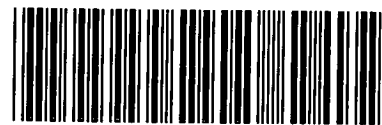


Registered no: 05957999 (England & Wales)

## **Kemble Water Eurobond Plc**

**Annual report and financial statements  
For the year ended 31 March 2022**

TUESDAY



\*ABBGI3GQ\*

A05

30/08/2022

#290

COMPANIES HOUSE

## Contents

Directors and advisors	3
Strategic Report	4
Directors' Report	7
Statement of directors' responsibilities in respect of the financial statements	10
Independent auditors' report to the members of Kemble Water Eurobond Plc	11
Income statement	16
Statement of financial position	17
Statement of changes in equity	18
Accounting policies	19
Notes to the financial statements	19

## **Directors and advisors**

### **Directors**

M McNicholas  
S Deeley  
J Divoky  
A Hall  
G Lambert  
P Noble  
G Tucker  
M Bloch-Hansen  
C Pham  
F Sheng  
M Wang  
D Wilkins  
Y Deng  
S Lowndes

### **Independent auditors**

PricewaterhouseCoopers LLP  
3 Forbury Place  
23 Forbury Road  
Reading  
RG1 3JH

### **Company Secretary and registered office**

B M Swiergon  
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 2022.

### 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. Management have assessed the impairment of these assets and have concluded that no further impairment is required, however reversed a total of £854.2 million (2021: £491.8 million reversal) of its impairment provision against the intercompany loan and interest receivable due from Kemble Water Finance Limited. This reversal has been estimated through modelling loan repayment forecasts up to the conclusion of AMP8 (Asset Management Period 8). Management have assessed the sensitivity of this calculation and confirmed that a movement (even 1%) in the RCV will result in a material movement in the write back to the provision due to the sensitivity of this 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. The loan with the immediate parent's shareholders is listed on The International Stock Exchange (TISE) in Guernsey. With the agreement of the immediate parent's shareholders, the Directors have elected to defer interest payments charged on the £310.4 million loan notes (payable on 31 March and 30 September each year) to a future period. Any deferred amount is due and payable on the next interest payment date together with interest on the deferred amount. All deferred amounts and interest thereon is payable on the maturity date being 31 March 2031. The interest payable on the loan notes has increased to £25.7 million (2021: £1.2 million) at 31 March 2022 as the Company made no interest payment during the year (2021: £nil). Further information is included in note 9 and the liquidity risk section below.

### 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 2022 the Company made a profit before tax of £1,277.0 million (2021: profit before tax of £290.4 million). The variance has been driven primarily by decreased current year interest expenses following the waiver of the Kemble Water Holdings Limited intercompany loan during the 31 March 2021 period. Additionally, there has been an increase in the net gain on the reversal of impairment losses on receivables in the current period.

As at 31 March 2022, the Company had net assets of £4,243.8 million (2021: net assets of £3,275.1 million). 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 intercompany 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 its immediate, and ultimate, parent company, Kemble Water Holdings Limited, 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 payables and receivables, other than the loan due to the immediate parent's shareholders discussed above, are to other intercompany entities.

An assessment has been made regarding the loan notes issued by the Company to the shareholders of Kemble Water Holdings Limited. In March 2021, the maturity date of the notes was extended by 10 years from 31 March 2021 to 31 March 2031 and, with effect from 31 March 2021, the interest rate was reduced from 11% per annum to 4.83% per annum. Interest is payable on the notes semi-annually and can be deferred if in the opinion of the Directors there are insufficient available cash flows to make the payment. Interest was charged on the deferred amount at 11% per annum to 31 March 2021 and has been charged at 4.83% per annum from 1 April 2021 onwards.

Owing to the change in terms in the prior period, a quantitative assessment was performed in line with IFRS 9. Under IFRS 9, an exchange between an existing borrower and lender of debt instruments with substantially different terms should be accounted for as an extinguishing of the original financial liability and the recognition of a new financial liability at fair value. The terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid (net of any fees received and discounted using the original effective interest rate), is at least 10% different to the discounted present value of the remaining cash flows of the original financial liability. The quantitative assessment performed showed that the discounted present value of the cash flows under the new terms was more than 10% different to the discounted present value of the remaining cash flows of the original financial liability. Therefore, the original financial liability has been derecognised and a new liability at fair value was recognised in the financial statements as shown in note 9.

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 13.

### 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.

## Strategic Report (continued)

### s172 reporting

The Directors of the Company must act in accordance with the duties contained in s172(1) of the Companies Act 2006 as follows:

"A Director of a company must act in the way he considers, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

- (a) the likely consequences of any decision in the long term;
- (b) the interests of the Company's employees;
- (c) the need to foster the Company's business relationships with suppliers, customers and others;
- (d) the impact of the Company's operations on the community and the environment;
- (e) the desirability of the company maintaining a reputation for high standards of business conduct; and
- (f) the need to act fairly as between members of the company."

On appointment, as part of their induction to becoming a Director, each Director is briefed on their duties and the availability of professional advice from either the Company Secretary or, if they consider it necessary, from an independent adviser. The Directors of the Company have access to the resources provided to the Directors of the Group's main trading company, Thames Water Utilities Limited.

During the year, the Company has continued to act as an intermediate holding company within the Kemble Water Holdings Limited group. Day-to-day running of the Company is managed by the Company's management team, consisting of employees from the Group's main trading company, Thames Water Utilities Limited. The Board of Directors approved the Company's annual report and financial statements, as well as the maturity date extension of the loan notes issued to the shareholders of Kemble Water Holdings Limited noted on page 4. No other significant decisions requiring the approval of The Board of Directors have been made during the year. The Company had no employees during the year, or as at the date of this report, nor did it have any external customers or trading arrangements with suppliers. The Company's stakeholders are considered to be other companies within the Kemble Water Holdings Limited group with whom intercompany loan relationships exists and the loan note holders, who are also shareholders of the Group. Stakeholder engagement occurs periodically throughout the year, both formally and informally.

The Board of Directors of the Company consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, having regard to the stakeholders and matters set out in s172(1)(a-f) of the Companies Act 2006. The Board of Directors of Kemble Water Holdings Limited manage the Group and further details of how they have carried out their duties is disclosed in the financial statements of the ultimate controlling party Kemble Water Holdings Limited. The Group's annual report is available from the address shown in note 13.

This Strategic Report was approved by the Board of Directors on 5 July 2022 and signed on its behalf by:



**P Noble**  
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 2022. 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 (United Kingdom).

### Directors

The Directors who held office during the year ended 31 March 2022 and to the date of this report were:

M McNicholas	
S Deeley	
J Divoky	
A Hall	
G Lambert	
P Noble	
G Tucker	
M Bloch-Hansen	
C Pham	
F Sheng	
M Wang	
D Wilkins	(appointed 1 September 2021)
Y Deng	(appointed 18 February 2022)
S Lowndes	(appointed 29 April 2022)
P McCosker	(resigned 30 May 2021)
H De Run	(resigned 1 September 2021)
G Pestrak	(resigned 3 December 2021)
C Schmidt	(resigned 18 February 2022)
S Obozian	(resigned 29 April 2022)

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 (2021: none).

Directors are allowed to appoint an alternative Director to represent them if they are unable to attend a meeting. The following Directors have formally appointed alternate Directors to represent them when they are unavailable:

Director	Alternate Director
C Pham	J Divoky
P Noble	D Wilkins
A Hall	S Obozian
M Bloch-Hansen	S Obozian
M McNicholas	S Obozian
G Tucker	Y Deng
F Seng	O Wang

### Future outlook

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

## **Directors' Report (continued)**

### **Dividends**

The Company has paid £187.0 million (2021: £nil) dividends from the distributable capital contribution reserve in the retained earnings in the period; the Directors have approved to pay a final dividend of £4.5 million (2021: £nil) to its shareholders Kemble Water Holdings Limited after the period ended 31 March 2022.

### **Financial risk management**

During the period, the Company has had access to the Chief Executive Officer and the Executive Team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Limited 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.

### **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.

As the Company is an intermediate holding company within the Kemble Water Holdings Limited group of companies, it is reliant on its wholly owned operating subsidiary, the Thames Water Utilities Limited Group ("TWUL Group") as a source of income. Given this dependency, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by the TWUL Group post the balance sheet date of 31 March 2022. The section on page 20, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for the TWUL Group on a going concern basis.

The loan notes issued by the Company to the shareholders of Kemble Water Holdings Limited have also been considered. As described above, following the deferral of their maturity, the loan notes now fall due on 31 March 2031, which is outside the going concern assessment period.

Taking into consideration the above factors, the Board is satisfied that the Company has adequate resources for a period of at least 12 months from the date of approval of the financial statements to continue operations and discharge the Company's obligations as they fall due. For this reason, the Board considers it is appropriate to adopt the going concern basis in preparing the financial statements.

### **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 (2021: £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.



## **Directors' report (continued)**

### **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.

### **Independent auditors**

The independent auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution concerning their reappointment will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 5 July 2022 and signed on its behalf by:



**P Noble**  
Director  
Clearwater Court  
Vestern Road  
Reading  
Berkshire  
RG1 8DB

## **Statement of directors' responsibilities in respect of the financial statements**

The directors are responsible for preparing the Annual Report and Sustainability Report 2021/22 and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and the company financial statements in accordance with UK-adopted international accounting standards.

Under company law, directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable UK-adopted international accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for keeping adequate accounting records that are sufficient to show and explain the group's and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.



**P Noble**  
Director  
Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

5 July 2022

# **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 2022 and of its profit 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 2022; the Income statement and 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, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

### **Our audit approach**

#### **Overview**

##### **Audit scope**

- As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

##### **Key audit matters**

- Valuation of intercompany loans receivable

##### **Materiality**

- Overall materiality: £43,206,000 (2021: £38,398,000) based on approximately 1% of total assets.
- Performance materiality: £32,404,000 (2021: £28,798,500).

##### **The scope of our audit**

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

##### **Key audit matters**

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

## Independent auditors' report to the members of Kemble Water Eurobond Plc (continued)

The impact of COVID-19, which was a key audit matter last year, is no longer included because the immediate operational and financial impact of the pandemic to the entity are now better understood and the impact in terms of our audit approach is now integrated into the specific key audit matters individually. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
<p><i>Valuation of intercompany loans receivable</i></p> <p>Judgement is required to assess if intercompany loans receivable can be recovered in full or if an expected credit loss provision is required. Given the magnitude of the amount due at 31 March 2022 of £4,918m (2021: £3,833m) this has been an area of focus for our audit. Refer to Note 7 of the financial statements.</p>	<p>We have verified that management have appropriately applied IFRS 9 to determine the expected credit loss. We have verified that estimates made where applicable are consistent with those made by Group management (being management of Kemble Water Holdings Limited), for other purposes e.g. long term viability in the Group assessment ('Group' being the Kemble Water Holdings Limited group). We have verified that other assumptions and estimates management have made for this assessment are reasonable. We have obtained management's model and verified the mathematical accuracy of calculations used. Overall we conclude with the assessment that management have made and that the partial writeback of the expected credit loss provision is appropriate.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the company, the accounting processes and controls, and the industry in which it operates.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<i>Overall company materiality</i>	£43,206,000 (2021: £38,398,000).
<i>How we determined it</i>	Approximately 1% of total assets
<i>Rationale for benchmark applied</i>	Total assets has been determined to be the appropriate benchmark as the company does not generate revenue. The main business activity is to make financing arrangements on behalf of and act as an intermediate holding company within the Kemble Water Holdings group.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 75% (2021: 75%) of overall materiality, amounting to £32,404,000 (2021: £28,798,500) for the company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount at the upper end of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £4,320,000 (2021: £3,000,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

## **Independent auditors' report to the members of Kemble Water Eurobond Plc (continued)**

### **Conclusions relating to going concern**

Our evaluation of the directors' assessment of the company's ability to continue to adopt the going concern basis of accounting included:

- assessing the ability of management to rely on the letter of support it has obtained from KWH through assessing the ability of the KWH group to remain compliant with the various financial covenants that the group is subject to and meet its liabilities as they fall due. In addition we have assessed what financial support the wider group may require and whether this would impact the ability of KWH to support KWE.
- we assessed the disclosure given in the financial statements in respect of going concern and whether it gives a fair and balanced view.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

### **Reporting on other information**

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

### **Strategic report and Directors' Report**

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' Report for the year ended 31 March 2022 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, 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.

## **Independent auditors' report to the members of Kemble Water Eurobond Plc (continued)**

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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the company and industry, we identified that the principal risks of non-compliance with laws and regulations related to tax legislation, and we considered the extent to which non compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to conceal misappropriation of cash and management bias in accounting estimates. Audit procedures performed by the engagement team included:

- Discussions and inquiries of group; management, internal audit function and legal counsel, including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- Evaluation of management's controls designed to prevent and detect irregularities;
- Challenging assumptions and judgements made by management in determining significant accounting estimates and independently reviewed and tested assumptions in relation to such judgements and estimates along with the related disclosures in the financial statements;
- Applying our pre-determined fraud risk criteria in respect of journals posted in the year;
- Reviewing minutes of meetings of those charged with governance and reviewing Group internal audit reports.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://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 auditors' 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 obtained all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

KE FM

Katharine Finn (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
Reading  
5 July 2022

## Income statement

For the year ended 31 March

	Note	2022 £m	2021 £m
Finance income	3	447.4	348.4
Finance expenses	3	(24.6)	(549.8)
Net gain on reversal of impairment losses on receivables	4	854.2	491.8
<b>Profit before taxation</b>		<b>1,277.0</b>	<b>290.4</b>
Tax on profit	5	(121.2)	(33.6)
<b>Profit for the year</b>		<b>1,155.8</b>	<b>256.8</b>

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.



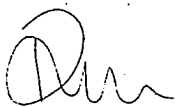
## Statement of financial position

As at 31 March

	Note	2022 £m	2021 £m
<b>Non-current assets</b>			
Investment in subsidiaries	6	1.0	1.0
Deferred tax asset	10	-	0.7
Other receivables	7	4,918.0	3,832.5
		4,919.0	3,834.2
<b>Current assets</b>			
Cash and cash equivalents		4.9	5.6
		4.9	5.6
<b>Current liabilities</b>			
Other payables due within one year	8	(152.9)	(62.1)
		(152.9)	(62.1)
<b>Net current liabilities</b>		(148.0)	(56.5)
<b>Total assets less current liabilities</b>		4,771.0	3,777.7
<b>Non-current liabilities</b>			
Financial liabilities	9	(527.1)	(502.6)
		(527.1)	(502.6)
<b>Net assets</b>		4,243.9	3,275.1
<b>Equity</b>			
Called up share capital	11	1.0	1.0
Retained earnings <sup>1</sup>		4,242.9	3,274.1
<b>Total shareholders' funds</b>		4,243.9	3,275.1

<sup>1</sup> Retained earnings includes a distributable capital contribution of £5,297.0 million (2021: £5,484.0 million).

The financial statements were approved by the Board of Directors on 5 July 2022 and signed on its behalf by:



P Noble  
Director

Registered number: 05957999 (United Kingdom)

## Statement of changes in equity

For the year ended 31 March

	Called up share capital £m	Retained earnings £m	Total shareholders' (deficit)/funds £m
<b>At 1 April 2020</b>	1.0	(2,466.7)	(2,465.7)
Profit for the year	-	256.8	256.8
Capital contribution <sup>1</sup>	-	5,484.0	5,484.0
<b>As at 31 March 2021</b>	1.0	3,274.1	3,275.1
Profit for the year	-	1,155.8	1,155.8
Dividends <sup>2</sup>	-	(187.0)	(187.0)
<b>As at 31 March 2022</b>	1.0	4,242.9	4,243.9

<sup>1</sup> In March 2021, Kemble Water Holdings Limited (Kemble Water Eurobond Plc's immediate parent company) waived £1,990.6 million loan payable by the Company, together with accrued interest, as discussed in note 9 of the financial statements. This was deemed a capital contribution from the immediate parent company and therefore a capital contribution reserve was created.

<sup>2</sup> In the period the Company has paid £187.0 million (2021: £nil) dividends from the retained earnings which includes a distributable capital contribution.

## 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, unless otherwise stated:

### General information

Kemble Water Eurobond Plc (the "Company") is a company incorporated in the United Kingdom 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, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards adopted by the UK Endorsement Board, 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 immediate, and ultimate, parent undertaking, Kemble Water Holdings Limited includes the Company in its consolidated financial statements. The address of the registered office of Kemble Water Holdings Limited is Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB. The consolidated financial statements of Kemble Water Holdings Limited have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value; and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority.

The 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

As the Company is an intermediate holding company within the Kemble Water Holdings Limited group of companies, it is reliant on its wholly owned operating subsidiary, the Thames Water Utilities Limited Group ("TWUL Group") as a source of income. Given this dependency, the Directors have considered the going concern assessment made by the TWUL Group directors as well as the actions taken by the TWUL Group post the balance sheet date of 31 March 2022. The section below, "Summary of TWUL Group going concern assessment" outlines this assessment where the TWUL Group Board has concluded it appropriate to prepare the financial statements for the TWUL Group on a going concern basis. Further details of this assessment and the post balance sheet events are contained within the TWUL annual report for 2021/22, copies of which may be obtained from the Company Secretary's Office at the address included in note 13.

#### *Summary of the TWUL Group going concern assessment*

In assessing the appropriateness of the going concern basis, the TWUL directors have considered the following factors.

On 29 June 2022, the TWUL Board approved an updated business plan which forecasts £11.5 billion (2017/18 real terms) of total expenditure over the current 5 year regulatory period. To support Thames Water in the delivery of its business plan, shareholders have provided an Equity Commitment Letter where they have agreed to contribute, or cause to be contributed, an aggregate of £500 million in equity, available to be drawn in March 2023, alongside an Equity Support Letter which sets out further Shareholder support. Given the equity commitment of £500 million has been approved by shareholders' investment committees, is not subject to any performance-related conditions and can be drawn in March 2023, the TWUL directors believe it reasonable that the £500 million of equity support can be taken into account for the going concern assessment.

The TWUL Group's liquidity position and cashflow projections are closely monitored and updated regularly. Mitigating measures are also continually reviewed and actioned where appropriate. The TWUL Group has significant liquidity headroom based on financial resources in the form of cash and committed bank facilities. As of 31 March 2022, such liquidity consisted of £426 million of cash and cash equivalents, access to £1.80 billion of revolving credit facilities of which £1.43 billion was undrawn, £100 million undrawn Class B facility and £550 million of undrawn liquidity facilities (the latter of which can only be used in limited circumstances). Furthermore during the pandemic, the TWUL Group has continued to efficiently access capital markets. As per the terms of the Whole Business Securitisation, the TWUL Group is subject to financial covenants, assessed based on interest cover and gearing ratios. With significant headroom being present under the gearing ratios, the interest cover ratios are a more limiting factor and are mainly affected by operational cashflows.

Given the economic uncertainty associated with various macro factors such as Covid-19, supply chain constraints, cost of living concerns and Brexit, a severe but plausible downside case has been considered where the ability of household customers to pay their bills has been adversely affected. This would result in lower collection rates, higher bad debt charges and lower billable volumes in the non-household sector due to reduced consumption. Furthermore, the downside case assumes higher operational costs associated with various efficiency programmes not being delivered, higher power and chemical prices and adverse weather. The impact on operational cashflows is reduced by mitigants involving active working capital management and the release of contingencies embedded with the Business Plan which have also been taken into account. Under the various scenarios, the business remains compliant with the relevant financial covenants and forecasts sufficient liquidity headroom for a period of at least 12 months from the date of signing of the financial statements.

## Accounting policies (continued)

### Going concern (continued)

#### *Summary of the TWUL Group going concern assessment (continued)*

The TWUL directors have also considered the consequences of a temporary Trigger Event, a feature of the TWUL Group's Whole Business Securitisation ("WBS") structure. Consequences include, but are not limited to, a cash lockup and a prohibition from incurring additional debt other than utilisations from the existing bank facilities. The Trigger Event acts as an early warning sign that is structured to provide additional creditor protections. It is designed to maintain the TWUL Group's creditworthiness as such, it does not affect the TWUL Group's continued access to its significant existing bank facilities nor would it disrupt the TWUL Group's ability to trade. The cash lockup preserves the value of the TWUL Group which is in the interest of creditors and customers. Whilst prohibited from accessing new funding, the TWUL Group has significant bank facilities which the TWUL directors believe are sufficient to fund its programme and meet its obligations for the duration of a temporary Trigger Event over the assessment period.

Based on the above, the TWUL Board is satisfied that the TWUL Group has adequate resources, for a period of at least 12 months from the date of approval of the financial statements, to continue operations and discharge its obligations as they fall due. For this reason, the TWUL Board considers it appropriate to adopt the going concern basis in preparing the financial statements.

#### *Conclusion*

The Directors have considered the loan notes issued by the Company to the shareholders of Kemble Water Holdings. As described above, following the deferral of their maturity, the loan notes now fall due on 31 March 2031, which is outside the going concern assessment period.

Taking into consideration the above factors, the Board is satisfied that the Company has adequate resources for a period of at least 12 months from the date of approval of the financial statements to continue operations and discharge the Company's obligations as they fall due. For this reason, the Board considers it is appropriate to adopt the going concern basis in preparing the financial statements.

### New standards and amendments

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 March 2022 that have had a material impact on the company's financial statements.

### IBOR reform

The UK Financial Conduct Authority ("FCA") had concluded that the underlying market that the London Inter-Bank Offered Rate ("LIBOR") was derived from was no longer used in any significant volume and so the rates submitted by banks to sustain the LIBOR rate were often based (at least in part) on expert judgement rather than actual transactions. As a result, after the end of 2021, GBP LIBOR is no longer supported as a benchmark and GBP LIBOR has transitioned ("IBOR reform") to the new Sterling benchmark the Sterling Overnight Index Average ("SONIA").

Although Kemble Water Holdings Group is not regulated by the FCA, the Company is impacted by this industry-wide transition given the LIBOR-linked instruments we have outstanding. These were previously transacted with our counterparties, including banks and other investors, the majority of which are regulated by the FCA and so are required to amend contracts to accommodate the ending of the publication of LIBOR.

Interest Rate Benchmark Reform — Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) is effective for financial years beginning on or after 1 January 2021 and addresses issues that might affect financial reporting during the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships.

There are key differences between GBP LIBOR and SONIA. GBP LIBOR is a 'term rate', which means that it is published for a borrowing period (such as 3 months), and it is 'forward-looking', because it is published at the beginning of the borrowing period. SONIA is a 'backward-looking' rate; it is based on overnight rates from actual transactions, and it is published at the end of the overnight borrowing period. Furthermore, GBP LIBOR includes a credit spread over the risk-free rate, which SONIA does not explicitly incorporate. To transition existing contracts and agreements that reference GBP LIBOR to SONIA, adjustments for term differences and credit differences need to be applied, to enable the two benchmark rates to be economically equivalent on transition.

## Accounting policies (continued)

### IBOR reform (continued)

The Company established a project to oversee the GBP LIBOR transition plan. This transition project includes changes to systems, processes, risk and valuation models, as well as managing related tax and accounting implications.

The International Accounting Standards Board ("IASB") has issued amendments to IFRS 9, IAS 39 and IFRS 7 in September 2019 that provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. As at 31 March 2022, the Company had no designated hedge relationships and hedge accounting was not applied.

On 14 June 2022, the £4.5 million intercompany loan with TWCVHL that originally referenced LIBOR has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met. Refer to Note 7 Other receivables for more information.

### IAS 12 – Income Taxes

Amendments have been proposed by the IASB to clarify how companies account for deferred tax on leases and decommissioning obligations. This is not effective until 2023. We are considering the implications of these amendments.

### Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the consolidated income statement.

### Interest expense

Interest expense is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest expense is presented within finance expense in the consolidated income statement.

### 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.

### Intercompany receivables

Receivables for Kemble Water Eurobond Plc 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.

### Intercompany payables

Payables for Kemble Water Eurobond Plc are largely comprised of amounts owed to group undertakings and interest on amounts owed to group undertakings. These 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.

## Accounting policies (continued)

### Cash and cash equivalents

Cash and cash equivalents are held at either amortised cost or fair value through profit or loss and include cash on hand, deposits held at call with financial institutions, money market funds, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Impairment of financial assets (including receivables)

There is an annual impairment review for intercompany receivables which assesses the ability of the entity to pay them based on a range of factors including, their net assets position and risk affected forecasts of future cash flows of the underlying investment.

### 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 differences 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 judgements

The Directors do not consider there to be any critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the current and future financial statements of the Company.

### Critical accounting estimates and assumptions

In the process of applying the Company's accounting policies, the Company is required to make certain 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:

## Accounting policies (continued)

### Critical accounting estimates and assumptions (continued)

#### *Impairment of receivables*

The Company makes an estimate of the recoverable value of other receivables. When assessing impairment of 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.

#### *Reversal of impairment provision against intercompany receivables*

In the current year, following an impairment assessment under IFRS 9, the Company reversed a portion of its provision against the intercompany loan interest receivable from Kemble Water Finance Limited. This reversal, and the corresponding gain recognised in the Income Statement and impairment of interest income, has been assessed through modelling loan repayment forecasts up to the conclusion of AMP8 (Asset Management Period 8 which runs to 31 March 2030). The key inputs consist of economic RCV over time, RCV premium, future gearing and expected interest and principal settlements. See notes 3, 4 and 7 for the respective impacts on finance income, reversal of impairment losses and the impairment provision booked.

Management have performed a sensitivity analysis of the RCV multiple, where a movement in RCV either 1% higher or 1% lower will result a total movement of £100.8 million increase or £100.8 million decrease in the write back of impairment provision on the intercompany loan and interest balance. An either 10% higher or 10% lower movement in RCV would result in a movement of £1,077.9 million increase or £1,077.9 million decrease in the write back of impairment provision on the intercompany loan and interest balance.

## 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 £11,000 (2021: £7,000). No other fees were payable to PricewaterhouseCoopers LLP in respect of this Company during the year (2021: £nil).

### 2. Employees and Directors

#### Employees

The Company had no employees during the year (2021: none).

#### Directors

During the year, the Company had fourteen directors (2021: sixteen) who are all Non-Executive Directors of the Group and receive emoluments in respect of their services as Directors of Kemble Water Holdings Limited, the ultimate parent company. All of these costs are borne by Thames Water Limited. No other remuneration, pension and pension allowances, or other benefits are paid to the directors of the Company.

The Directors' emoluments were as follows:

	2022 £'000	2021 £'000
Director's fees in respect of services to the Company	-	-
Director's fees in respect of services to the Company's ultimate parent	502.5	588.8
Director's fees in respect of services to the Company's subsidiaries	52.5	60.0
<b>Total</b>	<b>555.0</b>	<b>648.8</b>



## Notes to the financial statements (continued)

### 2. Employees and Directors (continued)

#### Highest paid Director

Total emoluments of the highest paid Director in respect of services to the Company's ultimate parent during the year were £60,000 (2021: £60,000).

### 3. Finance income and expenses

#### Finance income

	2022 £m	2021 £m
Interest income on intercompany loans receivable	696.7	633.6
Reversal of interest income due to impairment of receivables	(249.3)	(285.2)
<b>Total</b>	<b>447.4</b>	<b>348.4</b>

#### Finance expenses

	2022 £m	2021 £m
Interest expense on loan notes	24.6	51.3
Interest expense on intercompany loans payable	-	498.5
<b>Total</b>	<b>24.6</b>	<b>549.8</b>

#### Net finance income/(expenses)

	2022 £m	2021 £m
Interest income	447.4	348.4
Interest expense	(24.6)	(549.8)
<b>Net finance income/(expenses)</b>	<b>422.8</b>	<b>(201.4)</b>

The Company has an intercompany loan receivable due from Kemble Water Finance Limited, comprising £3,100.6 million (2021: £3,100.6 million) in principal, together with accrued interest of £4,345.6 million (2021: £3,865.2 million), both of which are offset to their recoverable amount by provisions for bad and doubtful debt. IFRS 9 stipulates that only interest income on the recoverable loan principal and interest should be recognised. As a result of the provisions for bad and doubtful debt raised on this intercompany loan receivable, the interest income recognised in the current period has been decreased by £249.3 million (2021: £285.2 million) so as to correctly disclose the amount of interest income on the recoverable portion of the loan.

## Notes to the financial statements (continued)

### 4. Net gain on reversal of impairment losses on receivables

	2022 £m	2021 £m
Net gain on reversal of impairment losses on receivable from Kemble Water Finance Limited	854.2	491.8
<b>Total</b>	<b>854.2</b>	<b>491.8</b>

As described in note 7, the Company has an intercompany loan receivable due from Kemble Water Finance Limited, comprising £3,100.6 million (2021: £3,100.6 million) in principal, together with accrued interest of £4,345.6 million (2021: £3,865.2 million). As a result of the reversal of the impairment raised in the period on the intercompany loan, a net gain of £854.2 million (2021: £491.8 million) is recognised in the Income Statement. The reversal has been recognised following a multiple factor analysis of the loan receivable's recovery in line with IFRS 9.

### 5. Tax charge on profit

	2022 £m	2021 £m
<b>Current tax</b>		
Amounts payable in respect of group relief – current year	132.4	32.4
Adjustments in respect of prior periods – group relief	(11.9)	1.1
	120.5	33.5
<b>Deferred tax</b>		
Adjustments in respect of prior periods	0.7	0.1
	0.7	0.1
<b>Tax charge on profit</b>	<b>121.2</b>	<b>33.6</b>

The current tax charge for the year ended 31 March 2022 is lower than (2021: lower than) the standard rate of corporation tax of 19% (2021: 19%) in the UK. The differences are explained below:

	2022 £m	2021 £m
Profit before taxation	1,277.0	290.4
Current tax at 19% (2021: 19%)	242.6	55.2
<b>Effects of:</b>		
Non-taxable net release of impairment of receivables	(114.9)	(39.3)
Restricted interest expenses	-	16.5
Group relief not paid at statutory tax rate <sup>1</sup>	4.7	-
Adjustments in respect of prior periods – current tax <sup>1</sup>	(11.9)	1.1
Adjustments in respect of prior periods – deferred tax	0.7	0.1
<b>Total tax charge</b>	<b>121.2</b>	<b>33.6</b>

<sup>1</sup> For the years ended up to and including 31 March 2019, the Group's disallowance under the Corporate Interest Restriction ("CIR") rules had been allocated to the Company. For the year ended 31 March 2020 onwards, the Company's subsidiary (Kemble Water Finance Ltd, "KWF") has borne the Group's CIR disallowance. During the year, the Company made group relief payments to KWF in excess of the corporation tax rate in order to compensate KWF for bearing the element of the Group's CIR disallowance that is attributable to the Company's shareholder debt (see note 9). This resulted in an additional £4.7 million being paid in respect of the current year, and £18.5 million paid in respect of prior years thereby reducing the current tax credit from adjustments in respect of prior periods by £18.5 million to £11.9 million.

## Notes to the financial statements (continued)

### 5. Tax charge on profit (continued)

In the Spring Budget 2021, the UK Government announced that from 1 April 2023, the corporation tax rate would increase from 19% to 25%. This new law was substantively enacted on 24 May 2021. As the Company does not have any recognised deferred tax assets or liabilities, there is no impact on these financial statements.

### 6. Investments in subsidiaries

	2022 £m	2021 £m
<b>Cost</b>		
At 31 March	4.2	4.2
<b>Accumulated impairment</b>		
At 31 March	(3.2)	(3.2)
<b>Net book value</b>	<b>1.0</b>	<b>1.0</b>

See note 14 for the principal interests held by Kemble Water Eurobond Plc at 31 March 2022. The Directors determined that the investment in Thames Water Commercial Ventures Holdings Limited was 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. Other receivables

	2022 £m	2021 £m
<b>Amounts owed by group undertakings:</b>		
Kemble Water Finance Limited	3,100.6	3,100.6
Thames Water Commercial Ventures Holdings Limited	4.5	4.5
Provision for bad and doubtful debt	(4.5)	(384.9)
	<b>3,100.6</b>	<b>2,720.2</b>
<b>Interest receivable on amounts owed by group undertakings</b>		
Kemble Water Finance Limited	4,345.6	3,865.2
Thames Water Commercial Ventures Holdings Limited	1.6	1.4
Provision for bad and doubtful debt	(2,529.8)	(2,754.3)
	<b>1,817.4</b>	<b>1,112.3</b>
<b>Total</b>	<b>4,918.0</b>	<b>3,832.5</b>

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

- £3,100.6 million (2021: £3,100.6 million) owed by Kemble Water Finance Limited, a subsidiary undertaking. The loan is unsecured, incurs interest at 10% (2021: 10%) and is repayable on demand. During the year, Kemble Water Finance Limited ("KWF"), the Company's direct subsidiary, was charged by the Company interest of £696.5 million (2021: £633.3 million). Also during the year, KWF repaid interest of £216.1 million (2021: £nil) in respect of the £3,100.6 million 10% fixed rate loan due on demand.
- £4.5 million (2021: £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% (2021: LIBOR + 7%) and is repayable on demand. On 14 June 2022, the £4.5 million loan that originally referenced LIBOR has been transitioned to SONIA on an economically equivalent basis. No gain or loss was recognised on transition as the Phase 2 reliefs were met.

## Notes to the financial statements (continued)

### 7. Other receivables (continued)

While the loans are repayable on demand, the Directors do not expect to seek any repayment within 12 months and letters of comfort have been issued from the Company to the counterparty to confirm that no repayment will be sought for at least 12 months from the date of signing of the financial statements.

On transition to IFRS 9 a lifetime expected credit loss was recognised. The Company determined the expected credit loss of the loan by estimating the expected recoverability based on different scenarios under which the Company expect repayment will or could be made. As a result of this assessment the loans are considered to be in 'stage 3' of the IFRS 9 impairment assessment. The company accrues interest on the loan on the principal, however, an impairment provision is recognised on this such that a net amount, that is deemed recoverable based on the forecasting performed on transition, is recognised in the statement of comprehensive income each year.

A similar exercise has been carried out for the year ended 31 March 2022. For the base case scenario, the Company has made this assessment by estimating the future expected enterprise valuation of the borrower derived through the application of an observable market multiplier uplift to RCV of the underlying regulatory business (Thames Water Utilities Limited) which is a subsidiary of the counterparty. This provides the best estimate of the cashflows that will be available in the future to repay the principal and interest. As the Company has forecast recoverability in the future this has required estimates to be made on this multiplier into the future including expected future interest settlements over the assessment period, expected changes to the gearing level of the creditor and RCV. Changes in these estimates could result in a variation to the recoverable amount. Alternative scenarios with lower probabilities of occurring include an early sale of the underlying regulatory business which would accelerate cash receipts into the group and enable an early pay off of more of the loan and accrued interest by the borrowing company and the risk of several significant events occurring (as detailed more fully in Thames Water Utilities Limited's viability statement) which would increase the impairment required.

The Company has recognised a £854.2 million (2021: £491.8 million) reversal of the provision for bad and doubtful debt against the principal and interest receivable due from Kemble Water Finance Limited. This follows a multiple factor recoverability assessment performed by management in line with IFRS 9. As explained in notes 3 and 4, this is off set against the correction of the interest income raised in the period by £249.3 million (2021: £285.2 million); and reversal of the provision for bad debts has led to a corresponding gain on reversal of impairment losses of £854.2 million (2021: £491.8 million), both of which are recognised in the Income Statement.

### 8. Other payables due within one year

	2022 £m	2021 £m
Group relief payable	152.9	61.9
Accruals and deferred income	-	0.2
<b>Total</b>	<b>152.9</b>	<b>62.1</b>
Amounts falling due after more than one year	-	-
Amounts falling due within one year	152.9	62.1

### 9. Financial liabilities

	2022 £m	2021 £m
Loan notes	501.4	501.4
Interest payable on loan notes	25.7	1.2
<b>Total</b>	<b>527.1</b>	<b>502.6</b>
Amounts falling due after more than one year	527.1	502.6
Amounts falling due within one year	-	-

## Notes to the financial statements (continued)

### 9. Financial liabilities (continued)

The loans consist entirely of the loan notes issued to the shareholders of Kemble Water Holdings Limited, KWE's immediate parent company. These are listed on The International Stock Exchange. In March 2021 the maturity date of the notes was extended by 10 years from 31 March 2021 to 31 March 2031 and, with effect from 31 March 2021, the interest rate was reduced from 11% per annum to 4.83% per annum. Interest is payable on the notes semi-annually and can be deferred if in the opinion of the Directors there are insufficient available cash flows to make the payment. Interest was charged on the deferred amount at 11% per annum to 31 March 2021 and has been charged at 4.83% per annum from 1 April 2021 onwards.

### 10. Deferred tax asset

An analysis of movements in the deferred tax asset recognised by the Company is set out below. The deferred tax asset arises in respect of interest payable which has not yet received tax relief.

	2022 £m	2021 £m
At the beginning of the year	0.7	0.8
Charged to income statement	(0.7)	(0.1)
At the end of the year	-	0.7

The Company has no recognised deferred tax assets or liabilities at 31 March 2022. In the prior year, the Company had recognised a deferred tax asset in respect of interest payable which had not yet received tax relief. As the Company no longer anticipates receiving tax relief for this amount in the future, the deferred tax asset has been derecognised. The total amount of deferred tax asset unrecognised at 31 March 2022 was £26.8 million (2021: £51.4 million) which has been calculated at 25% (2021: 19%).

### 11. Called up share capital

	2022 £m	2021 £m
<i>Authorised, allotted, called up and fully paid:</i>		
1,000,000 (2021: 1,000,000) ordinary shares of £1 each (2021: £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.

### 12. 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 13.

#### Outstanding balances external to the Kemble Water Holdings Limited group

As at 31 March 2022, Ontario Municipal Employees Retirement System ("OMERS") held a 31.8% shareholding, via various entities, in the Kemble Water Holdings Limited group which qualify as entities related to the Kemble Water Holdings Limited group. The relevant entities are OMERS Farmoor 2 Holdings BV, OMERS Farmoor 3 Holdings BV and OMERS Farmoor SGP L.P. The Company incurred interest of £7.8 million in the year (2021: £51.0m), and had an outstanding payable balance in relation to loan principal and interest of £167.5 million as at 31 March 2022 (2021: £159.7m) across these entities.

## Notes to the financial statements (continued)

### 13. 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.

### 14. Subsidiaries, associated undertakings, and significant holdings other than subsidiary undertakings

At 31 March 2022 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
<b>Direct</b>					
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%
<b>Indirect</b>					
Thames Water Commercial Ventures Finance Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Service Limited	Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water (Kemble) Finance Plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Kennet Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
PWT Projects Limited	Non Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Non Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Investments Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Non Trading Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Senior Executive Pension Trustees Limited	Non Trading Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Limited	Water & Wastewater	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Finance Plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia PTE Limited	Legacy Investment	Singapore	Singapore	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, the registered office of which is 80 Robinson Road #02-00, Singapore, 68898.