2019 was £2.8 million (2018: £1.0 million) which has been calculated based on the rate of 17% substantively enacted at the balance sheet date.

Notes to the financial statements (continued)

6. Investments

	2019 £m	2018 £m
Cost		
At 1 April and 31 March	4.2	4.2
Impairment		
At 1 April	(3.2)	(3.2)
Impairment loss	-	-
At 31 March	(3.2)	(3.2)
Net book value	1.0	1.0

See note 12 for the principal interests held by Kemble Water Eurobond Plc at 31 March 2019.

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. Trade and other receivables

	2019 £m	2018 £m
Amounts owed by group undertakings:		
Kemble Water Finance Limited	3,100.9	3,100.9
Thames Water Commercial Ventures Holdings Limited	4.5	4.5
Provision for bad and doubtful debt	(384.0)	(174.5)
	2,721.4	2,930.9
Interest receivable on amounts owed by group undertakings		
Kemble Water Finance Limited	3,069.9	2,508.9
Thames Water Commercial Ventures Holdings Limited	0.7	0.4
Provision for bad and doubtful debt	(3,070.6)	(1,213.4)
	-	1,295.9
Total	2,721.4	4,226.8

The above intercompany loans are unsecured and include the following agreements:

- £3,100.9 million owed by Kemble Water Finance Limited, a subsidiary undertaking. The loan is unsecured, incurs interest at 10% (2018: 10%) and is repayable on demand.
- £4.5 million 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% (2018: LIBOR + 7%) and is repayable on demand.

Notes to the financial statements (continued)

8. Trade and other payables

	2019 £m	2018 £m
Group relief payable	84.7	57.6
Amounts owed to group undertakings	5,274.1	4,790.3
Total	5,358.8	4,847.9
Amounts falling due after more than one year	5,178.9	4,736.3
Amounts falling due within one year	179.9	111.6
Amounts owed to group undertakings:		
	2019 £m	2018 £m
<i>Non-current:</i>		
Amounts owed to immediate parent undertaking	1,990.6	1,990.6
Interest payable on amounts owed to immediate parent undertaking	2,877.9	2,435.3
Loan notes	310.4	310.4
	5,178.9	4,736.3
<i>Current:</i>		
Interest payable on loan notes	95.2	54.0
	95.2	54.0
Total	5,274.1	4,790.3

Amounts owed to the immediate parent undertaking, Kemble Water Holdings Limited, comprise an intercompany loan of £1,990.6 million (2018: £1,990.6 million). The loan is unsecured and repayable on demand and incurs interest at 10% (2018: 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% (2018: 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.

9. Called up share capital

	2019 £m	2018 £m
<i>Allotted, called up and fully paid:</i>		
1,000,000 (2018: 1,000,000) ordinary shares of £1 each (2018: £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.

10. 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 11.

Notes to the financial statements (continued)

10. Related parties (continued)

Outstanding balances external to the Kemble Water Holdings Group

As at 31 March 2019, Farmoor Holdings B.V., an entity registered in the Netherlands and managed by Borealis Infrastructure Management Inc., a Canadian investment manager of the Ontario Municipal Employees Retirement System, held a 31.777% shareholding in the KWH Group and qualified as an entity related to the KWH Group. The Company incurred interest of £41.2 million in the year, and had an outstanding payable balance in relation to loan principal and interest of £128.9 million as at 31 March 2019 with Farmoor Holdings B.V.

11. 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.

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

At 31 March 2019 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	Tax resident	Class of shares held	Proportion of voting rights and shares held
Direct					
Kemble Water Finance Limited	Holding company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Holdings 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 Limited	Holding company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water (Kemble) 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%
Foudry Properties Limited	Property company	United Kingdom	United Kingdom	Ordinary	50%
Shapshare Limited	Property company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management 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%
PWT Projects Limited	Dormant company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Developments Limited	Dormant company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Dormant company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia Pte Limited	Non Trading company	Singapore	Singapore	Ordinary	100%
Thames Water International (Thailand) Limited	Legacy investment	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 Nominees Limited	Dormant 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	Dormant company	United Kingdom	United Kingdom	Ordinary	100%
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%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%

Notes to the financial statements (continued)

12. 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-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);

13. Post balance sheet event

Subsequent to 31 March 2019, the two dormant companies Thames Water Nominees Limited and Thames Water Developments Limited will enter liquidation. This will have an immaterial financial impact on the Company.