

Kemble Water Holdings Limited

Annual report and consolidated financial statements

For the year ended 31 March 2019



Contents

Introduction	2
Directors and Advisors	3
Directors' report	15
Statement of Directors' responsibilities in respect of the strategic report, the Directors' report and the financial statements	20
Consolidated income statement	26
Consolidated statement of other comprehensive income	27
Consolidated statement of financial position	28
Company statement of financial position	29
Consolidated statement of changes in equity	30
Company statement of changes in equity	31
Consolidated statement of cash flows	32
Company statement of cash flows	33
Accounting policies	34
Notes to the Group financial statements	58
Notes to the Company financial statements	97

Introduction

Kemble Water Holdings Limited ("the Company") is the ultimate parent company of the Kemble Water Holdings group of companies ("the Group"). The principal activity of the Company is to act as the holding company of the Group and it does not carry out any activities beyond this.

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered entirely through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"), in accordance with TWUL's Licence of Appointment. References to "our" or "we" in this report relates to the activities of the Group including TWUL.

In addition, the Group operates a separately managed property business. The property business manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall Group.

The Group's management structure separates the Directors of the Company, who are all Non-Executives, and have no role to play in the day to day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the Executive Directors of TWUL also carry out work on behalf of the Group. There are controls in place to ensure that the day to day management of the appointed business is separated from the commercial water retail business.

Unless otherwise stated; all current year data included in this report is for the year ended 31 March 2019 ("2018/19").

Directors and Advisors

Directors

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

Independent auditors

PricewaterhouseCoopers LLP
3 Forbury Place
Forbury Road
Reading
RG1 3JH

Company secretary and registered office

D J Hughes
S Billet
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Strategic report

The Directors present their strategic report of the Kemble Water Holdings Limited Group ("the Group") for the year ended 31 March 2019. This strategic report should be read in conjunction with the strategic report of Thames Water Utilities Limited, which can be found at www.thameswater.co.uk/annualresults and provides a more detailed insight into the regulated business.

Business review

Principal Activities

The principal activity of the Group is the appointed supply of water and sewerage services through its wholly owned indirect subsidiary, Thames Water Utilities Limited ("TWUL"). The Company's principal activity is to act as the holding company of the Group.

The three main functional areas to the TWUL business are:

- Customer experience:** comprises the household business segment and provides certain customer-facing activities, billing and revenue collection, including amounts relating to construction of the Thames Tideway Tunnel (TTT) which has also been shown separately in the financial statements. From 1 April 2017, this business segment is also responsible for billing and cash collection of wholesale market charges to licensed non-household retailers for both water and wastewater, including amounts relating to construction of the TTT which is shown separately in the financial statements;
- Operations:** responsible for all aspects of raw water abstraction, treatment as well as the distribution of high quality drinking water and wastewater collection, treatment and safe disposal for household and non-household customers; and
- Support services:** responsible for other areas including delivery, finance, legal and HR.

Whilst the appointed supply of water and wastewater services provides approximately 98% of the Group's appointed gross revenue as per the regulated accounts, TWUL also manages certain non-appointed activities including:

- property searches, including the provision of information required by property developers; sale of gravel and other aggregates extracted through day-to-day operations; and
- treatment of trade effluent and other septic waste.

In addition, outside of TWUL, the Group operates a property business to manage and optimise the value of the Group's property portfolio.

From 1 April 2017 the Group no longer provides non-household retail services since non-household customers have been transferred to Castle Water Limited.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, the aim is to deliver safe reliable services for customers while ensuring reasonable returns for shareholders. This means keeping customers' bills as low as possible whilst investing efficiently in assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they expect and require.
- Outside of the appointed business, the Group continues to provide property search services to conveyancers and homebuyers. The Group also retains a property services arm which focuses on the development and enhancement of the value of land and sites that are no longer required for the appointed business, including disposal to third parties.

Principal risks and uncertainties

Our risk management and governance framework

The Board assisted by the Audit Risk and Reporting Committee (ARRC), oversees the risk framework and ensures alignment of risk management objectives with the strategies and objective of the Group, validates risk status and mitigation plans and verifies the long term viability statement process to maintain a sound system of risk management and internal control. This includes the determination of the nature and extent of the principal risks we are prepared to accept to achieve our strategic objectives, and ensuring that an appropriate culture has been embedded throughout the organisation.

The work of the Board and its committees is underpinned by delegation of authority and policies and procedures covering key areas of our operation.

Our approach to risk management

Our risk management process is developed to align with the Risk Management International Standard, ISO 31000, which aids our compliance with the Financial Reporting Council's UK Corporate Governance Code guidance on risk management. Risks are prioritised and reported, according to our defined risk scoring criteria, for oversight at the appropriate level of management. These reviews form the basis for our annual principal risks and uncertainties disclosure. The effectiveness of our overall risk management framework is evaluated by the ARRC during the annual control self-assessment review.

Principal risks and uncertainties

Key: ↑ Risk profile has increased

→ No change in risk profile

↓ Risk profile has decreased

Health, safety, environment and security	
<p>Description</p> <p>Failure to manage risks resulting from our operations could result in fatality or injury, significant environmental damage, personal health and safety lapses, crime and sabotage and internal security related attack.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Zero tolerance approach when safeguarding the health, safety, security and wellbeing of employees, partners and the public; • Clearly defined strategy, safety policies, protocols and standards that are set, monitored and reported; and • Close work with partners and suppliers to ensure a safe environment. <p>Looking Forward</p> <ul style="list-style-type: none"> • Review and continuously improve business continuity and resilience programmes.
Customer Service	
<p>Description</p> <p>Unacceptable customer service levels, or the perception that we are failing to maintain and improve service quality will have a detrimental effect on customer satisfaction and complaints, and our performance commitments.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Incidents and events that arise are managed through Executive-led response teams with a new dedicated field based customer facing representative team; • Dedicated team provides focus on customer insight and satisfaction measurement; • Engagement with the Customer Challenge Group (CCG) to provide independent challenge to our business and independent assurance to Ofwat on the quality and results of our customer engagement. <p>Looking Forward</p> <ul style="list-style-type: none"> • Implement a new customer relationship management and billing system, and reduce complaint volumes by 20%.

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased

→ No change in risk profile

↓ Risk profile has decreased

Asset Management and Performance	
<p>Description</p> <p>The level of investment and maintenance, operational and weather issues affects the performance of assets with potential interruption to service, environmental breach, regulatory target failure or health and safety threats</p> <p>Movement in the period: ↑</p> <p>The inherent risk profile increased during 2018/19 following a challenging regulatory environment and leakage target performance.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • The Board takes a direct interest in ensuring the highest operational standards for significant assets; • 2015-20 investment programme to maintain and improve network and asset resilience; and • AMP7 programme of upgrades to infrastructure and assets. <p>Looking Forward</p> <ul style="list-style-type: none"> • Continue to improve and invest in enhancing asset performance and resilience.
Trust and Reputation	
<p>Description</p> <p>Future investor funding, regulatory requirements and stakeholder relationships are affected by our performance transparency of operations and reputation, including that of senior management and the Executive Team.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Increase ion transparency in financial reporting and engage with customer groups, political parties, regulators, and other stakeholders to understand views and concerns; and • Customer service metrics and performance commitments regularly reviewed by Executive Team and the Board; and • Protect the most vulnerable households through initiatives to improve water efficiency or with financial advice and aid. <p>Looking Forward</p> <ul style="list-style-type: none"> • Continued investment through the business plan in our business and infrastructure to improve the service given to customers.
Climate and Societal	
<p>Description</p> <p>Strategic execution, customer behaviour and demand can change due to external influences outside of our control, such as population growth, climate change, long-term weather patterns and new technologies.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Long-term investment in the network and assets to strengthen customer relationships, secure future water requirements, develop resilience and reduce the impact of adverse weather patterns and events, and population growth; • Work to manage the unavoidable impacts of climate change to the business focus on customer demand reduction activity and reduce carbon and greenhouse gas emissions; and • Continue to find solutions that balance competing environmental, social and economic demands in a more sustainable way through the five-year business plan. <p>Looking Forward</p> <ul style="list-style-type: none"> • Continue to regularly review our forecast planning and investment programme.

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased

→ No change in risk profile

↓ Risk profile has decreased

Business Planning, Forecasting and Execution	
<p>Description</p> <p>Robust processes for business planning and performance, accurate forecasting and reporting, and change management are required for effective management decision, strategic delivery and performance commitments</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Performance and financial management reporting process with an external audit provision and internal audit schedule; • Board, Audit Risk and Reporting Committee and Executive team oversight and challenge; and • Dedicated delivery office, and change management, investment and business planning processes in place. <p>Looking Forward</p> <ul style="list-style-type: none"> • Continue to embed improved efficiency and customer advocacy.
Political, Regulatory and Economic Environment	
<p>Description</p> <p>The general economic outlook and political and regulatory oversight could impose significant obligations, operational changes, increases in the estimated cost to fulfil obligations and assumptions underlying estimates changing or proving incorrect, affecting investment in current or new assets and markets.</p> <p>Movement in the period: ↑</p> <p>The inherent risk profile increased during 2018/19 following heightened political and regulatory scrutiny and the re-submission of our PR19 plan.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Engage with regulators to find a better approach to intervention that agrees clear targets against which progress can be demonstrated; • Engage with political parties with the aim of moving towards water policy differences converging rather than polarising; and • Review effect on energy costs, water markets, investment and financial markets from the process of the UK leaving the EU. <p>Looking Forward</p> <ul style="list-style-type: none"> • Economic and market effects from the UK departure from the EU and potential for a further UK General Election as a result.
Legal and Regulatory Compliance	
<p>Description</p> <p>Significant UK and EU legislative and regulatory change and scrutiny may require additional compliance and reporting arrangements as well as amendments to existing policies and procedures to be in place.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • The Board promotes high ethical standards of behaviour and ensures the effective contribution of all Directors; • Clear understanding of regulatory and key legal obligations and identify impending new legislation, and changes to existing legislation and licence conditions, with assurance programmes in place; and • Policy framework, training programmes and corporate responsibility approach in place for employees and service delivery partners to ensure compliance with key laws such as data protection, competition, honest and ethical behaviour and cyber security. <p>Looking Forward</p> <ul style="list-style-type: none"> • Embed assurance mapping framework against key compliance obligations.

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased

→ No change in risk profile

↓ Risk profile has decreased

People	
<p>Description</p> <p>Attraction, development, retention and succession of senior management and individuals with key skills are critical factors in the successful execution of our strategic initiatives, and business operations.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • People strategy based on culture and engagement, equality and wellbeing, talent development, training, reward and recognition; • Regular review of organisational capability, reward strategies for key skills, talent management pipeline and learning and development programmes, which are externally benchmarked; and • Strong relationship maintained with trade unions, to ensure that issues are openly discussed and addressed, to promote an environment of trust and honesty. <p>Looking Forward</p> <ul style="list-style-type: none"> • Monitor effect of Brexit on our workforce and third-party capacity.
Technology Systems and Security	
<p>Description</p> <p>Effective operations and protection of data relies on the availability, integrity and security of complex technology systems and networks. This includes those of our third-party service providers and alliance partners.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Collaborate across utility industry and public and private sectors to manage security threats to national infrastructure; • Solutions in place to detect and investigate security threats and incidents to ensure potentially vulnerable systems are identified and vulnerability gaps closed; and • Review adequacy and effectiveness of infrastructure and technology security controls, undertake employee security awareness training, and test contingency and recovery processes. <p>Looking Forward</p> <ul style="list-style-type: none"> • Embed an improved technology function for our business.
Supply Chain Management	
<p>Description</p> <p>Operations rely on the resilience, availability and cost-effective quality of the supply chain for outsourced capability, goods, services and third party infrastructure.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<p>Mitigation</p> <ul style="list-style-type: none"> • Executive-led Contracts Committee in place to review and approve contracts of significant value; • Policy requirement for compliance with OJEU and third party due diligence checks carried out prior to contract award; and • Contract management in place with responsibility for completing assurance checks on contract compliance. <p>Looking Forward</p> <ul style="list-style-type: none"> • Implement an effective delivery route for AMP7.

Principal risks and uncertainties (continued)

Key: ↑ Risk profile has increased

→ No change in risk profile

↓ Risk profile has decreased

Credit and Liquidity	
Description	Mitigation
<p>Inaccurate forecasting, exposure to adverse conditions in debt or capital markets, counterparty payment obligation default or adverse actuarial pension scheme valuation may hinder or prevent business activity.</p> <p>Movement in the period: →</p> <p>There has been no significant change in the inherent risk profile during 2018/19.</p>	<ul style="list-style-type: none"> • Cash forecasts on liquidity requirements and assessed for different scenarios; and • Planning, committed facilities and investment processes in place; • Long-term refinancing with staggered maturity dates to minimise the effect of short-term downturns; <p>Looking Forward</p> <ul style="list-style-type: none"> • Continue to focus on improving operational performance and delivering further improvements within our business plan.

Financial review

Key financial performance indicators	2019			Restated 2018 ¹		
	Underlying	BTL	Total	Underlying	BTL	Total
	£m	£m	£m	£m	£m	£m
Revenue (£m)	2,037.2	47.5	2,084.7	2,018.3	26.9	2,045.2
Operating expenses (£m)	(1,686.3)	(0.3)	(1,686.6)	(1,620.4)	(0.4)	(1,620.8)
Operating profit (£m)	444.3	47.2	491.5	490.1	26.5	516.6
Net finance expense (£m)	(482.1)	-	(482.1)	(507.3)	-	(507.3)
Net (losses)/gains on financial instruments (£m)	(37.7)	-	(37.7)	41.0	-	41.0
Profit/(loss) before tax (£m)	(75.5)	47.2	(28.3)	113.5	26.5	140.0
Profit/(loss) after tax (£m)	(87.6)	44.4	(43.2)	85.1	24.9	110.0
Capital expenditure (£m)	1,188.7	-	1,188.7	1,148.8	-	1,148.8
Dividends paid	-	-	-	-	-	-
Statutory net debt (£m)	(13,009.2)	-	(13,009.2)	(12,345.7)	-	(12,345.7)
Interest cover (PMICR) *	1.3	n/a	n/a	1.3	n/a	n/a
Gearing (%) *	88.0	n/a	n/a	87.4	n/a	n/a
Credit rating **	n/a	n/a	Baa1 negative	n/a	n/a	Baa1 negative

* As defined on page 53.

** Representing the consolidated Corporate Family Rating assigned by Moody's for the Thames Water Utilities Limited securitisation group. Separately Moody's rated Kemble Water Finance Limited ("KWF") guaranteed debt as B1 (negative) and Fitch as BB- (rating watch negative). KWF is a wholly owned subsidiary.

¹ The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 44 to 51. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year / period as a result of the transition to IFRS 9. Additionally, finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

Overall performance

Total loss before tax for the year was (£28.3) million (restated 2018: profit of £140.0 million).

A summary of the movement in our total profit before tax is summarised below:

	2019 £m
Profit before tax for the year ended 31 March 2018	140.0
Increase in underlying revenue	18.9
Increase in BTL revenue	20.6
Increase in operating expenses	(65.8)
Difference on profit on the sale of retail non-household business	(89.7)
Loss on profit on sale of property, plant and equipment	(18.4)
Increase in other operating income	19.6
Increase in net interest payable	25.2
Movement in (losses)/gains on financial instruments	(78.7)
Loss before tax for the year ended 31 March 2019	(28.3)

Revenue

As a regulated business, the amount we bill our customers was agreed by Ofwat through the price review process before the start of the current five year regulatory period. As such our underlying revenue does not significantly fluctuate year-on-year. Overall, underlying revenue for the year has increased slightly compared to the previous year by 0.9% to £2,084.7 million.

Our bills include amounts relating to the construction of the Thames Tideway Tunnel ("TTT") and therefore movements in our total revenue are affected by movements in these billings. As we collect the cash this is passed onto Bazalgette Tunnel Limited ("BTL") and is excluded from our underlying results. Revenue related to BTL has increased by 76.6% to £47.5 million. The increase is due to the phasing of construction works.

Capital expenditure

During the year, we invested a total of £1,188.7 million (2018: £1,148.8million) in our assets, including £572.6 million on the water network and, £616.1 million on the wastewater network. This spend includes the following key projects:

- £52.9 million on our metering programme (water);
- £92.2 million on connecting our network to the Thames Tideway Tunnel;
- £29.6 million on a customer relationship management and billing system;
- £26.9 million on our scheme aimed to reduce the risk of flooding (waste);
- £31.9 million on upgrading our sewage treatment works at Deephams (waste).

Our capital expenditure has increased by £39.9 million (3.4%) to £1,188.7 million (2018: £1,148.8 million) due to the phasing of our capital projects.

Financing our investment

As we continue to invest heavily in the business, our statutory net debt (as defined on page 37) has increased by £663.5 million to £13,009.2 million (2018: 12,345.7 million). This has been accompanied by an increase in the Regulatory Capital Value ("RCV") of £568.9 million to £14,273.7 million (2018: £13,704.8 million). Overall gearing (on a covenant basis), was 88.0% (2018: 87.4%), below the mandated maximum of 95.0%. Additionally, our PMICR in the current year is 1.3x (2018: 1.3x) and is above the mandated minimum of 1.05x.

We continue to borrow through external public and private debt capital markets and through financial institutions across a diverse range of currencies, geographies and sources. The last year has seen us continue to focus on increasing diversity including the issue of a further £227 million equivalent US Private Placement which was priced in January and funded in April 2019 along with a number of new bilateral loans. In addition to this financing within the securitisation group, a gross amount of £649.8 million was raised by Kemble Water Finance Limited outside of the securitisation group in November 2018, of which £310.0 million was drawn down during the year.

The associated net finance expense has increased by £21.6 million to £1,001.9 million (2018: £980.3 million), which has been driven primarily by higher RPI accretion on borrowings, in addition to the increased borrowing levels. Some of our interest expense is incurred in relation to borrowings raised to deliver major capital projects. Under the IFRS accounting framework we capitalise the interest costs related to major capital projects with the finance expense in the income statement being shown net of these capitalised costs. Capitalised interest costs were £109.3 million this year (2018: £100.7 million).

Bad debt

Bad debt arises predominantly from those who choose not to pay their bill, despite being financially able to, as opposed to those who cannot pay. This year we had an overall increase in bad debt cost of £5.1 million to £62.6 million (2018: £57.5 million). This is split between bad debt relating to current year bills of £33.4 million, which is shown as a deduction in revenue, and bad debt relating to bills from prior years of £29.2 million, which is shown within operating expenses. The overall increase in bad debt is due to a number of factors including:

- An increase in write offs for our waste only customers who are billed by other water companies, over which we have no control of collections
- Lower cash collection rates on our customer bills that have been cancelled and then rebilled. Where there has been a change of occupier and a bill is cancelled and split between incoming and outgoing occupier, the portion of debt associated with the outgoing occupier is more difficult to collect

Operating expenses

Our underlying operating expenses have increased by £65.8 million (4.1%) to £1,686.6 million from 2018/19, driven mainly by:

- A £16.3 million increase in power cost as a result of 15% increase in the unit price;
- A £45.0 million increase in our personnel costs, as we have increased employee numbers to improve our service to customers;
- A £19.1 million increase in depreciation and amortisation, in line with our ongoing investment programme;
- Increase in spend to to repair and fix leaks, to get our leakage performance back on track; and
- Additional costs associated with preparing and assruing our business plan submissions. We incur this every five years.

Financial instruments

Our borrowings, revenue and total expenditure ("totex") (as defined on page 53) are exposed to fluctuations in external market variables such as changes in interest rates, inflation and foreign exchange rates. We manage these exposures by entering into derivative contracts in order to hedge against future changes in these external rates.

We have approximately £6.8 billion of derivative financial instruments (face value), which include £250.0 million of forward starting interest rate swaps that have fixed a significant element of the cost of debt we expect to borrow before 31 March 2020. A total loss on financial instruments of £37.7 million was recognised in the income statement during the year (2018: gain of £41.0 million). This is primarily driven by a £34.2 million loss on cash flow hedge transferred from reserves, partially offset by £64.5 million fair value gains on swaps and £68.0 million net foreign exchange loss on foreign currency loans.. Note 8 to the financial statements provides detail of the amounts charged to the income statement in relation to financial instruments.

Credit rating

In May 2018, Moody's affirmed our Baa1 Corporate Family Rating ("CFR") for our securitisation group but placed us on negative outlook (2018: negative outlook).

This continues to be a strong investment grade credit rating supporting our ratings of A3 and Baa3 for our Class A and Class B debt respectively. The change to negative outlook reflects a change in assessment of the stability and predictability of the UK water regulatory regime rather than a reflection of Thames Water specifically. In July 2018, S&P assigned our securitisation group companies a credit rating of BBB+ and BBB- (2018: BBB+ and BBB-) in respect of our Class A debt and our Class B debt respectively and placed us on negative outlook (2018: stable outlook). These ratings allow us to issue efficiently priced debt to fund our investment programmes, whilst keeping bills affordable for our customers.

Separately Moody's rated debt guaranteed by Kemble Water Finance Limited as B1 (negative) and Fitch as BB- (negative outlook).

Dividends

No dividends or interest on shareholder debt was paid to external shareholders in 2018/19 after our Board decided to reinvest profits back into the business to improve our service to customers.

Pensions

We operate four pension schemes for our employees – three defined benefit schemes and one defined contribution scheme. During 2018/19, we contributed £11.0 million (2018: £8.1 million) to the defined contribution scheme.

Our defined benefit scheme accounting valuation has been updated to 31 March 2019 on our behalf by independent consulting actuaries, Hymans Robertson LLP. The total net retirement benefit obligation for the three schemes as at 31 March 2019 was £285.3 million (restated 2018: £243.1 million¹), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme and a pension surplus of £7.7m (2018: £7.5m) for the SUURBS pension scheme. We have been taking measures to reduce the overall deficit including regular contributions and deficit repair payments. The increase in the deficit is mostly driven by a change in actuarial assumptions, specifically a decrease in the discount rate for both schemes, resulting in an actuarial loss. In addition to this, we recognised a past service cost in the current year income statement of £9.0 million relating to Guaranteed Minimum Pensions ("GMP") which has been discussed in more detail in the section below. As part of the last triennial valuation, a recovery plan to reduce the deficit to zero was agreed with the trustees. The Group has agreed to make deficit repair payments of £22.0 million (2018: £22.0 million) (indexed) per annum until 2027.

Recognition of pension surplus (TWMIPS scheme)

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus¹ in the TWMIPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Trust Deed provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind up once all benefits have been distributed and any surplus taken by Thames Water Utilities Limited. Based on these rights, any net surplus in the scheme is recognised in full. We have therefore restated our pension figure for the previous year, such that our net pension deficit reduced from £300.8 million to £242.7 million following the recognition of the £50.6 million TWMIPS surplus, at 31 March 2018.

Guaranteed Minimum Pensions

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and need to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMP.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday of women and the 65th birthday for men. As such GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group. Our actuaries, Hymans Robertson LLP have factored in the cost of equalisation into the accounting valuation as at 31 March 2019. This has resulted in a past service cost recognised in the 2018/19 income statement of £6.8 million for TWPS and £2.2 million for TWMIPS, a total of £9.0 million across the two schemes.

Capital, financial and actuarial risk management policies and objectives

The Group's operations expose it to a variety of capital, financial and actuarial risks.

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The key objectives of the funding strategy are to maintain customer bills at a level which is both affordable and sustainable, retain the Group's investment grade credit rating and provide liquidity sufficient to fund ongoing obligations.

The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The capital structure of the Group consists of net debt and equity as disclosed in note 19. The Group's net debt is comprised of cash and cash equivalents, short-term investments, bank loans and intercompany loans from subsidiary undertakings that issue secured bonds.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used, where appropriate, to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

Financial risk management

(i) Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments. Financial instruments entered into by the Group include RPI linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The principal operating company of the Group, TWUL, is a regulated water company with RPI linked revenues. Therefore the Group's index linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Group also uses derivatives to manage inflation risk on non-index linked borrowings.

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of debt issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Group. Further disclosures regarding financial instruments can be found in note 19.

Interest rate risk arises on interest-bearing financial instruments. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

Capital, financial and actuarial risk management policies and objectives (continued)

(ii) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

TWUL has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by TWUL and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk, however, TWUL's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15.

(iii) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the Group's borrowings and other financial instruments are disclosed in note 18 and 19, respectively.

Actuarial risks

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. For further details of these risks, please refer to note 23.

The trustees continue to control the level of investment risk within the schemes by reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees also review the risk exposures taking into consideration the longer term objectives of the respective schemes.

Viability statement

The Directors have assessed the longer-term viability of the Group over a ten year period to 31 March 2029. Due to the prolonged look-forward period, the level of certainty of the assumptions used reduces the further into the future we look. The high degree of confidence for the remainder of the current price control period to 31 March 2020 is followed by moderate confidence in the next five year price control period to 31 March 2025 based on our business plan for this period, and a lower level of confidence for the first four years of the following five year regulatory period. In spite of the reduced confidence levels in the later years of the look forward period, the Directors consider the ten year period to be appropriate given the long term nature of the business, and the necessity to adopt a sustainable approach.

The Directors have considered the current position of the Group, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and its ability to maintain a strong investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 5 to 9.

The performance of the Group is mainly dependent on the appointed activities of TWUL which is responsible for the supply of water and wastewater services to customers in London, the Thames Valley and surrounding area. As such, this assessment takes into account the long-term viability of TWUL where the Directors of TWUL have a reasonable expectation that TWUL will be able to operate within its financial covenants and maintain sufficient liquidity facilities to meet its funding needs over the same ten year assessment period.

As part of the Group's financial resilience assessment, management has designed a number of 'stress tests' which subject the Group's existing model, that underlies the Group's planning processes, to a number of severe but plausible scenarios and tests its sensitivity to these. The stress tests consider factors, both individually and in combination. These include:

- Fluctuations in interest rates, which could affect the cost of financing the business;
- Fluctuations in inflation rates, which could affect the cost of investment and day-to-day operations, in addition to impacting amounts we bill our customers;
- Increase in operating and capital expenditure, which would increase costs and reduce cash flows;
- Operational underperformance and the crystallisation of certain regulatory risk events leading to regulatory and legal penalties / fines; and
- Inability to secure new finance and/or delays in raising finance, reducing the cash available to deliver our investment programme.

The assessment showed, in the absence of any mitigating actions, that there are severe but plausible downsides which indicated the need to undertake mitigating actions to avoid non-compliance of financial covenants. It should be recognised that such pressure on the Group's viability is based on hypothetical sensitivities where the probability of these scenarios occurring is uncertain. The analysis showed pressures crystallising at a point in time well into the assessment period, thereby providing sufficient time to implement any mitigating actions if so required. As part of its risk management, the Directors regularly monitor compliance of financial covenants so as to ensure any issues are appropriately addressed to avoid or reduce the impact of occurrence of the underlying risk.

The Directors believe there are a number of options available, these include but are not limited to the following:

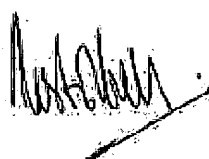
- Modifying or temporarily waiving existing financial covenants and debt amortisations;
- Improving liquidity by increasing the size of its existing £110 million bank facility. This would extend the period over which the Company is able to meet the interest payments of its external debt in the event that there are no distributions from TWUL or when the Company exceeds certain financial covenants. Currently the facility is expected to cover more than 18 months of interest payments; and
- Raising additional capital in the form of deeply subordinated instruments and / or equity from shareholders.

The viability of the Group is heavily influenced by the Company's ability to service external (non-shareholder) debt. Noticeably, these costs have been met by distributions from TWUL. In circumstances where distributions were not made available by TWUL, the Company, as mentioned above, has access to a £110 million bank facility which is sufficient to cover more than 18 months of interest payments. In the event where the absence period of such distributions exceeded that provided by the bank facility, the Company would be reliant on additional support from its shareholders to meet its obligations. The Directors of the Company have discussed this matter with the shareholders, whom they represent, and are confident that support would be available if required.

Taking account of the range of scenarios, the Directors consider that the Group has sufficient mitigating actions available to address particular circumstances and events, should they arise. The Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of assessment. This conclusion has been made assuming capital market continue to operate under normal market conditions and that no renationalisation of the water sector take place over the assessment period.

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 Holdings Limited (the "Company") and the audited consolidated financial statements of its group ("the Group") for the year ended 31 March 2018. These are the Group and Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' Report includes certain disclosures required under the Companies Act 2006.

The Directors consider that the annual report and audited financial statements, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess both the Group's and Company's position and performance, business model and strategy.

The Directors have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 5 to 9.

The registered number of the Company is 05819262 (England and Wales).

Principal activity

The Group's principal activity is the appointed supply of water and wastewater services to customers in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment.

Details of the associated and subsidiary undertakings of the Group at 31 March 2019 has been provided in the notes to these financial statements.

Future outlook

The future outlook of the Group is discussed in the strategic report.

Directors

The Directors who held office during the year ended 31 March 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	
P Mulholland	(resigned 20 May 2019)
Y Wang	(resigned 22 October 2018)
F Sheng	
T Song	(appointed 22 October 2018)
C Pham	
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
A Hall & K Bradbury	M Bloch-Hansen
J Divoky	C Pham
P Noble	E Lewis
G Tucker	P Mulholland
Y Wang	F Sheng
F Sheng	T Song
J Cogley	B Moncik

Directors' indemnities

The Group has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies of the Group and these remain in force at the date of this report.

Share capital

As at 27 June 2019, the Company's issued share capital was 1,991,600,000 ordinary shares of £1 each amounting to £1,991,600,000. There were no movements in the Company's share capital during the year.

Dividends

The Group's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that:

- sufficient liquidity is maintained to enable the business to meet its financial obligations for at least 15 months;
- the Group maintains a minimum of 2% headroom on its gearing covenant restrictions; and
- post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

The Group has not paid any dividends during the current or preceding financial year and do not recommend the payment of a final dividend (2018: £nil).

Operations outside the United Kingdom

There are no active operations conducted outside the United Kingdom. The Group had two wholly owned subsidiary entities incorporated in the Cayman Islands. These companies act solely as a financing vehicle for TWUL and their operations are conducted entirely within the UK. These companies have always been resident in the UK for tax purposes. During the year Group formally closed the Cayman Islands subsidiaries.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the strategic report.

The Directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position as at the year end, that both the Group and Company have sufficient resources for their present requirements and are able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of approval of these financial statements. This is based upon a review of the Group's and Company's financial forecasts for the forthcoming financial year, consideration of the Group's compliance with its covenants, and the cash, current asset investments and available facilities of the Group and Company.

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Over the past 12 months, we have made considerable progress in commencing the elimination of 44 dormant companies within the Group through either strike-off or liquidation. As a result, the consolidated financial statements reflect the financial impact of dormant companies being removed from the Group and Company. For a complete list of subsidiaries that are in the process of being liquidated refer to note 39.

Corporate Governance

Our system of risk management and internal control aims to ensure that every effort is made to manage risk appropriately, rather than eliminate risk completely, and can only provide reasonable, rather than complete, assurance against material impact. Our management of risk supports this through a number of key company level internal controls and responses:

- Business planning, budgeting and forecasting. These activities support resilient operations and sustainable and robust finances. The annual budgeting exercise includes a detailed budget for the year and a view for remainder of the asset management plan ("AMP").
- Performance reporting – the Board and shareholders receive monthly management reports, including an overview of key performance metrics.
- System of delegated authority – delegated levels of decision making authority are reviewed and approved by the Board;
- Insurance – insurance programme and insurance team in place. The Board review and approve the strategic approach being taken to level and type of cover;
- Company policies, standards, guidelines and procedures – relevant governance documentation is reviewed regularly and is intended to manage our inherent risk;
- Code of conduct and Whistleblower hotline – code of conduct and confidential whistleblowing processes are in place to be investigated by a dedicated team.

Our Enterprise Risk Management and Internal Audit teams also provide reporting and assurance over our management of key business risks.

Financial risk management

During the period the Company had access to the Chief Executive Officer and the Executive Team of TWUL, who also manage the Group on a day-to-day basis on behalf of the Directors of individual group companies. The Board receives regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

The Group's operations expose it to a variety of financial risks and information on the use of financial instruments by the Group to manage these risks is disclosed in the Strategic Report.

Political donations

No political donations were made by the Group or Company during the current or preceding year.

Charitable donations

Charitable donations of £0.3 million were made by the Group during the year (2018: £0.4 million).

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges for AMP6 and beyond and also provide specialist technical support to the business.

The development and application of new techniques and technology is an important part of the Group's activities. The Group is a member of UK Water Industry Research ("UKWIR"), and participates and benefits from its research programme. The UKWIR research programme relating to Thames Water is currently divided into the following topics: drinking water quality and health; toxicology; water resources; climate change; water mains and services; leakage, customers, and regulatory issues. In addition, the Group carried out more specific research in the fields of large meters, metaldehyde removal, water quality monitoring and pipeline materials during the year.

Expenditure on research and development totalled £5.0 million for the year (2018: £3.9 million).

Employee Involvement

We undertake significant levels of communication with our people, through regular business review conferences, team briefs and varied written communications. During the year the Executive Team have continued to develop the key messages around the new "One Thames" structure, values and strategic plan.

Thames Water recognises three trade unions, UNISON, GMB and Unite, working with them through an agreed Partnership approach. We regularly meet trade unions, and where appropriate non-union representatives, at senior and working levels, to discuss issues affecting employees. During the year, the Group has continued a significant consultation process with both trade union and pension scheme representatives, looking at how we can make our defined benefit pension schemes sustainable and avoid closure. In addition to formal consultation meetings, this included joint learning sessions on topics including scheme indexation, mortality rates and emerging pension options like Collective DC schemes. Specific groups also consider issues relating to Health, Safety and Wellbeing and undertake reviews of Group policies. The Partnership trade unions negotiate pay and conditions for non-managerial grades.

Incentives for all Managers and Senior Leaders in the Group link reward to performance for customers and other key stakeholders. Most targets are based on regulatory outcomes including customer service, leakage, environmental and financial performance. The same targets are also used for an incentive for all non-managerial employees which will pay out in 2020.

The Group regularly shares key performance and other critical business information to employees through the various communications, including business reviews and written communications. In addition to a monthly "Team Talk" session which enables every team to discuss key customer, operational and financial performance, the CEO holds bi-annual "Yamjam" sessions, an opportunity for any employee to ask him questions directly, while the CEO and Executive team also attend conferences to hear key messages and ask direct questions of the lead team.

Each year we ask our employees to have their say through a Group wide engagement survey. We then use the results to develop a strategic improvement plan as well as encouraging teams to utilise a toolkit to turn their 'voices into action' at a local level, sharing and celebrating successes. As a result of our ongoing engagement with our employees, we have seen a 12% increase in the past year in employees feeling that they have the opportunity to contribute their ideas if they want to.

Equal Opportunities, diversity and inclusion

We recognise that our people are at the heart of our business. To help us succeed in our aim to provide best-in-class water and sewerage service, to be efficient and sustainable and to act in the long-term interests of our wider community, we need a range of skills and capabilities, representative of society, throughout our business.

Equal Opportunities, diversity and inclusion

We recognise that our people are at the heart of our business. To help us succeed in our aim to provide best-in-class water and sewerage service, to be efficient and sustainable and to act in the long-term interests of our wider community, we need a range of skills and capabilities, representative of society, throughout our business.

We seek to attract, develop, reward, promote, and retain a mix of colleagues who can offer different but complementary attitudes, ideologies, talents, and knowledge. We understand the importance of appreciating and harnessing the unique skills, experiences, and backgrounds that each individual brings to our family.

To support an equal opportunity, fair, diverse, and inclusive Thames Water free from discrimination, bullying, harassment, or victimisation, we are committed to building a working environment and culture that inspires our people to live our values.

Everyone has a part to play to ensure people feel comfortable to bring their whole self to work.

The attitude and behaviour of all our colleagues has a profound impact on our reputation and ability to ensure that everyone is provided with the same opportunities, treated with respect and valued, irrespective of their protected characteristic including; age, disability, gender identity, marriage or civil partnership, pregnancy or maternity, race, religion and belief, sex or sexual orientation.

Employees with disability

Thames Water is proud to be a Disability Confident accredited employer.

Thames Water is proud to be a Disability Confident Employer, an accolade we have been awarded as a result of our ongoing work to actively hire, support and develop persons with disabilities. We were delighted to once again be asked to speak at the Stronger Together, Access to Work event, sharing best practice and initiatives we have developed such as our inclusion cards which include scenarios developed by our Disability Champions to explore and positively challenge attitudes and behaviours ensuring an inclusive culture. Additionally, we were asked by Alok Sharma, MP to speak at a local event in the Thames Valley to share with other employers how they can learn from us to become Disability Confident themselves

We were delighted to be invited to speak at a recent local government 'Stronger Together, Access to Work' careers event about our Give Someone a Start ("GSAS") scheme which offers those not in employment, education or training and those with mental and physical disabilities who may need extra support in finding a role, three weeks experience of working life at Thames Water. We have been supporting this programme for the past six years.

We are fully committed to ensuring that existing or potential future employees with disabilities are not treated less favourably than any other such person without a disability and that they are fully integrated into the work environment. This includes supporting individuals with their personal requirements and we currently have a programme of work to ensure our key buildings have disability friendly facilities.

As well as focussing on attracting, supporting and retaining people with disabilities we also raised awareness of physical disabilities via our own version of 'dining in the dark' at some of our key sites which generated money for Guide Dogs for the Blind as part of our celebration of International Day of Disabled Persons.

Greenhouse gas emissions

We have continued to make progress throughout 2018/19 in reducing our emissions. Where we're not able to produce our own energy, we source Renewable Energy Guarantees of Origin ("REGO") accredited sourcing renewable electricity through a contract with our green tariff electricity supplier. As a result we have achieved our 2018/19 emissions targets for both water and wastewater.

In the last year we have reduced our emissions from 277.9 kTCO₂e last year, to 275.7kTCO₂e (2018: 275.7 kTCO₂e to 277.9 kTCO₂e). We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department of Environment, Food and Rural

Affairs (Defra). Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually reflecting the six major greenhouse gases and the Defra Environmental Reporting Guidelines.

The emissions reported are associated with the operational emissions of the regulated business and include:

- Scope 1 (Direct emissions);
- Scope 2 (Indirect energy use emissions);
- Scope 3 (Emissions from outsourced services and business travel); and
- Carbon intensity ratios per mega-litre day (MLd) of service delivered.

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO₂e").

Insurance

The Group maintains a comprehensive insurance programme, renewed annually. This includes cover for a range of insurance classes including Public Liability, Property, Employers Liability, Construction, Motor, and Directors & Officer liability cover.

The insurance coverage has been reviewed and approved by an Independent insurance adviser retained to ensure that the Group's insurances are consistent with good industry practice, have regard to the risk being covered and address the interests of the Group.

Funding

In November 2018, the Group signed an innovative £1,386.8 million (subsequently increased in size to a total of 1,646.4 million in January 2019) 5-year revolving credit facility with the interest rate linked to annual performance against environmental, social and governance (ESG) metrics.

The agreement saw Thames Water Utilities Limited become the first UK corporate to tie the interest rate it will pay on the RCF to its Infrastructure GRESB score (Global Real Estate Sustainability Benchmark). GRESB is an independent, external ESG benchmark which assesses the sustainability performance of real estate and infrastructure portfolios and assets worldwide. In addition to the £227.3 million sterling-equivalent Private Placement which was priced in January 2019 and a new £189.0 million bilateral loan with Export Development Canada, which were both undrawn at 31 March 2019, the Group signed a new £150.0 million facility with a commercial bank which was drawn down in full at 31 March 2019. The £227.3 million Private Placement, to be funded in April 2019, included two US Dollar tranches of 5 and 7 years and an 11 year Euro tranche which together, once swapped to sterling, and translated into a weighted average yield of 3.12%.

During the year, a total of £999.3million was drawn down and £540.0 million was repaid from the Thames Water Utilities Finance plc, £1,464.4 million revolving credit facility in various tranches. The amounts were used for general corporate purpose and to pre-finance long term debt.

Disclosure of information to the auditor

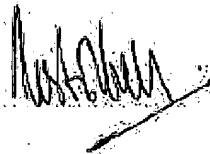
The Directors who held office at the date of approval of this Directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and each Director has taken all the steps that they ought to have taken as Director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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 strategic report, the Directors' report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and parent company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of the profit or loss of the group and parent company for that period. In preparing the financial statements, the directors are required to:

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and parent company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

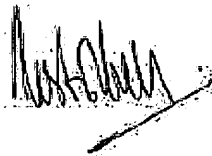
Directors' confirmations

Each of the directors, whose names and functions are listed in Directors' Report confirm that, to the best of their knowledge:

- the parent company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the company;
- the group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and loss of the group; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the group and parent company, together with a description of the principal risks and uncertainties that it faces.

In the case of each director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.



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

Independent auditor's report to the members of Kemble Water Holdings Limited

Opinion

In our opinion, Kemble Water Holdings Limited's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 March 2019 and of the group's loss and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: the consolidated and company statements of financial position as at 31 March 2019; the consolidated income statement and statement of other comprehensive income, the consolidated and company statements of cash flows, and the consolidated and company statements of changes in equity for the year then ended; the accounting policies; and the notes to the financial statements.

Basis for opinion

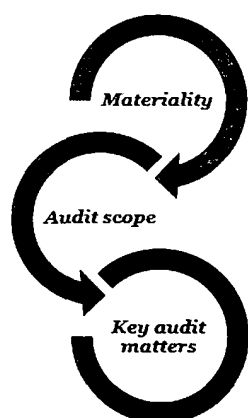
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview



- Overall group materiality: £30.0 million, based on 0.16% of total assets.

- Two significant components within the group are subject to a full scope audit.
- Two additional entities were considered in scope for certain financial statement line items, to obtain sufficient coverage of the cash, borrowings and finance expenses of the group.
- For the company only accounts and the significant components we tested both the design and operation of relevant business process controls and performed substantive testing over material financial statement line items.

- Provision for bad and doubtful debts (Group).
- Classification of costs between capital and operating expenditure (Group).
- Valuation of financial derivatives (Group).
- Valuation of retirement benefit obligation (Group).
- Recoverability of amounts owed by group undertakings (Parent).
- Recoverability of Goodwill (Group).

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. 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

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

Key audit matter	How our audit addressed the key audit matter
<p>Provision for bad and doubtful debts</p> <p>The recoverability of customer debts is always a key issue for water companies. The company uses significant judgements and estimates to determine their provision for bad and doubtful debts, which amounted to £176.6m (2018: £174.3m).</p> <p>Management make key assumptions based on historical trends relating to non-payment of invoices including comparisons of the relative age of the individual balance and consideration of the actual write-off history. These historical trends are used as a basis to assess expected credit losses in the future</p> <p>These assumptions are then used in a complex model to compute the provision for bad and doubtful debt, which is sensitive to changes in these assumptions.</p> <p>This risk is applicable to the group only</p>	<p>We evaluated the model used to calculate the provision and confirmed its consistency with prior years and the appropriateness of this given the transition to IFRS 9.</p> <p>We also tested the underlying data upon which the calculations were based and assessed the appropriateness of the judgements applied in calculating the provision, using the latest available cash collection, cancellation and rebill data for the current year.</p> <p>We re-performed the calculations used in the model and ensured appropriateness and accuracy of these calculations.</p> <p>We challenged management's assumptions used in the model and tested a sample of inputs. We also tested a sample of receivables to ensure appropriateness of the aging classifications used in the model.</p> <p>We also assessed the impact of changes to the provision methodology on account on adoption of IFRS 9.</p> <p>We also assessed the adequacy of disclosures in the notes to the financial statements of the key judgements and estimates involved in the provision for bad and doubtful debts and the description of changes arising as a result of the adoption of IFRS 9.</p> <p>Overall we consider that the provision and disclosure for bad and doubtful debt is reasonable as at 31 March 2019.</p>
<p>Classification of costs between capital and operating expenditure</p> <p>Additions to Assets under construction (AUC) during the period amounted to £1.098bn (2018: £1.073bn). Within this is £189m (2018: 198.2m) of own works capitalised and £102.7m (2018: 96.4m) of borrowing costs incurred with the remainder being external costs incurred.</p> <p>There is a high degree of judgement applied when allocating costs to operating and capital expenditure given the nature of certain projects which include both repairs and maintenance as well as asset enhancement. There is therefore the potential for misstatement between the income statement and the statement of financial position. In addition, internal expenditure including staff costs to support capital projects is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the company and can be measured reliably. There is a risk costs capitalised do not meet these criteria.</p> <p>This risk is applicable to the group only</p>	<p>Our procedures over external costs included:</p> <p>We have tested the controls regarding the assessment by management of each project as operating or capital.</p> <p>For a sample of projects open during the financial year we ensured that the classification of expenditure into capital or operating is consistent with how this has been classified in the financial statements.</p> <p>We performed sample testing at an individual expense level of costs classified within both AUC additions and those shown as repairs and maintenance accounts in the period. We then agreed these to third party evidence to verify the amount and so to assess whether the costs have been classified appropriately.</p> <p>Our procedures over own works capitalised included:</p> <p>We tested the control process over the assessment and review by management over the support internal cost functions are providing with regards to capital programmes.</p> <p>We have challenged management as to the nature of these costs and whether they meet the capitalisation criteria.</p> <p>We have obtained management's papers and considered the assessment made and noted that a consistent approach to the prior year has been used, adequate consideration at an individual cost centre level is being applied and that there is no indication of bias.</p> <p>Overall, we consider that the judgements management have made over the classification of costs as operating or capital are reasonable at 31 March 2019.</p>
<p>Valuation of financial derivatives</p> <p>The net derivative liability position at 31 March 2019 was £1,100m (2018: £1,153m). The valuation of derivatives has been designated as a significant risk as the total fair value of the derivative contracts are material, the valuation methodology can be judgemental and some of the contracts are unusual, complex or long dated which can cause additional complexities.</p> <p>This risk is applicable to the group only</p>	<p>Our procedures included:</p> <ul style="list-style-type: none">- Obtaining independent confirmations from the external counterparties to confirm the existence and terms of all contracts held.- Engaged with our specialist valuations team who have performed independent valuations for a sample of the derivative population (testing 33 of the 64 derivative contracts with a total fair value tested of £1,014m).- Performed an analytic review of the derivative position by

calculating expected movements in derivatives using independent sources of exchange rates and interest rates.

- Tested management controls in operation to reconcile the derivative valuations to those provided by the external counterparties.

Overall we assess that the valuation method and judgements management have used are reasonable.

Valuation of retirement benefit obligation

Relating to the Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme

Valuation of total scheme liabilities £2,606.4m (2018: £2,498.7m)

Subjective judgement:

The valuation of retirement benefit obligations requires significant levels of judgement and technical expertise, including the use of actuarial experts to support the directors in selecting appropriate assumptions. Small changes in a number of the key financial and demographic assumptions used to value the retirement benefit obligation, (including discount rates, inflation rates, salary increases and mortality) could have a material impact on the calculation of the liability.

The pension liability and disclosures are also an area of interest to key stakeholders; this is especially so in the current year in light of the impact of the High Court Lloyds ruling regarding Guaranteed Minimum Pensions (GMPs).

This risk is applicable to the group only

Our procedures included:

We used our own actuarial experts to evaluate the assumptions made in relation to the valuation of the scheme assets and liabilities, as well as assessing the liability impact calculated by the pension scheme actuaries in relation to GMP.

We benchmarked the various assumptions used (e.g. discount an inflation rate) and compared them to our internally developed benchmarks; assessed the salary increase assumption against the group's historical trends and expected future outlook; considered the consistency and appropriateness of methodology and assumptions applied compared to prior year end most recent actuarial valuation.

We tested the accuracy of the retirement benefit obligation disclosures, including GMP, made in relation to the group's pensions policy. We confirmed that the group's actuarial experts (Hymans Robertson LLP and Aon) are qualified, appropriately affiliated to territory industry bodies, and are independent of the company and group.

Overall we concur that the methodology and assumptions used by management at 31 March 2019 are reasonable.

Recoverability of amounts owed by group undertakings

Judgement is required to assess if amounts owed by group undertakings can be recovered in full and if not what is the expected future recoverability. This requires the use of significant estimates which are subjective in nature. The key estimates used include; expected future RCV, expected future share purchase premium on RCV, expected future interest settlements and expected future gearing.

This risk is applicable to the company only

Our procedures included:

Verified that management have appropriately applied IFRS 9 to determine the expected recoverable value. We have verified that estimates made, where applicable, are consistent with those made by management for other purposes e.g. long term viability.

We have assessed whether the other estimates management have made for this assessment are reasonable and based on historical performance.

We have obtained management's model and verified the mathematical accuracy of calculations used.

Overall we concur the management's assessment and the impairment provision made is reasonable.

Recoverability of Goodwill

Goodwill at 31 March 2019 is £1,468.1m (2018: £1,468.1m) and is required to be assessed annually for impairment. The assessment is based on the deemed recoverable amount compared to the book value and requires the use of significant estimates which are subjective. The key estimates and assumptions assessed include the Regulatory Capital Value (RCV) and the expected premium on RCV that an investor would pay to purchase a controlling share in the group.

This risk is applicable to the group only

Our procedures included:

We have obtained management's model and verified the mathematical accuracy of calculations used.

We have reviewed the assessment management have performed to determine the premium on RCV and determined that the assessment performed is reasonable.

We have agreed the net debt used in management's assessment at 31 March 2019 to the audited financial statements.

We have also verified the RCV used by management to the latest Ofwat publication.

Overall we concur with the assessment that management have made and that there is no impairment at 31 March 2019.

How we tailored the audit scope

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

Our scoping is based on the group's consolidation structure. We define a component as a single reporting unit which feeds into the consolidation. In order to achieve audit coverage over the financial statements, under our audit methodology, we test both the design and operation of relevant business process controls and perform substantive testing over material financial statement line item. Following our assessment of the risks of material misstatement of the Consolidated Financial Statements we determined that the components requiring a full scope audit were Thames Water Utilities Limited and Thames Water Utilities Finance Plc. As the main trading and financing entities of the group these provide sufficient coverage across the majority of balances. Three additional

entities were considered in scope for certain financial statement line items, in order to obtain sufficient coverage of the cash, borrowings and finance expenses of the group. We additionally obtained full coverage over the consolidation journal entries for the group.

Materiality

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

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

Overall group materiality	£30.0 million (2018: NA).
How we determined it	0.16% of total assets.
Rationale for benchmark applied	Total assets has been determined to be the appropriate benchmark for both significant components of the group (see company rationale), therefore group materiality will also be based on total assets. For Public Interest Entities (PIE) a percentage of up to 1% of total assets is typical. However, we have considered multiple factors and given due consideration to other benchmarks, using the lower percentage of 0.16% of total group assets was deemed to be most appropriate.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £25.5 million and £28.5 million.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £1.5 million (Group audit) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

We agreed with the Committee that we would report to them misstatements identified during our audit above £1.5 million (Group audit) and £5.2 million (Company audit) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

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 group's and company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

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 group's and 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 group'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.

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 group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 20, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or the company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

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

We have no exceptions to report arising from this responsibility.



Katharine Finn (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
27 June 2019

Consolidated income statement

For the year ended 31 March 2019

	Note	Underlying £m	2019 BTL £m	Total £m	Restated 2018 ¹ Underlying £m	BTL £m	Total £m
Revenue	1	2,037.2	47.5	2,084.7	2,018.3	26.9	2,045.2
Operating expenses	2	(1,686.3)	(0.3)	(1,686.6)	(1,620.4)	(0.4)	(1,620.8)
Other operating income	4	93.4	-	93.4	92.2	-	92.2
Operating profit		444.3	47.2	491.5	490.1	26.5	516.6
Profit on the sale of retail non-household business	5	-	-	-	89.7	-	89.7
Finance income	6	18.8	-	18.8	10.4	-	10.4
Finance expense	7	(500.9)	-	(500.9)	(517.7)	-	(517.7)
Net gains/(losses) on financial instruments	8	(37.7)	-	(37.7)	41.0	-	41.0
(Loss) / Profit on ordinary activities before taxation		(75.5)	47.2	(28.3)	113.5	26.5	140.0
Taxation on profit / loss on ordinary activities	9	(12.1)	(2.8)	(14.9)	(28.4)	(1.6)	(30.0)
(Loss) / Profit for the year		(87.6)	44.4	(43.2)	85.1	24.9	110.0

All of the Group's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 35.

The accounting policies and notes on pages 34 to 102 are an integral part of these consolidated financial statements.

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50 as well as other restatements which are on pages 44 to 46.

Consolidated statement of other comprehensive income

For the year ended 31 March 2019

	Note	Underlying £m	2019 BTL £m	Total £m	Restated 2018 ¹ Underlying £m	BTL £m	Total £m
(Loss)/profit for the year		(87.6)	44.4	(43.2)	85.1	24.9	110.0
Other comprehensive income							
<i>Will not be reclassified to the income statement:</i>							
Net actuarial gains/(losses) on pension schemes	23	(23.4)	-	(23.4)	87.2	-	87.2
Deferred tax credit/(charge) on net actuarial gain/loss	9	4.3	-	4.3	(17.1)	-	(17.1)
<i>May be reclassified to the income statement:</i>							
(Loss) / gain on cash flow hedges		(8.9)	-	(8.9)	16.3	-	16.3
Cash flow hedges transferred to income statement	8	34.2	-	34.2	84.3	-	84.3
Deferred tax (charge)/credit on cash flow hedges	9	(4.3)	-	(4.3)	(17.1)	-	(17.1)
Other comprehensive income/(loss) for the year		1.9	-	1.9	153.6	-	153.6
Total comprehensive (loss)/income for the year		(85.7)	44.4	(41.3)	238.7	24.9	263.6

All of the Group's activities above are derived from continuing activities.

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and have disclosed our underlying performance separately in line with our financial covenants. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 35.

The accounting policies and notes on pages 34 to 102 are an integral part of these financial statements.

¹ The restatement in the statement of other comprehensive income relates to the change in accounting policy for the TWMIPS pension scheme surplus is discussed on page 52.

Consolidated statement of financial position

As at 31 March 2019

	Note	Underlying £m	2019 BTL £m	Total £m	Restated 2018 ¹ Underlying £m	BTL £m	Total £m
Non-current assets							
Goodwill	10	1,468.1	-	1,468.1	1,468.1	-	1,468.1
Interest in associates	11	-	-	-	-	-	-
Intangible assets	12	218.2	-	218.2	169.0	-	169.0
Property, plant and equipment	13	15,748.8	-	15,748.8	15,185.6	-	15,185.6
Trade and other receivables	15	43.8	101.9	145.7	35.7	56.7	92.4
Pension asset (SUURBS)	23	7.7	-	7.7	7.1	-	7.1
Pension asset TWMIPS ¹	23	45.8	-	45.8	50.6	-	50.6
Derivative financial assets	19	162.3	-	162.3	76.4	-	76.4
		17,694.7	101.9	17,796.6	16,992.5	56.7	17,049.2
Current assets							
Inventories and current intangible assets	14	13.5	-	13.5	18.1	-	18.1
Assets held for sale		-	-	-	-	-	-
Contract assets	15	217.5	0.9	218.4	186.2	0.4	186.6
Trade and other receivables	15	351.8	4.1	355.9	366.2	3.4	369.6
Short term investments		-	-	-	-	-	-
Derivative financial assets	19	-	-	-	8.5	-	8.5
Cash and cash equivalents	16	519.5	7.6	527.1	159.8	2.6	162.4
		1,102.3	12.6	1,114.9	738.8	6.4	745.2
Current liabilities							
Contract liabilities	17	(110.6)	(3.4)	(114.0)	(123.1)	(4.1)	(127.2)
Trade and other payables	17	(679.3)	(11.1)	(690.4)	(613.1)	(3.5)	(616.6)
Borrowings	18	(1,646.0)	-	(1,646.0)	(356.1)	-	(356.1)
Derivative financial liabilities	19	(38.6)	-	(38.6)	(12.3)	-	(12.3)
		(2,474.5)	(14.5)	(2,489.0)	(1,104.6)	(7.6)	(1,112.2)
Net current (liabilities)/assets		(1,372.2)	(1.9)	(1,374.1)	(365.8)	(1.2)	(367.0)
Non-current liabilities							
Contract liabilities	17	(636.1)	-	(636.1)	(589.8)	-	(589.8)
Borrowings	18	(11,890.3)	-	(11,890.3)	(12,152.0)	-	(12,152.0)
Derivative financial liabilities	19	(1,223.8)	-	(1,223.8)	(1,225.9)	-	(1,225.9)
Deferred tax	20	(903.6)	-	(903.6)	(893.2)	-	(893.2)
Provisions for liabilities and charges	21	(109.7)	-	(109.7)	(134.2)	-	(134.2)
Pension deficit	23	(338.8)	-	(338.8)	(300.8)	-	(300.8)
		(15,102.3)	-	(15,102.3)	(15,295.9)	-	(15,295.9)
Net assets		1,220.2	100.0	1,320.2	1,330.8	55.5	1,386.3
Equity							
Called up share capital	22	1,991.6	-	1,991.6	1,991.6	-	1,991.6
Cash flow hedge reserve	22	(118.0)	-	(118.0)	(139.0)	-	(139.0)
Retained earnings	22	(653.4)	100.0	(553.4)	(521.8)	55.5	(466.3)
Total equity		1,220.2	100.0	1,320.2	1,330.8	55.5	1,386.3

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

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50 as well as other restatements which are discussed on pages 44 to 46. 2017 results have also been restated as a result of transition to IFRS 15 which are detailed in note 33.

Company statement of financial position

As at 31 March 2019

	Note	2019 £m	2018 £m
Non-current assets			
Investment in subsidiaries	34	1.0	1.0
Intercompany loans receivable	35	2,721.2	3,868.0
		2,722.2	3,869.0
Current assets			
Intercompany loans receivable	35	-	-
Current liabilities			
Trade and other payables	36	(366.9)	(282.8)
Net current (liabilities)/assets		(366.9)	(282.8)
Net assets		2,355.3	3,586.2
Equity			
Called-up share capital	22	1,991.6	1,991.6
Retained earnings		363.7	1,594.6
Total equity		2,355.3	3,586.2

The accounting policies and notes on pages 34 to 102 are an integral part of these financial statements.

As permitted by Section 408 of the Companies Act 2006, no income statement is presented for the parent Company. For the year ended 31 March 2019 the Company generated a profit after taxation of £163.1 million (2018: loss of £136.1 million).

The financial statements for Kemble Water Holdings Limited, registered in England & Wales company number 05819262, were approved by the Board of Directors on 27 June 2019 and signed on its behalf by:



A Hall
Director

Consolidated statement of changes in equity

For the year ended 31 March 2019

	Share capital £m	Cash flow hedge reserve £m	Retained earnings £m	Total equity £m
At 31 March 2017	1,991.6	(222.5)	(570.2)	1,198.9
Restatement for IFRS 15 ¹			(100.0)	(100.0)
Recognition of TWMIIPS surplus ¹			36.7	36.7
Deferred tax on recognition of TWMIIPS surplus ¹			(12.9)	(12.9)
Restated 1 April 2017	1,991.6	(222.5)	(646.4)	1,122.7
Profit for the year	-	-	110.0	110.0
Gain on cash flow hedges	-	16.3	-	16.3
Cash flow hedges transferred to income statement	-	84.3	-	84.3
Deferred tax charge on cash flow hedge	-	(17.1)	-	(17.1)
Actuarial gain on pension schemes ¹	-	-	87.2	87.2
Deferred tax charge on actuarial gain ¹	-	-	(17.1)	(17.1)
Restated 31 March 2018	1,991.6	(139.0)	(466.3)	1,386.3
Restatement for IFRS 9 ²	-	-	(29.3)	(29.3)
Deferred Tax on IFRS 9 restatement ²	-	-	4.5	4.5
At 1 April 2018	1,991.6	(139.0)	(491.1)	1,361.5
Loss for the year	-	-	(43.2)	(43.2)
Loss on cash flow hedges	-	(8.9)	-	(8.9)
Cash flow hedges transferred to income statement	-	34.2	-	34.2
Deferred tax charge on cash flow hedge	-	(4.3)	-	(4.3)
Actuarial gain on pension schemes	-	-	(23.4)	(23.4)
Deferred tax charge on actuarial gain	-	-	4.3	4.3
At 31 March 2019	1,991.6	(118.0)	(553.4)	1,320.2

The accounting policies and notes on pages 34 to 102 are an integral part of these consolidated financial statements.

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50 as well as other restatements which are discussed on pages 44 to 462.

² An adjustment was made for the impact of the transition to new accounting standards IFRS9 'Financial Instruments: Recognition and Measurement' on 1 April 2018 as discussed on page 51.

Company statement of changes in equity

For the year ended 31 March 2019

	Share capital £m	Retained earnings £m	Total equity £m
At 1 April 2017	1,991.6	1,730.7	3,722.3
Loss for the year	-	(136.1)	(136.1)
At 31 March 2018	1,991.6	1,594.6	3,586.2
Transition to IFRS9 ¹	-	(1,394.0)	(1,394.0)
At 1 April 2018	1,991.6	200.6	2,192.2
Profit for the year	-	163.1	163.1
At 31 March 2019	1,991.6	363.7	2,355.3

The accounting policies and notes on pages 34 to 102 are an integral part of these financial statements.

¹ An adjustment was made for the impact of the transition to new accounting standards IFRS9 'Financial Instruments: Recognition and Measurement on 1 April 2018 as discussed on page 51.

Consolidated statement of cash flows

For the year ended 31 March 2019

	Note	Underlying £m	2019		Restated 2018 ¹		
			BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Cash generated from operations ²	29	1,097.2	5.0	1,102.2	1,093.3	(1.2)	1,092.1
Tax paid		-	-	-	-	-	-
Net cash generated by operating activities		1,097.2	5.0	1,102.2	1,093.3	(1.2)	1,092.1
Investing activities:							
Interest received		10.7	-	10.7	9.6	-	9.6
Decrease in current asset investments		-	-	-	1.0	-	1.0
Purchase of property, plant and equipment ³		(1,117.8)	-	(1,117.8)	(1,100.6)	-	(1,100.6)
Purchase of intangible assets		(71.2)	-	(71.2)	(61.7)	-	(61.7)
Proceeds from sale of property, plant and equipment		2.6	-	2.6	18.8	-	18.8
Net cash used in investing activities		(1,175.7)	-	(1,175.7)	(1,132.9)	-	(1,132.9)
Financing activities:							
New loans raised		1,452.7	-	1,452.7	2,238.3	-	2,238.3
Repayment of borrowings		(670.2)	-	(670.2)	(1,799.8)	-	(1,799.8)
Interest paid		(328.0)	-	(328.0)	(304.4)	-	(304.4)
Fees paid		(19.1)	-	(19.1)	(4.4)	-	(4.4)
Derivative settlements		2.8	-	2.8	(28.4)	-	(28.4)
Dividends paid		-	-	-	-	-	-
Net cash generated by financing activities		438.2	-	438.2	101.3	-	101.3
Net increase/(decrease) in cash and cash equivalents		359.7	5.0	364.7	60.8	(1.2)	59.6
Net cash and cash equivalents at beginning of year		159.8	2.6	162.4	99.0	3.8	102.8
Net cash and cash equivalents at end of year		519.5	7.6	527.1	159.8	2.6	162.4

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

Bazalgette Tunnel Limited ("BTL") is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. Information on how the Group accounts for this arrangement is detailed in the accounting policies on page 35.

The accounting policies and notes on pages 34 to 102 are an integral part of these consolidated financial statements.

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50 as well as other restatements which are discussed on pages 44 to 46.

² Refer to Note 29 'Statement of Cash Flows' on page 90 for a reconciliation of net cash generated by operating activities.

³ Borrowing costs that have been capitalised are included within "Purchase of property, plant and equipment" under investing activities.

Company statement of cash flows

For the year ended 31 March 2019

	Note	2019 £m	2018 £m
Cash generated from operations	38	-	-
Net cash used in operating activities		-	-
<i>Investing activities:</i>			
Interest received		-	-
Net cash generated by investing activities		-	-
<i>Financing activities:</i>			
Dividends paid		-	-
Net cash used in financing activities		-	-
Net change in cash and cash equivalents		-	-
Net cash and cash equivalents at beginning of the year		-	-
Net cash and cash equivalents at end of the year		-	-

The accounting policies and notes on pages 34 to 102 are an integral part of these financial statements

Accounting policies

The principal accounting policies adopted in the preparation of these consolidated and company financial statements, which have been applied consistently, unless otherwise stated, are set out below.

General information

Kemble Water Holdings Limited ("the Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006 whose principal activity is to act as the holding company for the Kemble Water Holdings Limited group of companies ("the Group"). The Group's principal activity is that of an appointed water and wastewater services provider, including acting as a retailer for household customers, operating in London, the Thames Valley and surrounding area, delivered through its wholly owned subsidiary Thames Water Utilities Limited ("TWUL" or "Thames Water") in accordance with TWUL's licence of appointment. Following our exit from the competitive non-household retail market, from the date of market opening (1 April 2017), the Group no longer acts as a retailer to non-household customers.

The trading address and the address of the registered office of both the Company and the Group is Clearwater Court, Vastern Road, Reading, RG1 8DB.

Statement of compliance with International Financial Reporting Standards ("IFRS")

These are the first set of consolidated financial statements of the Group which have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

The policies applied in these consolidated financial statements are based on the IFRS, International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRS IC") interpretations issued and effective and ratified by the EU as of 27 June 2019, the date that the Board of Directors approved these financial statements. The Company only accounts prepared under IFRS.

Basis of preparation

The consolidated financial statements for the year ended 31 March 2019, set out on pages 26 to 33, 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.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries) and incorporate the results of its share of joint ventures using equity accounting. Associates are accounted for on an equity basis either where the Group's holding exceeds 20% or the Group has the power to exercise significant influence. Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities. All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Where necessary, adjustments have been made to the financial statements of subsidiaries to align the accounting policies used under the relevant IFRS standards into line with those used by the Group.

The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report.

The Directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position as at the year end, that both the Group and Company have sufficient resources for their present requirements and are able to meet their liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least twelve months from the date of signing of these financial statements. This is based upon a review of the Group and Company's financial forecasts for the forthcoming financial year, consideration of the Group and Company's compliance with its covenants and the cash, current asset investments and available facilities. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Bazalgette Tunnel Limited (“BTL”) arrangement

Bazalgette Tunnel Limited (“BTL”) is an independent company, appointed in 2015 to construct the Thames Tideway Tunnel. We have recognised revenue, cost and profit on the arrangement with BTL and disclosed our underlying performance separately, in line with our financial covenants.

The arrangement with BTL and Ofwat means the Group has included amounts to recover costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL, under the ‘pay when paid’ principle.

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

Revenue recognition

At 1 April 2018 the Group transitioned from IAS 18 Revenue to IFRS 15 “Revenue from Contracts with Customers”. The core principle of IFRS 15 “Revenue from Contracts with Customers” requires an entity to recognise revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to in exchange for transferring those goods or services to the customer.

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

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within contract assets (accrued income). The usage is estimated using a defined methodology based upon historical data and assumptions.

For unmeasured customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is recorded within contract liabilities (deferred income) and is apportioned to revenue over the period to which the bill relates.

The Group only raises bills in the name of the “occupier” when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Group identifies the occupants the bill is cancelled and re-billed in the customer’s name. If the Group has not identified an occupant within six months, and the bill remains unpaid, the bill is cancelled and the property is classified as empty.

Revenue includes amounts that the Group billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. This is discussed in the BTL arrangement section above.

Refer to pages 47-50 for the impact of new accounting standards on revenue and pages 54-55 for significant judgements around revenue.

Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate (“EIR”) applicable. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial asset 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 or 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 expense is presented within finance expense in the consolidated income statement.

Contract assets

Contract assets are presented in the statement of financial position when the Group’s right to consideration is conditional on future performance. The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance.

Contract liabilities

Contract liabilities are presented in the statement of financial position where a customer has paid an amount of consideration prior to the Group performing the transfer of the related good or service to the customer. An example would be for an unmeasured customer where the amount billed is dependent upon the rateable value of the property. The amount is billed at the start of the financial year and is apportioned to revenue over the period. In addition, included within contract liabilities deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Net (losses) / gains on financial instruments

The group raises debt in a variety of currencies and use derivative contracts to manage the foreign exchange risk exposure on this debt. The group also uses derivative contracts to manage interest rate and inflation risk.

Borrowings denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement as net losses / gains on financial instruments. The following are also recognised in the income statement as net losses / gains on financial instruments:

- movement in fair values of derivatives, which are not designated as hedging instruments, and
- in case of derivatives which are designated as hedging instruments, amounts recycled from cash flow hedge reserve

Net (losses) / gains on financial instruments do not include any interest expense or income. Refer to Derivative financial instrument and hedging accounting policy on page 42 for more details.

Taxation

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

Current tax

Current tax is the expected tax payable or receivable on the taxable profit or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement as it excludes items of income or expense that are taxable or deductible in other periods and items that are never taxable or deductible. It also includes the effect of tax allowances.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Uncertain tax positions

Tax rules can be subject to interpretation and a tax provision is recognised where it is considered more likely than not that an amount will be paid to the tax authorities. Management use their experience, and seek professional advice where appropriate, to prudently assess the likelihood of an outflow arising. The amount recognised is the single most likely outcome.

Investment in subsidiary undertakings

Investments in subsidiary undertakings are stated at cost, less any provision for impairment. Investment in joint ventures are accounted for using the equity method. Impairment reviews are performed on an annual basis. Impairment reviews are performed on an annual basis.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. For the purpose of impairment testing, the carrying value goodwill acquired in a business combination is compared to the recoverable amount, which is the higher of the value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense within the income statement and is not subsequently reversed.

Non-current intangible assets (excluding goodwill)

Separately acquired intangible assets are stated at cost, less accumulated amortisation and any provision for impairment. Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset from the date the intangible asset becomes available for use. The estimated useful economic lives are as follows:

	Years
Software	5-10

Other intangible assets include concessions, licences and similar rights and assets. Assets under development are not depreciated until they are commissioned.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets (including buildings, operational structures and fixtures & fittings). PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Group capitalises the directly attributable costs of procuring and constructing PP&E, which include labour and other internal costs incremental to the business. Subsequent costs are capitalised only when it is probable that future economic benefits associated with the item will flow to the Group and the cost can be measured reliably.

Where a qualifying asset takes a substantial period of time to get ready for its intended use, the borrowing costs directly attributable to the acquisition, construction or production of the asset are added to the cost. Borrowing costs that have been capitalised within purchase of property, plant and equipment are included within "Purchase of property, plant and equipment" within investing activities in the statement of cash flows. All other borrowing costs are included as finance expenses within the consolidated income statement.

Where items of PP&E are transferred to the Group from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost.

Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within other operating income. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in deferred income and is released to other operating income over the expected useful economic lives of the associated assets.

PP&E is depreciated to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. The estimated useful economic lives are as follows and refer to non-current assets disclosed in note 13:

	Years
Network assets:	
Reservoirs	250
Strategic sewer components	200
Wastewater network assets	150
Water network assets	80-100
Raw water tunnels and aqueducts	80
Non-network assets:	
<i>Land and buildings:</i>	
Buildings	15-60
Operational structures	30-100
<i>Plant and equipment:</i>	
Other operational assets	7-40
Fixtures & fittings	5-7
Vehicles	4-5
Computers	3-5
Fixed and mobile plant	4-60

Leased assets

Leases where the Group obtains assets which transfer substantially all the risks and rewards of ownership to the Group are treated as finance leases.

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Group. The Group will therefore account for the transaction arrangement with BTL post construction in accordance with IFRS 16 'Leases' which becomes effective for the Group on 1 April 2019. The tunnel will be recognised as an asset within PP&E and depreciated over the life of the lease.

Leased assets (continued)

On inception of the lease, the tunnel will be recognised at fair value, being the BTL prepayment (refer to BTL arrangement section on page 35) plus the present value of the future minimum lease payments, with a corresponding liability being recognised as a lease liability. Interest will be recognised in the income statement over the period of the lease.

Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the recoverable amount of the asset is estimated, which is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement, and those recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists.

Non-derivative financial instruments

Trade and other receivables (excluding prepayments)

IAS 39 (applicable for comparative periods 1 April 2017 and 31 March 2018)

Trade and other receivables are measured at fair value on initial recognition and subsequently at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs.

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

Included within trade receivables is an assessment of the recoverability of debts which will ultimately be cancelled, and may or may not be rebilled, and of debts which have not yet been billed but are part of the metered sales accrual. This assessment is made by reference to the Group's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends.

A provision is also made against debts due from Water Only Companies ("WOCs") who bill their customers for sewerage services provided by the Group. As the bills relate to services provided by the Group, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Group. As detailed information about the debt, including the ageing, is not readily available, the level of provision is calculated with reference to the level of historical, current and forecast write-offs.

A financial asset is derecognised when the rights to receive cash flows from the asset have expired.

IFRS 9 (applicable for the year ended 31 March 2019)

Trade and other receivables (excluding prepayments) are measured at their transaction price on initial recognition and subsequently at amortised cost using the effective interest method. IFRS 9 requires an entity to reduce the gross carrying amount of a financial asset when the entity has 'no reasonable expectations of recovering' a financial asset. Write-offs can relate to a financial asset in its entirety or to a portion of it, and is recognised as an expense within operating costs.

Included within other receivables are amounts owed to the Group in respect of insurance claims. Insurance receivables are only recognised when the Group is virtually certain that the amount will be recoverable.

Expected credit losses

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables, contract assets and intercompany loans receivables. The Group's assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends.

There are 3 main types of customer for which an expected credit losses provision is calculated, directly billed customers, indirectly billed and billed through WoCs (Water Only Companies). There is also bad debt associated to the BTL arrangement.

An expected credit losses model is used to calculate the provision for directly and indirectly billed customers. This uses performance in the year to determine the level of provision required. The model takes the closing receivables balance and then deducts the amounts that will be collected or cancelled based on performance in the year. The amount that remains will be uncollectable and therefore needs to be covered by an expected credit losses provision. Debt that is older than 4 years is fully provided for. There are also provisions to cover billing that is cancelled and not rebilled and also the collectability of any rebilling.

Expected credit losses (continued)

A provision is also made against debts due from WOCs who bill their customers for sewerage services provided by the Group. As the bills relate to services provided by the Group, and the WOCs are acting in an agent capacity, any associated bad debt rests with the Group. As detailed information about the debt, including the ageing, is not readily available, the level of provision is therefore based on write offs covering a three year period – prior year, current year and forecast for the year ahead.

The arrangement with BTL means the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. As cash is collected, these amounts are subsequently paid to BTL. This arrangement gives rise to recognizing revenue within the Group and associated bad debt. Refer to page 35 for more information on the BTL arrangement.

Trade and other payables (excluding other taxation and social security)

Trade and other payables (excluding other taxation and social security) represent liabilities for goods and services provided to the Group prior to the end of the reporting period which are unpaid. These amounts are usually unsecured and are provided with credit terms of payment.

Trade and other payables are recognised in the statement of financial position when it is probable that an outflow of resources embodying economic benefits will result from the settlement of a present obligation and the amount at which the settlement will take place can be measured reliably. These conditions are satisfied when goods and services have been supplied to the Group. Therefore, payables and accruals must be recognised when goods and services have been received.

Trade and other payables include amounts owed to BTL that represent revenue collected and due to BTL for the construction of the Thames Tideway Tunnel, which have not yet been paid at the reporting date.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Included within cash and cash equivalents are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Interest bearing borrowings including those issued to other group companies

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs and subsequently at amortised cost using the effective interest method.

An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability, with any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. In case of exchange or modification of interest bearing borrowings without substantially different terms, the difference between net present value of existing contractual cash flows and modified contractual cash flows, both discounted at the original effective interest rate, is recognised as a modification gain or loss on the income statement.

Discontinued operations

Components of the Group will be classified as a discontinued operation if that component has either been disposed of, or is classified as held for sale. A component comprises operations that can be clearly distinguished, operationally and for financial reporting purposes from the rest of the Group. A component will only be classified as discontinued given that either: it represents a separate major line of business, or geographical area; or is part of a single co-ordinated plan to dispose of a separate major line of business.

Assets held for sale

Non-current assets are reclassified as held for sale if all of the following criteria are satisfied:

- the carrying amount will be recovered principally through sale rather than through continuing use;
- the asset is available for immediate sale in its present condition; and
- a sale is considered to be highly probable.

On initial reclassification as held for sale, non-current assets are measured at the lower of the previous carrying amount and fair value less costs to sell, with any adjustments being recognised within the income statement. Once classified as held for sale no further depreciation or amortisation is recognised.

Inventories and current intangible assets

Inventories are stated at the lower of cost and net realisable value ("NRV"). Purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) are recorded as current intangible assets, stated at cost, less accumulated amortisation and any provision for impairment. A provision is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement.

Prepayments

Prepayments are recorded where the Group has paid for goods or services before delivery of those goods or services.

Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the tunnel has been constructed and is available for use. For more information on the BTL arrangement, refer to page 35.

Retirement and other employment benefits

Defined contribution schemes

The Group operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS") managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Group are eligible. The assets of the DCSPS are held separately from those of the Group and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations, however defined funds for former employees are held within these schemes.

Defined benefit schemes

The Group operates three, independently administered, defined benefit pension schemes, all of which are closed to new employees. Actuarial valuations are carried out as determined by the Trustees, using the projected unit credit method for both schemes at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit or obligation. A retirement benefit surplus is only recognised if the assessment contained within the accounting standard IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction' is met, i.e. that the entity has an unconditional right to a refund or to reductions in future contributions on the wind-up of the pension scheme.

Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net deficit.

Changes in the retirement benefit obligation may arise from:

- differences between the return on scheme assets and interest included in the income statement;
- actuarial gains and losses from experience adjustments; or
- changes in demographic or financial assumptions.

Such changes are classified as re-measurements and are charged or credited to equity and recorded within the statement of comprehensive income in the period in which they arise.

Long-term incentive plans ("LTIP") and bonus

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes, taking into account the duration of the individual scheme, and by comparing the Group's performance against the assumptions used to award payments. These are recognised as the present value of the benefit obligation. Where Group's performance does not meet the criteria for the LTIP to be awarded, no accruals are recognised.

Bonus payments are accrued in the period based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year, once performance has been measured against targets set.

Share in Your Success 2020 was introduced in the 2017/18 financial year. The scheme's performance period runs from April 2017 to March 2020 and is open to all non-manager grade employees. The scheme entitles eligible employees to earn an amount of up to 5% of their salary following the end of the performance period

Provisions for liabilities and charges

Provisions are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount can be reliably estimated.

Provisions for insured liabilities arise from insurance claims from third parties received by the Group and are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Where we have insurance cover for these claims, we recognise a receivable for the reimbursement value from captive and third party insurance companies net of retentions. The timing for the insurance claims are uncertain and therefore both the liability and receivable have been recognised as non-current.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

Outcome delivery incentives

The Asset Management Plan ("AMP") is the five-year period covered by a water company's business plan. The current period 1 April 2015 to 31 March 2020 is known as AMP6, and the period for which we have recently submitted our plan 1 April 2020 to 31 March 2025 is known as AMP7.

Outcome delivery incentives ("ODIs") were introduced by Ofwat in the price determination process covering AMP6. The price determination process is undertaken by Ofwat where they determine the amount of revenues that can be earned from customer bills for delivering an agreed level of service.

ODIs introduce rewards for providing a service which exceeds the level committed and may incur penalties for delivering a lower level of service. These rewards and penalties are in the form of revenue adjustments or Regulatory Capital Value ("RCV") adjustments. The Group adjusts future tariffs to reflect such amounts in response to the change in amount of revenues that the Group is entitled to earn over the AMP period. The ability to benefit from such increases or suffer from decreases is linked to the provision of future services as well as future performance over the rate setting period and therefore, is not an asset or liability (right or obligation) at the balance sheet date.

There is no financial reward or penalty in the rate setting period in which the ODI is incurred, and accordingly there is no accounting required. Instead, the reward or penalty is reflected in the following AMP period by way of increased or reduced revenues respectively.

Risks, opportunities and innovation ("ROI") funds

The Group has entered into certain alliance arrangements with a number of third parties. The alliance agreements include incentive mechanisms which result in the alliance partners sharing in any over or underspend on contracted works. Remuneration for services provided under the contract are also linked to TWUL's performance commitments. During the year ended 31 March 2019 there were three alliances responsible for delivering works over AMP6.

A notional ROI fund for each alliance is created and built up over the AMP period and is ultimately paid to alliance partners at contractual percentages. This occurs once certain conditions are satisfied, as specified in the alliance contracts between the Group and the alliance partners.

A provision for ROI amounts is recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount can be reliably estimated. Conversely, a receivable for ROI will be recognised when: the Group has a right to receive cash at a future date; the amount can be reliably estimated; and receipt is virtually certain.

ROI amounts arising from an over or underspend against the contracted cost for a capital project, where the spend is directly attributable to the asset created, are deemed to be an integral cost in bringing an asset into the condition and location for use as intended by management. They are therefore capitalised as part of the cost of the asset and depreciated over the asset's useful life.

ROI amounts arising from operating expenditure over or underspend against the contracted cost, where spend cannot be directly attributed to a capital asset, are recognised directly in operating expenses as the spend is incurred.

ROI amounts linked to an ODI or Service Incentive Mechanism ("SIM") penalty or reward are recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Dividends

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Group. This occurs when the shareholders right to receive payment has been established. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividends receivable are recognised when the Company's right to receive payment is established.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. Derivatives are measured at fair value at each financial reporting date, using the methodology described in note 19.

Derivative financial instruments not designated as hedging instruments

Derivative financial instruments are initially recognised at fair value with transaction costs being taken to the income statement. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Derivative financial instruments designated as hedging instruments

The Group uses derivative financial instruments, such as forward starting interest rate swaps to hedge its interest rate risks. At the inception of each hedge relationship the Group documents:

- the economic relationship between the hedged instrument and the hedged item is determined by analysing the critical terms of the hedge relationship;
- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

The Group continues to test and document the effectiveness of the hedge on an ongoing basis. Hedge accounting discontinues when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

The economic relationship between the hedge item and the hedging instrument is determined by analysing the critical terms of the hedge relationship i.e. qualitative assessment of effectiveness is performed. Hedge ineffectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessment. The group uses hypothetical derivative method to assess effectiveness. Changes in critical terms and changes in credit rating may result in ineffectiveness. Hedge accounting discontinues when the hedging instrument no longer qualifies for hedge accounting.

Cash flow hedges

The effective part of any gain or loss on the derivative financial instrument designated as a cash flow hedge is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Group revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in the cash flow hedge reserve within equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative.

Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract; and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

Offsetting financial instruments

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

Financial guarantees

The Group is part of a Whole Business Securitisation ("WBS"). Companies in the WBS group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. All companies in the WBS group guarantee the principal and interest payments due under the terms of the bonds. Where the Group enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Group considers these to be insurance arrangements and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Group will be required to make a payment under the guarantee.

Foreign currency

Transactions in foreign currencies are translated to sterling, the Group's presentational currency, at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised directly in the cash flow hedge reserve.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Summary of Prior Year Restatements

A number of restatements to the comparative periods have been made, including those from the adopting the new accounting standard IFRS 15 Revenue from Contracts with Customers. New accounting standard IFRS 9 'Financial Instruments' has been applied using a modified retrospective approach and such there has been no restatements to the prior year.

IFRS 15: Revenue from Contracts with Customers

Background

The Group has adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group has restated both comparative periods presented in the financial statements which include the 1 April 2017 and the 31 March 2018.

Restatements to the prior year

The Group now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings.

The restatement has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years. Refer to the "Transition to new IFRSs" section on pages 49-51 for more information on the prior year adjustments made following the transition to IFRS 15.

Presentation of interest on derivatives

Background

The interest on swaps has been historically presented gross in the income statement and statement of cash flows, referenced in the adjustments section below. For purposes of the year ended 31 March 2019, it was considered more appropriate to present any interest incurred or received for the same instrument on a net rather than gross basis.

Restatements to the prior year

Finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated income statement on page 26
- Note 6 Finance income on page 61
- Note 7 Finance expense on page 62
- Note 29 Statement of cash flows on page 90
- Note 33 Restatements to the prior year on page 92

Recognition of TWMIPS surplus

Background

In recent years, the defined benefit pension scheme TWMIPS has been in a surplus position. The Directors had previously reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised.

Restatements to the prior year

Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Group now recognise any surplus from the TWMIPS scheme. The comparative periods have been restated to reflect this change in accounting policy. Refer to "Change in accounting policies" section on page 52 for more information on the change in accounting policy and the prior year adjustments.

This restatement to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 28
- Consolidated statement of comprehensive income on page 27
- Note 23 Retirement benefit obligations on pages 83-88
- Note 33 Restatements to the prior year on pages 92-96

Summary of Prior Year Restatements (continued)

Insurance claims receivable

Background

It was identified from a review that our classification of the insurance claims receivable was current i.e. to be collected within the next 12 months despite our recognition of the insurance provision as non-current i.e. not due for settlement within 1 year. The Group has therefore reclassified the insurance claims receivable from current to non-current, to be in line with the insurance provision classification.

Restatement to the prior year

The comparative periods 1 April 2017 and 31 March 2018 have been restated to reflect this change in classification. The amount that has been reclassified from current to non-current for the comparative periods has been included in the table below:

Comparative period	£m
1 April 2017	36.0
31 March 2018	32.7

This adjustment to the prior year impacts the following Group disclosures:

- Consolidated statement of financial position on page 28
- Note 15 Trade and other receivables on pages 67-68
- Note 33 Restatements to the prior year on pages 44-45

Payment in advance from metered customers

Background

Payments in advance from metered customers have historically been included within trade payables. Following a review into the classification of these amounts, payments in advance from metered customers have been reclassified to other payables on the basis that the liability recognised is not in respect of amounts due to suppliers of the Group.

Restatements to the prior year

The reclassification from trade payables to other payables in the prior years are as follows:

Comparative period	£m
1 April 2017	57.9
31 March 2018	40.3

Credits against MSA

Background

The metered sales accrual recognises revenue from metered customers for whom meter reads have not been taken at the reporting date, and therefore no bill has been raised. Some metered customers make regular payments by direct debit. Where a bill has not been raised, their account will be in credit. Historically, all customer accounts that are in a net credit position have been reclassified to payables, however, following a review, we have identified that these direct debit payments should be offset against the associated amounts due from those customers.

Restatements to the prior year

The credits arising on customer accounts that relate to direct debit payments where an invoice has not been raised have been reclassified and offset against the metered sales accrual. This has resulted in a reduction in contract assets and trade payables by the following:

Comparative period	£m
1 April 2017	32.7
31 March 2018	39.7

New accounting policies and financial reporting changes

A number of amendments to IFRSs became effective for the financial year beginning 1 April 2018. The following new accounting standards have been adopted by the Group and are now effective:

- IFRS 9 Financial Instruments Recognition and Measurement;
- IFRS 15 Revenue from Contracts with Customers; and

The Group has undertaken an assessment of its accounting policy as a result of the changes in the standards listed above. In addition to these, there are a number of other amendments and annual improvement project recommendations that are not yet effective but which have been endorsed by the EU. These are not anticipated to have a material impact on the consolidated financial statements of the Group.

The following issued standard has not yet been adopted by the Group:

- IFRS 16 Leases will be effective on 1 January 2019 (and thus to the Group 1 April 2019).

IFRS 9 Financial Instruments

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

Classification and Measurement

The review has included an assessment of the contractual cash flow characteristics of financial instruments, in order to determine their classification and measurement under IFRS 9. Management's assessment concluded that a loan with Kemble Water Eurobond has been impaired as a result of adopting IFRS9 as mentioned on page 50.

Impairment Methodology

Financial assets

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

A credit loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. An expected credit loss is then calculated by a probability-weighted estimate of credit losses over the expected life of the financial instrument.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and contract assets,

Utilising the practical expedient (IFRS 9 B5.5.35), the Group's assessment for calculating expected credit losses is made by reference to its historical collection experience, including comparisons of the relative age of the individual balance and the consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the income statement.

Hedge Accounting

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

New accounting policies and financial reporting changes (continued)

IFRS 15 Revenue from Contract with Customers

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

Revenue recognition

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

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

Water and wastewater services

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

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

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

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

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

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

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

Requisitions

The Group may be contracted by customers in its statutory supply area to provide a new water main or new sewer, this is known as a requisition. These services are usually provided to property developers and are each considered by management to be distinct performance obligations.

Requisition income is recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The estimated progress is based upon the costs incurred for the performance obligation. Deferred requisitions income is recorded within contract liabilities (deferred income).

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

Service connections

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

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

New accounting policies and financial reporting changes (continued)

Diversions

The Group may be contracted by customers in its statutory supply area to relocate a pipe which is already in the ground. This is known as a diversion. Charges for diversions are recognised over time in other operating income using the input method by estimating progress towards complete satisfaction of the performance obligation, and applying this to the transaction price in the contract with the customer. The costs incurred are used as a measure of the estimated progress to completing the performance obligation.

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

Income from Infrastructure charges

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

Management consider that the obligation to invest in the network is highly interrelated with the ongoing and future obligation to provide water and wastewater services, particularly to maintain continuous supplies going forward. The investment in the network from the infrastructure charges enable the Group to continue providing value to the customer through water and wastewater services. The associated asset arises from the investment in the network and therefore, the Group recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset. Deferred infrastructure charges are recorded within contract liabilities (deferred income).

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

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

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

There is an impact on the recognition of income from infrastructure charges as a result of the adoption of IFRS 15.

Adoptions

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

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

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

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

Transition to new IFRS

IFRS 15 Revenue from Contract with Customers applicable from 1 April 2018

Transition approach

IFRS 15 'Revenue from Contracts with Customers' addresses the recognition of revenue and replaces IAS 18 'Revenue' and IFRIC 18 'Transfer of Assets from Customers'. The Group has adopted IFRS 15 as at 1 April 2018 and applied the new rules retrospectively including the practical expedients permitted in the standard. As a result, the Group has restated both comparative periods presented in the financial statements which include the 1 April 2017 and the 31 March 2018.

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

Adjustments

As discussed in the accounting policies section on page 34, the Group now recognises infrastructure charges in other operating income on a straight line basis over the life of the associated asset ("the current deferral period"). This has resulted in a retrospective adjustment made to trade and other payables, deferred tax and retained earnings. The adjustment has been calculated on retrospective infrastructure charges recognised using the difference between the current deferral period and the previous deferral period of 30 years.

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

Group

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

	IAS 18 Carrying Amount * As previously stated 31 March 2017 £m	Re-measurement £m	Re-classification £m	IFRS 15 Carrying Amount * 1 April 2017 £m
Current assets				
Trade and other receivables	644.8	-	(247.8)	397.0
Contract assets	-	-	247.8	247.8
Subtotal	644.8	-	-	644.8
Current liabilities				
Trade and other payables	(917.7)	(10.7)	(125.5)	(1053.9)
Contract liabilities	-	-	125.5	125.5
Subtotal	(917.7)	(10.7)	-	(928.4)
Non-current liabilities				
Trade and other payables	(404.9)	(131.2)	(536.1)	(1,072.2)
Contract liabilities	-	-	536.1	536.1
Deferred tax	(836.6)	20.5	-	(816.1)
Subtotal	(1,241.5)	(110.7)	-	(1,352.2)

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

The impact on the group's total equity is as follows:

	1 April 2018 £m	1 April 2017 £m
Total equity – before IFRS 15 restatement	(389.2)	(570.2)
Decrease in cumulative infrastructure charges recognised in other operating income	132.4	120.5
Decrease in cumulative taxation on profit/loss on ordinary activities	(22.5)	(20.5)
Opening total equity 1 April – after IFRS 15 restatement	(279.3)	(470.2)

Transition to new IFRSs (continued)

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

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

	IAS 18 Carrying Amount * As previously stated	Re-measurement	Re-classification	IFRS 15 Carrying Amount * Restatement
	31 March 2018			1 April 2018
	£m	£m	£m	£m
Current assets				
Contract assets	-	-	226.3	226.3
Trade and other receivables	628.6	-	(226.3)	402.3
Subtotal	628.6	-	-	628.6
Current liabilities				
Contract liabilities	-	-	(127.2)	(127.2)
Trade and other payables	(816.8)	11.5	127.2	(678.0)
Subtotal	(816.8)	11.5	-	(805.3)
Non-current liabilities				
Contract liabilities	-	-	(589.8)	(589.8)
Trade and other payables	(445.8)	(144.0)	589.8	-
Deferred tax	(898.0)	22.5	-	(875.5)
Subtotal	(1,343.8)	(121.5)	-	(1,465.3)

* The amounts in this column are before the adjustments from the adoption of IFRS 9, recognition of the TWMIPS surplus and restatement of the insurance claims receivable from non-current to current.

IFRS 9 'Financial Instruments' applicable from 1 April 2018

Transition approach

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

Adjustment

Group

During December 2016, a £400 million Class A Puttable, Callable, Resettable ("PCR") bond issued by Thames Water Utilities Cayman Finance Limited ("TWUCF") with a final maturity of 9 April 2058 was exchanged for a new £400 million Class A 2058 bond with the same final maturity. In turn a PCR bond issuance related intercompany loan from TWUCF to TWUL was also exchanged for a new intercompany loan with a final maturity of 9 April 2058. Derivative assets and liabilities have continued to be recognised at fair value with movements recognised in the income statement or the cash flow hedge reserve where the instrument has been designated in a hedge relationship.

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

	IAS 39 Carrying Amount* As previously stated	Re-measurement	IFRS 9 Carrying Amount*
	31 March 2018		1 April 2018
	£m	£m	£m
Non-current liabilities			
Borrowings	(12,152.0)	(29.3)	(12,181.3)
Deferred Tax	(898.0)	4.5	(893.5)
Subtotal	(11,254.0)	(24.8)	(11,278.8)
Equity			
Retained earnings	(389.2)	(24.8)	(414.0)
Subtotal	(389.2)	(24.8)	(414.0)

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

Transition to new IFRSs (continued)

IFRS 9 'Financial Instruments' applicable from 1 April 2018 (continued)

Company

As part of the transition to IFRS 9 an adjustment was made to impair an intercompany loan to Kemble Water Eurobond Limited. This impairment was necessary due to an IFRS 9 requirement to look at lifetime expected losses and resulted in an impairment of £1,394.1 million, refer to Note 35 for details

	IAS 39 Carrying Amount* As previously stated 31 March 2018	Re-measurement	IFRS 9 Carrying Amount* 1 April 2018
	£m	£m	£m
Non-current assets			
Intercompany loans receivables	3,868.0	(1,394.1)	2,473.9
Subtotal	3,868.0	(1,394.1)	2,473.9
Equity			
Retained earnings	1,594.6	(1,394.1)	200.5
Subtotal	1,594.6	(1,394.1)	200.5

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

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

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

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable that this option will be exercised, we have only included lease payments up to the assumed lease exit date. The rent payable is not contingent in nature and the group has the ability to mutually agree changes to the arrangement with the lessor.

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

Management has assessed the impact of the implementation of IFRS 16 on the Group. The work performed to date has indicated that there will be a material impact to the statement of financial position primarily due to the Group's property lease portfolio. Initial assessments of the Group's property leases, estimate an additional aggregate lease liability of at least £72 million under the fully retrospective method, will be recognised on transition to the new standard. The Group estimate that the right of use asset recognised on transition to the new standard would be at least £52 million and that profit before tax would decrease by approximately £0.3 million for the period of adoption.

The Group is subject to a loan covenant under which lease liabilities are classified as unsecured debt, the level of which cannot exceed a specified ratio. A risk that this covenant may be breached in future was initially identified. Management have addressed the risk of covenant breach through amendment to the covenant calculations. Leases that would have been identified as operating leases prior to the new standard will not count towards the specified ratio provided that the aggregate amount of financial indebtedness does not exceed a higher specified ratio.

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

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

Changes in Accounting Policy

IFRIC 14 IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

Background

In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme the Group did not have an unconditional right to the surplus based upon their interpretation of the provisions of IFRIC 14. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted of a deficit within the TWPS scheme and a restricted surplus in the TWMIPS scheme.

Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provides a truer, fairer picture of our pension scheme arrangements for our stakeholders. The Trust Deed provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up. Furthermore, in the ordinary course of business the Trustee can only force a wind up once all benefits have been distributed and any surplus taken by the Group. Based on these rights, any net surplus in the scheme is recognised in full.

Adjustments

Following the review we have recognised the surplus for the TWMIPS scheme and have restated the comparative periods.

Deferred tax is provided at 35% on the TWMIPS scheme, rather than at the standard rate of 17%, because the higher tax rate would be payable in future if the scheme surplus were to be returned to the employer (the Group).

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

	Carrying Amount* As previously stated 31 March 2017 £m	Re-measurement £m	Carrying Amount* 1 April 2017 £m
Non-current assets			
Retirement surplus	-	21.7	21.7
Non-current liabilities			
Retirement benefit obligations	(379.8)	15.0	(364.8)
Deferred Tax	(792.4)	(12.9)	(805.3)
Subtotal	(1,172.2)	(23.8)	(1,196.0)
Equity			
Retained earnings	(570.2)	23.8	(546.4)
Subtotal	(570.2)	23.8	(546.4)

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

In summary, the following adjustments were made to the amounts recognised in the Group statement of financial position at 31 March 2018:

	Carrying Amount* As previously stated 31 March 2018 £m	Re-measurement £m	Carrying Amount* 1 April 2018 £m
Non-Current asset			
Retirement benefit surplus	-	50.6	50.6
Non-current liabilities			
Retirement benefit obligations	(300.8)	-	(300.8)
Deferred Tax	(853.7)	(17.7)	(871.4)
Subtotal	(1,154.5)	32.9	(1,121.6)
Equity			
Retained earnings	(389.2)	32.9	(356.3)
Subtotal	(389.2)	32.9	(356.3)

* The amounts in this column are before the adjustments from the adoption of IFRS 9 and IFRS 15

Alternative performance measures

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures ("APMs"). These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. These APMs are not intended to be a substitute for, or superior to, IFRS measurements. Directors and management use APMs to provide additional useful information on the performance and position of the Group, and to enhance the comparability of information between reporting periods.

Underlying operating profit excluding depreciation and amortisation

This measure consists of the Group's operating profit excluding BTL, depreciation and amortisation, and hence also excludes tax, net finance expenses, net fair value movements on derivatives and the profit on sale of the retail non-household business (which is a one-off item in 2017/18). Management use this metric to analyse the performance of the underlying business, as one-off items and fair value movements, which can be high volatile, have been removed in line with covenant reporting.

Total expenditure ("totex")

Totex encompasses both capital and operational spend, and under AMP6 is a key driver of regulatory performance. Management use this measure to monitor performance against the objective of the Group to achieve the optimum combination of expenditure to deliver the required business plan. Totex differs from IFRS where the distinction between operating and capital expenditure remains, and therefore it is important that expenditure is accounted for correctly.

Capital expenditure ("capex")

Management review capex, which is the expenditure to acquire or upgrade tangible and intangible assets such as property, pipes, treatment works and software. The capex measure equates to intangible and tangible asset additions in the financial year including capitalised borrowing costs (see notes 12 and 13 respectively).

Net debt

Net debt is presented in note 19 on both a statutory and covenant basis. The covenant basis of net debt is the measure used when assessing the Group's gearing (see below) against the level stipulated in the banking covenants. Net debt on a statutory basis consists of borrowings less cash. Net debt on a covenant basis consists of borrowings less cash, excluding amounts owed to other group companies for which there is no related external debt, accrued interest, unamortised debt issuance costs and discounts, and including certain derivative financial liabilities as explained in note 19.

The Group is subject to a covenant under which lease liabilities are classified as unsecured debt.

Regulatory Capital Value ("RCV")

The RCV has been developed for regulatory purposes by Ofwat and is one of the critical components for setting our customers' bills. When assessing the revenues that the Group needs, Ofwat consider the return on capital invested in the business, and the RCV is the capital base used in this assessment.

Gearing

Gearing is the percentage of the Group's covenant net debt to RCV, and is a key covenant ratio for the Group's financing arrangements with its lenders.

Post Maintenance Interest Cover Ratio ("PMICR")

PMICR measures the amount of underlying cash generated by operating activities of the Group, adjusted for RCV depreciation, relating to the interest paid on the Group's debt. This ratio is a key covenant set by our lenders, and in modified forms, also used by rating agencies as part of their analysis when determining credit ratings. There is no equivalent statutory measure.

Credit rating

The Group must maintain an investment grade credit rating in accordance with our licence of appointment as a water and wastewater service provider. An investment grade rating equates to BBB- or higher from Standard & Poor's and Baa3 or higher from Moody's. The assessment by these two agencies provides an independent view of the Group's performance and future prospects. There is no equivalent statutory measure.

BTL

BTL represents the financial performance of the Group from the arrangement with Bazalgette Tunnel Limited. The performance from the BTL arrangement is included within our financial statements and associated notes separate to our underlying performance which has been discussed above. Refer to page 57 for more information on the BTL arrangement.

Significant accounting judgments and key sources of estimation uncertainty

The preparation of annual financial statements requires the Group to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual results may differ from these estimates. In preparing these financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those applied to the Annual Report and Financial Statements for the year ended 31 March 2018 with the exception of the items noted below; which have been updated following transition to IFRS 15 'Revenue from Contracts with Customers'.

The following paragraphs detail the judgments, estimates and assumptions management believe to have the most significant impact on the financial statements.

Revenue recognition

Accounting judgment – revenue recognition

Water and Wastewater services

The Group bills customers in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory review processes. Revenue is recognised when performance obligations are met and when collection of the resulting receivable is probable. Determination of the probability of collection and hence the fair value of revenue recognised during the year is judgmental. Management considers historical trends in determining an adjustment to revenue to reflect instances where collection is not probable at the point of delivery. This has resulted in a decrease in revenue for the current year of £35.1 million (2018: £28.7 million), with a corresponding decrease in receivables as shown in note 15.

When the criteria for revenue recognition for a transaction are not met, recognition of the revenue is delayed until collectability is reasonably certain. Payments received in advance of entitlement are recorded as within contract liabilities. Advance payments received from unmeasured customers for the year ended 31 March 2019 was £75.6 million (2018: £75.6 million).

Connections, requisitions and diversions

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

The performance obligation is to install / extend the network to a property development (or to divert the network). This is a service since the control of the assets concerned is not transferred to the developer. In the case of connections, revenue is recognised at the point in time of completion. For diversions and requisitions, revenue is recognised over the period of service. The amount recognised is the transaction price multiplied by the percentage of completion, since an asset is created with no alternative use and Thames will have a present right to payment for work performed to date.

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

Infrastructure charges

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

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

Accounting estimate – provision for doubtful debt

Provisions are made against trade receivables based on an assessment of the recovery of debts including those which will:

- ultimately be cancelled and may or may not be rebilled; and
- of debts which have not yet been billed but are part of the metered sales accrual.

This assessment is made by reference to the Groups historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively. The bad debt provision at 31 March 2019 was £176.6 million (2018: £174.3 million). The actual level of receivables collected may differ from the estimated level of recovery which could have a positive or negative impact on financial statements.

Accounting judgment – IFRIC 14 'IAS 19 'The Limit of a Defined Benefit Asset, Minimum Funding Requirements and their Interaction'

The Directors concluded that the Trust Deed for the Thames Water Mirror Image Scheme ("TWMIPS") provides the Group with an unconditional right to a refund of surplus assets assuming the full settlement of plan liabilities in the event of a plan wind-up.

Refer to page 53 for more information on this accounting judgment.

Property, plant and equipment and intangible assets

Accounting judgment – capitalisation of costs

The Group's activities involve significant investment in construction and engineering projects and assessing the classification of these costs between capital expenditure and operating expenditure requires management to make judgments. The Group capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances assets or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating between enhancement and maintenance works is subjective, particularly in the instances where a single project may include a combination of both types of activities. Property, plant and equipment additions for the year ended 31 March 2019 were £1,117.5 million (2018: £1,087.0 million). Intangibles additions for the year ended 31 March 2019 were £71.2 million (2018: £61.8 million). Both figures include capitalised overheads and capitalised borrowing costs.

Management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently judgment is applied concerning the capitalisation rate used. In addition, management capitalises borrowing costs incurred for significant projects that meet certain criteria and judgment is required to identify which projects qualify for this. The capitalised borrowing costs for both property, plant and equipment and intangibles for the year ended 31 March 2019, net of commissioning, were £109.3 million (2018: £100.7 million).

Accounting estimate – depreciation and amortisation

Calculation of the depreciation and amortisation charges requires management to make estimates regarding the useful economic lives ("UELs") of the assets. These estimates are based on the Group's experience of similar assets and engineering data. Where management identifies that actual UELs materially differ from the estimate used to calculate the charge, that charge will be adjusted in the period that the difference occurred and future periods. The total depreciation charge for the year ended 31 March 2019 was £544.7 million (2018: £520.1 million). As the Group makes significant investment in PP&E and intangible assets, the differences between the estimated and actual UELs could have a positive or negative impact on the financial statements. Sensitivity analysis has been performed on the useful lives, which can be summarised below:

Scenario	£m	Outcome
5 year increase in average remaining useful life	49.3	Decrease in total depreciation and amortisation charge
5 year decrease in average remaining useful life	(60.2)	Increase in total depreciation and amortisation charge

Provisions for other liabilities and charges

Accounting judgment – recognition of other provisions

A provision is recognised when it is probable that the Group has an obligation for which a reliable estimate can be made of the amount of the obligation. The Group is subject to commercial and legal claims that are incidental to the day-to-day operation of its business. These include contractual, employment and environmental matters which are defended and managed in the ordinary course of business. Assessing the outcome of uncertain commercial and legal cases requires judgment to be made regarding the extent to which any claim against the Group is likely to be successful. On a case-by-case basis, management evaluates the likelihood of adverse verdicts or outcomes to these matters and makes a judgment about whether or not a provision should be recognised.

Other provisions, which are detailed in note 21, total £24.5 million as at the year ended 31 March 2019 (2018: £42.0 million).

Accounting estimate – valuation of provisions

Assessing the financial outcome of uncertain commercial and legal cases requires estimates to be made regarding the amount by which the Group is liable. These estimates are made after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience. The amount provided may change in the future as additional information becomes available as a result of new developments. In such circumstances the provision will be adjusted in the future period the new information becomes available.

Provisions for liabilities and charges as at 31 March 2019 totalled £109.0 million (restated 2018: £133.1 million). There is an inherent risk that the final outcome of legal claims will be different to amounts provided.

Retirement benefit obligations

Accounting estimate – actuarial valuations

The Group operates three defined benefit pension schemes for which full actuarial valuations are carried out as determined by the Trustees at intervals of not more than three years. The pension liability and net cost recognised under IAS 19 *Employee Benefits* are assessed using the advice of an independent, qualified actuary based on the latest actuarial valuation and assumptions determined by the actuary. These assumptions are based on information supplied to the actuary by the Group, supplemented by discussions between the actuary and management and are used to estimate the present value of defined benefit obligations.

Accounting estimate – actuarial assumptions

The actuarial assumptions used in determining the pension obligations and net costs recognised affect the profit before tax figure in the Income Statement and the net asset figure in the Statement of Financial Position and are a source of estimate. These assumptions include:

- the discount rate;
- pay growth;
- mortality; and
- increases to pensions in payment.

The actual rates may materially differ from the assumptions due to changes in economic conditions and differences between the life expectancy of the members of the pension schemes and the wider UK population. These could have a positive or negative impact on the financial statements. The total net retirement benefit obligation for the three schemes as at 31 March 2019 was £285.3 million (restated 2018: £242.7 million), which includes a pension deficit of £338.8 million (2018: £300.8 million) for the TWPS scheme, offset by a pension surplus of £45.8 million (restated 2018: £50.6 million) for the TWMIPS scheme and pension surplus of £7.7million (2018: £7.1million) for the SUURBS scheme. Refer to Note 23 on page 80 for more information on the key assumptions and sensitivities of the pension schemes.

Guaranteed Minimum Pensions (“GMP”)

There are a number of uncertainties in the calculation of the cost of GMP equalisation raised by the scheme’ actuary at Aon. These include:

- The benefit structure of the scheme and operational practices;
- The demographic profile of the scheme;
- The method of GMP equalisation;
- Administrative implications of GMP equalisation; and
- Assumptions and market conditions.

The total estimated cost of GMP equalisation for the two schemes was £9.0 million and this has been recognised in the income statement in the current year. Aon concluded that the actual cost of GMP equalisation may differ due to the above uncertainties with the range between £4.5 million to £18.0 million. The Group do not consider there to be a material impact of these uncertainties on the financial statements.

Derivative financial assets and liabilities

Accounting estimate – valuation of derivatives

The Group holds derivative financial instruments that fall into the following categories:

- index-linked swaps;
- cross currency swaps; and
- interest rate swaps.

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 Fair Value Measurement which categorises inputs to valuation techniques into levels 1-3 based on the degree to which the fair value is observable. All of the Group’s inputs to valuation techniques are level 2 – the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. This technique uses discounted future cash flows to value the financial assets and liabilities. The future cash flows are estimated based on observable forward interest rates and inflation rates and are discounted at a rate that reflects the credit risk of the Group and counterparties. Currency cash flows are translated at spot rate. The net total of derivate financial assets and liabilities as at 31 March 2019 was a liability of £1,101.1 million (2018: liability of £1,153.3 million)

Impairment of financial assets (including receivables)

The Group 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. Regarding amounts owed by group undertakings the key estimates include future Regulatory Capital Value (“RCV”), RCV premium, future gearing and expected interest settlements.

Impairment of investment in subsidiaries and goodwill

Determining whether the Group's investments in subsidiaries or the carrying value of goodwill have been impaired requires estimations of the investment or cash generating unit's net realisable value. An enterprise valuation is derived through the application of an observable market multiplier uplift to the underlying entities Regulatory Capital Value ("RCV"). The recoverable amount is thus most sensitive to the uplift multiplier used in the valuation model. See notes 10 and 34 for the net carrying value of goodwill investments and associated impairment provision.

Arrangement with Bazalgette Tunnel Limited ("BTL")

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

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

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

Notes to the Group financial statements

1. Revenue

	Underlying £m	2019 BTL £m	Total £m	Underlying £m	2018 BTL £m	Total £m
Regulated water and wastewater services	2,046.5	-	2,046.5	2,004.3	-	2,004.3
Other services	23.9	47.7	71.6	42.0	27.6	69.6
Gross revenue	2,070.4	47.7	2,118.1	2,046.3	27.6	2,073.9
Charge for bad and doubtful debts	(33.2)	(0.2)	(33.4)	(28.0)	(0.7)	(28.7)
Net revenue	2,037.2	47.5	2,084.7	2,018.3	26.9	2,045.2

All revenue is derived from activities based in the UK.

Bazalgette Tunnel Limited ("BTL") is responsible for the construction of the Thames Tideway Tunnel. In the current and preceding financial year, the Group has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers. Cash collected in respect of Thames Tideway Tunnel construction costs is passed over to BTL under the 'pay when paid' principle. The revenue on this arrangement, which is excluded from our key performance indicators, has been disclosed separately to the Group's underlying performance in the table above.

Contract assets and liabilities

The Group has recognised the following revenue-related contract assets and liabilities:

	2019 £m	2018 £m
Contract assets		
<i>Current</i>		
Accrued revenue for services provided to metered customers	144.3	124
Accrued income for other activities ¹	74.1	62.6
Total current contract assets	218.4	186.6
Contract liabilities		
<i>Non-current</i>		
Deferred revenue from infrastructure charges	497	481.2
Deferred revenue from other activities ²	139.1	108.6
Total non-current contract liabilities	636.1	589.8
<i>Current</i>		
Advance payments received from unmeasured customers	75.6	75.6
Deferred revenue from infrastructure charges	5.1	4.9
Deferred revenue from other activities ²	33.3	46.7
Total current contract liabilities	114.0	127.2
Total contract liabilities	750.1	717.0

¹ Other activities includes accrued income from capital projects and the BTL arrangement (discussed on page 32).

² Other activities includes deferred revenue for nil cost assets received during the year and receipts in advance from our capital projects.

Revenue recognised in relation to contract liabilities

The following table shows how much revenue recognised in the current reporting period relates to brought forward contract liabilities and how much relates to performance obligations that were satisfied in a prior period.

	2019 £m	2018 £m
<i>Revenue recognised that was included in the contract liability balance at the beginning of the period:</i>		
Advance payments received from unmeasured customers	75.6	81.1
Deferred revenue from infrastructure charges	4.9	4.5
Deferred revenue from other activities	48.9	39.2
Total	129.4	124.8

1. Revenue (continued)

Transaction price allocated to wholly or partly unsatisfied contracts

The following table shows how much revenue is expected to be recognised in future reporting periods in respect of ongoing contracts which are partially or fully unsatisfied as at the reporting date.

	2019 £m	2018 £m
<i>Aggregate amount of the transaction price allocated to contracts that are partially or fully unsatisfied at the reporting date:</i>		
Developer services	8.0	6.4
Service connections	12.5	15
Requisitions and diversions	502.1	486.1
Infrastructure charges	3.5	3.7
<i>Eight2o</i>		
High Speed 2	21.1	28.5
Total	547.2	539.7

The Group considers the performance commitment associated with Service Connections, Requisitions and Diversions to be the delivery of the associated asset and accordingly recognises this income over time. Thus the amounts disclosed in the table above represent amounts received for schemes which have either not started on site or which are part way through construction at the balance sheet date. As such this income will be recognised on an individual basis in accordance with the delivery profile of each scheme. Typically amounts received in respect of service connections will be fully recognised within a year following receipt, however Requisitions & Diversions encompass a wide variety of schemes from those with short durations that would be fully recognised in the year following receipt to large multi-phase developments for which income could be recognised over the course of several years. For infrastructure charges the Group considers its performance commitment to align with its obligation to incur the expense to which the income relates, being the depreciation charge of the associated network reinforcement assets. Accordingly the total amounts disclosed in the table above represent the total un-amortised amount which will be recognised as income as the assets continue to depreciate. The Group has applied the practical expedient, given in paragraph 121(b) of IFRS 15, not to disclose this amount in relation to water and wastewater charges. Refer to page 32 in the accounting policies section for more information.

2. Operating expenses

	Underlying £m	2019		Restated 2018 ¹		
		BTL £m	Total £m	Underlying £m	BTL £m	Total £m
Wages and salaries	253.4	-	253.4	223.3	-	223.3
Social security costs	28.2	-	28.2	23.9	-	23.9
Pension costs – defined benefit schemes ¹	34.7	-	34.7	27.1	-	27.1
Pension costs – defined contribution schemes	11.0	-	11.0	8.1	-	8.1
Severance costs	0.7	-	0.7	0.8	-	0.8
Apprenticeship Levy	1.2	-	1.2	1.0	-	1.0
Total employee costs	329.2	-	329.2	284.2	-	284.2
Power	124.7	-	124.7	108.4	-	108.4
Carbon reduction commitment	4.5	-	4.5	4.8	-	4.8
Raw materials and consumables	59.4	-	59.4	55.2	-	55.2
Charge for bad and doubtful debts ²	28.9	0.3	29.2	28.4	0.4	28.8
Rates	117.3	-	117.3	115.1	-	115.1
Operating lease rental – hire of plant and machinery	7.6	-	7.6	5.2	-	5.2
Operating lease rental – other	5.8	-	5.8	5.6	-	5.6
Research and development expenditure	3.9	-	3.9	3.5	-	3.5
Insurance	34.6	-	34.6	37.1	-	37.1
Legal and professional fees	31.0	-	31.0	22.1	-	22.1
Other operating costs	559.5	-	559.5	597.7	-	597.7
Property development costs	2.5	-	2.5	3.6	-	3.6
Own work capitalised	(189.4)	-	(189.4)	(198.2)	-	(198.2)
Net operating expenses before depreciation and amortisation	1,119.5	0.3	1,119.8	1,072.7	0.4	1,073.1
Depreciation of property, plant and equipment	544.8	-	544.8	520.1	-	520.1
Amortisation of intangible assets	22.0	-	22.0	27.6	-	27.6
Net operating expenses	1,686.3	0.3	1,686.6	1,620.4	0.4	1,620.8

2. Operating expenses (continued)

Other operating costs primarily relate to costs for hired and contracted services and repairs and maintenance of assets, including associated labour costs, which do not qualify as capital expenditures under IAS16: Property Plant and equipment.

¹ The prior year results have been restated due to the impact of the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 49.

² Charge for bad and doubtful debts is net of £11.8 million relating to excess payments received from customers in the past and recognised during the year (2018: £6.5 million).

Amounts payable to the Group's auditor are shown below in respect of the following services to the Group:

	PWC LLP 2019 £m	KPMG LLP 2018 £m
<i>Fees payable to the Group's auditor:</i>		
Fees payable for the audit of the Company's financial statements	44	38
Fees payable for the audit of the financial statements of subsidiaries pursuant to legislation	722	497
<i>Fees payable to the Group's auditor for other services:</i>		
Audit related assurance services	900	575
PR19 assurance services	499	-
Other	110	-
Net operating expenses	2,275	1,110

All costs of consolidation were borne by the ultimate parent company Kemble Water Holdings Limited for both the current and preceding financial year. Total aggregate remuneration has increased due to the liquidation of the Cayman Island entities, new standards IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' and additional work on pensions following the recognition of the TWMIPS surplus and legislation relating to Guaranteed Minimum Pensions.

Audit related assurance services include certain agreed upon procedures performed by PricewaterhouseCoopers LLP in connection with the Group's regulatory reporting requirements to Ofwat.

No fees, other than those disclosed, were payable to PricewaterhouseCoopers LLP (2018: KPMG LLP) in respect of the Company, or Group, in the current or preceding financial year.

3. Employees and Directors

Employees

All Group employees are based in the United Kingdom. The average number of persons employed by the Group during the year (including Executive Directors), analysed by category, was as follows:

	2019 Number	2018 Number
<i>Employed by Thames Water Utilities Limited:</i>		
Operations	3,489	3,119
Customer experience	1,135	1,003
Support services	1,101	1,043
Digital, strategy and transformation	189	132
Delivery office	149	124
	6,063	5,421
<i>Employed by other group companies:</i>		
Property services	5	5
Total	6,068	5,426

The Company has no employees (2018: none).

3. Employees and Directors (continued)

Directors

The Directors' emoluments were as follows:

	2019 £'000	2018 £'000
Salary	463	833

In the current and preceding financial years no amounts were accruing to any Directors under the Group's defined benefit scheme in respect of services to the Group.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Group during the year were £325,000 (2018: £325,000).

4. Other operating income

	2019 £m	Restated 2018 ¹ £m
Power income	13.2	10.1
Requisitions and diversions charges	31.5	24.9
Service connection charges	21.1	23.4
Amortisation of deferred income recognised on adoption of assets at nil cost	4.0	2.4
Release from deferred income – infrastructure charges	4.9	4.5
(Loss) / gain on sale of PPE	(7.0)	11.4
Rental income	2.7	4.3
Other income	23.0	11.2
Total	93.4	92.2

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

¹ The impact of the transition to new accounting standards IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 47 to 50. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

5. Profit on sale of non-retail household business

From 1 April 2017 the Water Act 2014 allowed all non-household customers to choose their supplier of water and wastewater retail services. On 1 April 2017 we disposed of our economic interest in the retail non-household business and transferred our non-household customers to Castle Water Limited, which resulted in the recognition of a profit on sale of the business. The profit on sale of the business of £89.7 million has been recognised within the income statement, and consists of the amounts below:

	2019 £m	2018 £m
Proceeds	-	98.8
Legal fees	-	(1.3)
Asset impairment	-	(6.2)
Transfer/handover costs	-	(2.6)
Profit on sale of non-household business	-	89.7

6. Finance income

	2019 £m	Restated 2018 ¹ £m
Interest income on bank deposits	1.5	0.7
Interest income on swaps	8.9	9.2
Other finance income on swaps	7.5	-
External trading interest income	0.9	0.5
Total	18.8	10.4

6. Finance income continued

¹ The prior year results of finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018.

7. Finance expense

	2019 £m	Restated 2018 ¹ £m
<i>Interest in relation to bank and other loans:</i>		
Interest expense	(499.4)	(472.6)
RPI accretion on loans	(110.1)	(148.6)
<i>Fees</i>		
Fees incurred in relation to liquidation of the Cayman Islands entities ²	(5.9)	-
Net interest expense on defined benefit obligation	(6.4)	(8.8)
Gross finance expense	(621.8)	(630.0)
Amortisation	11.6	11.6
Capitalised borrowing costs	109.3	100.7
Total finance expense	(500.9)	(517.7)

¹ The prior year results of finance income and finance expense have been restated to take account of the netting down of interest receivable from swaps against interest payable on swaps. The total swap finance expense moved to finance income totalled £105.6 million for the restated year ended 31 March 2018. Refer to page 42 for more information on the preservation of interest derivatives.

² Finance expense for 31 March 2019 includes £5.9 million of fees incurred for the liquidation of the Cayman Island entities (2018: £nil).

8. Net (losses) / gains on financial instruments

	2019 £m	2018 £m
Exchange (losses) / gains on foreign currency loans	(68.0)	72.6
Gains arising on swaps where hedge accounting is not applied	64.5	52.7
Loss on cash flow hedge transferred from equity	(34.2)	(84.3)
Total	(37.7)	41.0

9. Taxation

Tax (credit)/charge in the income statement

	Underlying £m	2019 BTL £m	Total £m	Underlying £m	Restated 2018 ¹ BTL £m	Total £m
<i>Current tax:</i>						
Current year amounts due in respect of group relief	(2.8)	2.8	-	(1.6)	1.6	-
Adjustment in respect of prior periods	-	-	-	-	-	-
	(2.8)	2.8	-	(1.6)	1.6	-
<i>Deferred tax¹:</i>						
Origination and reversal of timing differences	4.4	-	4.4	29.0	-	29.0
Adjustment in respect of prior periods	10.5	-	10.5	1.0	-	1.0
Adjustment in respect of corporation tax rate changes	-	-	-	-	-	-
	14.9	-	14.9	30.0	-	30.0
Tax (credit)/charge on (loss)/profit on ordinary activities	12.1	2.8	14.9	28.4	1.6	30.0

9. Taxation (continued)

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

	2019			Effective tax rate %	Restated 2018 ¹			Effective tax rate %
	Underlying £m	BTL £m	Total £m		Underlying £m	BTL £m	Total £m	
(Loss)/profit on ordinary activities before taxation ¹	(75.5)	47.2	(28.3)		113.5	26.5	140.0	
Current tax at 19% (2018: 19%) ¹	(14.4)	9.0	(5.4)	19.0%	21.6	5.0	26.6	19.0%
Effects of:								
<i>Recurring items:</i>								
Depreciation on assets that do not qualify for tax relief	4.2	-	4.2		4.4	-	4.4	
Disallowable expenditure ²	2.4	-	2.4		0.9	-	0.9	
Interest payable not allowable for tax ³	10.1	-	10.1		7.2	-	7.2	
Non-taxable income ⁴	(5.4)	-	(5.4)		(4.9)	-	(4.9)	
Property disposals ⁵	-	-	-		(2.2)	-	(2.2)	
Tax differential on profits and losses of overseas subsidiaries	(0.1)	-	(0.1)		0.1	-	0.1	
Group relief not paid at standard rate ⁶	6.2	(6.2)	-		3.4	(3.4)	-	
Tax as adjusted for recurring items	3.0	2.8	5.8	20.5%	30.5	1.6	32.1	22.9%
<i>Non-recurring items:</i>								
Tax rate change on temporary timing differences ⁷	(1.4)	-	(1.4)		(3.1)	-	(3.1)	
Adjustments to tax charge in respect of prior periods – deferred tax ⁸	10.5	-	10.5		1.0	-	1.0	10.5
Total tax (credit)/charge	12.1	2.8	14.9	52.6%	28.4	1.6	30.0	21.4%

¹ The impact of the transition to new accounting standards IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 has been discussed on pages 47 to 50. The restated amount is in respect of transition to IFRS 15. There is no impact on the prior year as a result of the transition to IFRS 9.

² Disallowable expenditure includes fines included in operating expenses.

³ Under Corporate Interest Restriction legislation, some interest payable by the group is not allowable for tax.

⁴ Non-taxable income relates to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, while the cost of the new service connections fixed assets is not eligible for capital allowances.

⁵ Tax chargeable on gains arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.

⁶ Thames Water Utilities Limited ("TWUL") has decided to utilise tax losses available in its immediate parent company for the year ended 31 March 2019. TWUL will pay £3.8 million to its parent company for the tax losses, of which £2.8 million arises on the profits of BTL (which are included within TWUL) and accordingly is shown in the income statement as a current year current tax charge. TWUL is paying for the tax losses at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to TWUL. Utilising tax losses in this way should ultimately benefit customers through lower costs being recovered through bills in future regulatory settlements.

⁷ A reduction in the UK corporation tax rate from to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the group's future current tax charge accordingly. The net deferred tax liability at 31 March 2019 has been calculated based on these rates, except on the pension surplus which is provided at 35% (see Note 23). Opening deferred tax balances at 31 March 2018 were also calculated at 17% and 35%. The effect of temporary differences in the year in current tax calculated at 19% and deferred tax calculated at 17% and 35% produces a £1.4 million reduction in the total tax charge for the year (2018: reduction of £3.1 million).

9. Taxation (continued)

⁸The prior year deferred tax charge of £10.5 million is in respect of the deferred tax liability in respect of the cost of fixed assets covered by contributions.

The effective tax rate, as adjusted for recurring tax items, of 20.5% is slightly higher than the standard rate of corporation tax for the year of 19.0%.

The Group is not currently in a tax paying position with HMRC (although companies within the group do pay for group relief), primarily due to capital allowances on capital expenditure and tax deductions for borrowing costs. The differences between (loss)/ profit on ordinary activities before taxation at the standard tax rate and the current tax (credit)/charge for the year are set out below.

	Underlying £m	2019 BTL £m	Total £m	Restated 2018 ¹		Total £m
				Underlying £m	BTL £m	
(Loss)/profit on ordinary activities before taxation ¹	(75.5)	47.2	(28.3)	113.5	26.5	140.0
Tax at 19% (2018: 19%)	(14.4)	9.0	(5.4)	21.6	5.0	26.6
<i>Effects of:</i>						
Depreciation on assets that do not qualify for relief	4.2	-	4.2	4.4	-	4.4
Disallowable expenditure	2.4	-	2.4	0.9	-	0.9
Interest payable not allowable for tax	10.1	-	10.1	7.2	-	7.2
Non-taxable income	(5.4)	-	(5.4)	(4.9)	-	(4.9)
Property disposals	-	-	-	(2.2)	-	(2.2)
Tax differential on profits and losses of overseas subsidiaries	(0.1)	-	(0.1)	0.1	-	0.1
Capital allowances for the year less than/(in excess of) depreciation	45.2	-	45.2	9.0	-	9.0
Capitalised borrowing costs allowable for tax ⁹	(20.8)	-	(20.8)	(19.1)	-	(19.1)
Tax deduction available on restatement for IFRS 15	(25.1)	-	(25.1)	-	-	-
Losses/(profits) on financial derivatives ¹⁰	(3.6)	-	(3.6)	(21.9)	-	(21.9)
Pension cost charge higher (lower) than pension contributions	3.7	-	3.7	(1.0)	-	(1.0)
Other short term timing differences	(5.2)	-	(5.2)	0.9	-	0.9
Group relief not paid at standard rate	6.2	(6.2)	-	3.4	(3.4)	-
Adjustments in respect of prior periods						
Current tax (credit)/charge for the year	(2.8)	2.8	-	(1.6)	1.6	-

⁹Capitalised borrowing costs are eligible for a full tax deduction in the year.

¹⁰Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.

Uncertain tax positions

At 31 March 2019 the total value of provisions for uncertain corporation tax positions was £nil (restated 2018: £nil).

The deferred tax (charged)/credited directly to other comprehensive income during the year is as follows:

	2019 £m	Restated 2018 ¹ £m
<i>Deferred tax:</i>		
Tax (charge)/credit on actuarial (gain)/loss	4.3	(17.1) ¹
Tax (charge)/credit on cash flow hedges	(4.3)	(17.1)
Total	-	(34.2)

¹The prior year results have been restated due to the impact of the change in accounting policy for the TWMIPS pension scheme surplus as discussed on pages 52.

10. Goodwill

The Directors have reviewed the carrying value of goodwill in line with the accounting policy on page 36 and do not consider there to be any impairment to this carrying value for the year ended 31 March 2019 (2018: £nil).

All purchased goodwill, which arose on acquisition of the Thames Water Utilities Limited in 2006, has been allocated to the regulated water and wastewater business. Impairment of this purchased goodwill occurs where the carrying value is in excess of the net realisable value, the expected sales value of the regulated business.

An equity valuation model has been used which takes an external, observable, market multiplier uplift to the Regulatory Capital Value ("RCV") of the regulated business. This model has also been informed by recent equity transactions, involving the sale of shares in KWH by existing shareholders. Ofwat, an external regulator, have developed the RCV as a measure of the capital value of the business, and the use of a multiplier reflects any premium to which the equity of publically listed water utilities is being traded.

The critical assumption is thus the multiple of RCV used. As at 31 March 2019, for the carrying amount of goodwill to exceed the recoverable amount, a reduction of 14.8% (2018: 15.0%) to the multiplier used would be required.

11. Interests in joint venture

Thames Water Limited, a wholly owned subsidiary of the Group, controls 50% of the share capital of Foudry Properties Limited ("Foudry"), a property company incorporated in the United Kingdom. Foudry made a loss in 2018 of £1.2 million (2018: £0.4m) and has net liabilities of £11.6 million (2018: £10.4m). The Group's share of these losses relate solely to loan and associated interest balances owed to the Group, which have been fully provided for, and consequently no separate provision in respect of these losses has been recognised.

As at 31 March 2019 the associate did not have any significant contingent liabilities to which the Group was exposed and the Group did not have any significant contingent liabilities in relation to its interests in associates (2018: £nil). The Group had no capital commitments in relation to its interests in associates as at 31 March 2018 (2018: £nil).

12. Intangible assets

	Software £m	Other £m	Assets in development £m	Total £m
<i>Cost:</i>				
At 31 April 2017	189.6	1.3	78.9	269.8
Additions	-	-	61.8	61.8
Transfers	24.8	-	(24.8)	-
Write-off of costs from assets in development	-	-	(6.2)	(6.2)
At 31 March 2018	214.4	1.3	109.7	325.4
Additions	-	-	71.2	71.2
Transfers	26.5	-	(26.5)	-
At 31 March 2019	240.9	1.3	154.4	396.6
<i>Amortisation:</i>				
At 31 April 2017	(128.0)	(0.8)	-	(128.8)
Amortisation charge	(27.5)	(0.1)	-	(27.6)
At 31 March 2018	(155.5)	(0.9)	-	(156.4)
Amortisation charge	(21.9)	(0.1)	-	(22.0)
At 31 March 2019	(177.4)	(1.0)	-	(178.4)
<i>Net book value:</i>				
At 31 March 2018	58.9	0.4	109.7	169.0
At 31 March 2019	63.5	0.3	154.4	218.2

Other intangible assets include concessions, licences and similar rights and assets.

The write-off of costs in the prior year relate to software under development that is no longer required as a result of the transfer of non-household customers to Castle Water in 2017/18. Additions related to IT projects undertaken include the implementation of new customer relationship management and billing ("CRMB") system and a new meter data management system. £6.6 million borrowing costs were capitalised during the year (2018: £4.3 million). The effective rate of borrowing costs for the year was 4.91% (2018: 5.58%).

13. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	Total £m
<i>Cost:</i>					
At 31 March 2017	3,664.3	7,339.7	6,747.0	2,090.9	19,841.9
Additions	1.1	-	13.2	1,072.7	1,087.0
Transfers between categories	18.7	382.4	323.4	(724.5)	-
Disposals	(2.6)	(13.1)	(1.8)	-	(17.5)
At 31 March 2018	3,681.5	7,709.0	7,081.8	2,439.1	20,911.4
Additions	-	0.5	18.8	1,098.2	1,117.5
Transfers between categories	170.7	504.2	233.1	(908.0)	-
Disposals	(1.5)	(22.6)	-	-	(24.1)
At 31 March 2019	3,850.7	8,191.1	7,333.7	2,629.3	22,004.8
<i>Depreciation:</i>					
At 31 March 2017	(959.5)	(3,890.6)	(364.8)	-	(5,214.9)
Depreciation charge	(59.3)	(332.7)	(128.1)	-	(520.1)
Disposals	0.3	8.9	-	-	9.2
At 31 March 2018	(1,018.5)	(4,214.4)	(492.9)	-	(5,725.8)
Depreciation charge	(60.3)	(350.2)	(134.2)	-	(544.7)
Disposals	0.7	13.8	-	-	14.5
At 31 March 2019	(1,078.1)	(4,550.8)	(627.1)	-	(6,256.0)
<i>Net book value:</i>					
At 31 March 2018	2,663.0	3,494.6	6,588.9	2,439.1	15,185.6
At 31 March 2019	2,772.6	3,640.3	6,706.6	2,629.3	15,748.8

£102.7 million borrowing costs, net of commissioning, were capitalised during the year (2018: £96.4 million). The effective rate of borrowing costs for the year was 4.91% (2018: 5.58%).

The gross carrying amount of property, plant and equipment that was fully depreciated at 31 March 2019 amounted to £2,359.6m (31 March 2018: £2,191.8m).

14. Inventories and current intangible assets

	2019 £m	2018 £m
Raw materials and consumables	9.1	11.5
Current intangible assets – emissions allowances	4.4	6.6
Total	13.5	18.1

Emission allowances represent purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK). A provision (see note 21) is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement.

15. Trade and other receivables

	Underlying £m	2019	Total £m	Restated 2018 ¹		
		BTL £m		Underlying £m	BTL £m	Total £m
<i>Non-current:</i>						
Prepayments and accrued income	-	101.9	101.9	-	56.7	56.7
Insurance claims receivable ²	30.8	-	30.8	32.7	-	32.7
Other receivables	13.0	-	13.0	3.0	-	3.0
	43.8	101.9	145.7	35.7	56.7	92.4
<i>Current</i>						
Gross trade receivables	454.9	9.5	464.4	462.5	6.4	468.9
Less doubtful debt provision	(174.4)	(2.2)	(176.6)	(172.6)	(1.7)	(174.3)
Net trade receivables	280.5	7.3	287.8	289.9	4.7	294.6
Amounts owed by associated undertakings	0.6	-	0.6	2.8	-	2.8
Amounts receivable in respect of group relief	4.4	(4.4)	-	1.6	(1.6)	-
Prepayments and accrued income ¹	33.2	-	33.2	27.6	-	27.6
Other receivables	33.1	1.2	34.3	44.3	0.3	44.6
	351.8	4.1	355.9	366.2	3.4	369.6
<i>Current:</i>						
Contract assets ¹	217.5	0.9	218.4	186.2	0.4	186.6
Total	613.1	106.9	720.0	588.1	60.5	648.6

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50.

² The prior year results have been restated following the reclassification of the insurance claims receivable from current to non-current, to be classified consistently with the non-current insurance provision. The receivable has been recognised as it is virtually certain that the amount will be paid to the Group.

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

Non-current prepayments at 31 March 2019 includes £101.9 million (2018: £56.7 million) of prepayment relating to the Bazalgette Tunnel Limited ("BTL") arrangement. This is created and recorded by the Group as BTL will transfer the use of the tunnel to Thames Water Utilities Limited once construction is complete.

Contract assets at 31 March 2019 includes £144.3 million (restated 2018: £124.0 million) of water and wastewater income not billed. The remaining amount is for accrued capital contributions.

Expected credit loss provision

Movements in the doubtful debts provision were as follows:

	2019 £m	2018 £m
At 1 April 2018	(174.3)	(176.4)
Charge for bad and doubtful debts – charged against revenue	(33.4)	(28.7)
Charge for bad and doubtful debts – included within operating expenses	(29.2)	(28.8)
Excess credits recognised during the year	(11.8)	(4.6)
Amounts directly charged to revenue and not included in bad debt expense	(3.9)	(2.3)
Amounts written off	76.0	66.5
Total at 31 March 2019	(176.6)	(174.3)

15. Trade and other receivables (continued)

The ageing of receivables which are past due but not impaired cannot be performed. Ageing of gross receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	227.8	281.8
1 – 2 years	141.3	83.5
2 – 3 years	40.9	47.4
More than 3 years	54.3	56.2
Total	464.3	468.9

The ageing of gross BTL receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	4.7	4.9
1 – 2 years	4.8	1.5
Total	9.5	6.4

A collective provision is recorded against assets which are past due but for which no individual provision is made. This is calculated based on historical experience of levels of recovery. Ageing of impaired receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	66.2	66.2
1 – 2 years	40.6	40.9
2 – 3 years	34.9	23.9
More than 3 years	34.9	43.3
Total	176.6	174.3

The ageing of impaired BTL receivables is as follows:

	2019 £m	2018 £m
Up to 365 days	0.8	0.7
1 – 2 years	1.4	1.0
Total	2.2	1.7

Trade and other receivables are part of the Group's financial exposure to credit risk as explained on page 13.

16. Cash and cash equivalents

	Underlying £m	2019 BTL £m	Total £m	Underlying £m	2018 BTL £m	Total £m
Cash at bank and in hand	2.4	0.3	3.2	17.8	0.1	17.9
Short-term deposits	517.1	7.3	523.9	142.0	2.5	144.5
Total	519.5	7.6	527.1	159.8	2.6	162.4

BTL cash represents amounts collected from wastewater customers, for the construction costs of the Thames Tideway Tunnel, which has not yet been paid at the reporting date.

17. Trade and other payables

	Underlying £m	2019		Underlying £m	Restated 2018 ¹	
		BTL £m	Total £m		BTL £m	Total £m
<i>Non-current:</i>						
Contract liabilities ¹	636.1	-	636.1	589.8	-	589.8
<i>Current:</i>						
Trade payables - operating	255.8	-	255.8	190.0	-	190.0
Trade payables - capital	-	-	-	0.0	-	0.0
Amounts owed (from) / to group undertakings	0.2	-	0.2	-	-	-
Amounts owed to Bazalgette Tunnel Limited	-	11.1	11.1	-	3.5	3.5
Accruals ¹	330.0	-	330.0	338.0	-	338.0
Other taxation and social security	7.5	-	7.5	6.5	-	6.5
Other payables	85.8	-	85.8	78.6	-	78.6
	679.3	11.1	690.4	613.1	3.5	616.6
<i>Current:</i>						
Contract liabilities ¹	110.6	3.4	114.0	123.1	4.1	127.2
Total	1,426.0	14.5	1,440.5	1,326.0	7.6	1,333.6

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 44 to 46

Current contract liabilities at 31 March 2019 includes £75.6 million (2018: £75.6 million) of receipts in advance from customers for water and wastewater charges and £5.8 million (restated 2018: £23.6 million) of deferred income. The remaining amount relates to payment in advance for compensation for operating costs and infrastructure charges.

Non-current contract liabilities at 31 March 2019 includes £497.0 million (restated 2018: £481.2 million) of deferred infrastructure charges, £121.4 million of deferred income for nil cost "adopted" assets (2018: £89.1 million) with the remaining amount relating to payments received in advance for compensation for operating costs.

The Directors consider that the carrying amount of trade and other payables within the scope of IFRS 7 is approximately equal to their fair value.

18. Borrowings

	2019 £m	2018 £m
Secured bank loans and private placements	3,973.8	3,095.4
Bonds	8,970.8	8,867.7
Other financing	310.4	310.4
	13,255.0	12,273.5
Interest payable on secured bank loans, private placements and other financing	281.3	234.6
Total	13,536.3	12,508.1
Disclosed within current liabilities	1,646.0	356.1
Disclosed within non-current liabilities	11,890.3	12,152.0
Total	13,536.3	12,508.1

18. Borrowings (continued)

Breakdown of secured loans and private placements:

	2019 £m	2018 £m
Thames Water Utilities Limited:		
£60.0m 1.230% index linked loan due 2019 (i)	78.8	76.8
£60.0m 1.415% index linked loan due 2020 (i)	78.5	76.6
£60.0m 1.513% index linked loan due 2020 (i)	78.1	76.2
£60.0m 1.380% index linked loan due 2020 (i)	77.9	76.0
£60.0m 1.356% index linked loan due 2020 (i)	77.9	76.0
£100.0m floating rate loan due 2020 (a), (c)	99.9	99.9
£75.0m 1.350% index linked loan due 2021 (e), (i)	89.2	87.0
£215.0m 0.460% index linked loan due 2023 (a), (i)	248.1	241.9
£215.0m 0.380% index linked loan due 2032 (a), (b), (i)	218.9	228.4
£100.0m 3.280% index linked loan due 2043 (a), (d), ((i)	129.6	126.4
£100.0m 0.790% index linked loan due 2025 (a), (e), (i)	109.9	107.2
£125.0m 0.598% index linked loan due 2026 (a), (e), (i)	136.7	133.3
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	70.0	69.7
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	50.0	49.8
£20.0m Class B floating rate loan due 2026 (a)	20.0	19.9
£39.0m Class B 3.918% fixed rate loan due 2026 (a)	38.4	38.8
\$55.0m 3.380% private placement due 2023 (a), (f)	42.3	39.2
\$285.0m 3.570% private placement due 2025 (a), (f)	218.9	202.8
£216.0m 2.450% private placement due 2028 (a)	215.4	215.3
£210m 2.550% private placement due 2030 (a)	209.3	209.2
£40m 2.620% private placement due 2033 (a)	39.8	39.8
£150.0m floating rate loan due 2024 (a)	149.5	-
Thames Water Utilities Limited total	2,477.1	2,290.2
Thames Water Utilities Finance plc		
£245.0m 1.031% floating rate loan due 2019 (g)	245.0	-
£214.3m 1.397% Class B floating rate loan due 2019 (g)	214.3	-
\$150.0m 3.870% private placement due 2022 (f)	115.5	-
\$200.0m 4.020% private placement 2024 (f)	153.9	-
\$250.0m 4.220% private placement due 2027 (f)	192.4	-
Thames Water Utilities Finance plc total	921.1	-
Thames Water Utilities Cayman Finance Limited (h)		
\$150.0m 4.690% Class B private placement due 2019	-	106.7
\$150.0m 3.870% private placement due 2022	-	106.9
\$200.0m 4.020% private placement 2024	-	142.6
\$250.0m 4.220% private placement due 2027	-	178.3
Thames Water Utilities Cayman Finance Limited total	-	534.5
Kemble Water Finance Limited:		
£75.0m floating rate loan due 2022 (a)	74.0	73.7
£200.0m floating rate loan due 2025 (a)	197.6	197.0
£4.5m fixed rate due 2025 (a)	4.4	-
£5.5m fixed rate due 2025 (a)	5.4	-
£100.0m fixed rate due 2025 (a)	98.1	-
£200.0m fixed rate due 2025 (a)	196.1	-
Kemble Water Finance Limited total	575.6	270.7
Total secured loans and private placements	3,973.8	3,095.4

All loans are Class A except where highlighted.

- (a) These loans are shown net of issue costs.
- (b) This debt amortises in equal tranches from 2017 onwards.
- (c) The interest margins of these two loans are based on a ratings grid and will increase should the securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's.
- (d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million.
- (e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
- (f) The Group has entered into Cross currency swap agreements which convert this debt into sterling debt.
- (g) In March 2019 £245.0 million was drawn out of £1.4 billion class a revolving credit facility and £214.3 million was drawn out of class B revolving credit facility. Both amounts were repaid in April 2019.
- (h) On 31 August 2018, the debt instruments previously held by TWUCF were transferred to TWUF.
- (i) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").

18. Borrowings (continued)

Breakdown of bonds:

	2019 £m	2018 £m
Thames Water Utilities Finance plc		
£200m 5.050% Fixed rate bond due 2020 (c), (f)	201.0	201.7
£225m 6.590% Fixed rate bond due 2021 (j)	237.1	240.5
£175m 3.375% Index linked bond due 2021 (b), (e)	282.4	273.5
£330m 6.750% Fixed rate bond due 2028 (b), (g)	385.5	389.0
£200m 6.500% Fixed rate bond due 2032 (b), (c), (h)	244.4	246.4
£600m 5.125% Fixed rate bond due 2037 (b), (c), (i)	655.2	656.8
£300m 1.680% Index linked bond due 2053 (b), (e)	435.3	421.7
£300m 1.681% Index linked bond due 2055 (b), (e)	435.3	421.6
€113.0m 2.300% CPI index linked bond due 2022 (a), (c)	104.1	-
£300.0m 5.750% class B Fixed rate bond due 2030 (b), (e)	298.1	-
£300.0m 4.375% fixed rate bond due 2034 (b)	295.6	-
¥20.0bn 3.280% fixed rate bond due 2038 (a), (b), (c)	139.0	-
£50.0m 3.853% index linked bond due 2040 (d)	64.9	-
£500.0m 5.500% fixed rate bond due 2041 (b)	489.8	-
£50.0m 1.980% index linked bond due 2042 (d)	68.9	-
£55.0m 2.091% index linked bond due 2042 (b), (d)	72.8	-
£40.0m 1.974% index linked bond due 2045 (b), (d)	46.3	-
£300.0m 4.625% fixed rate bond due 2046 (b)	293.3	-
£100.0m 1.846% index linked bond due 2047 (d)	137.8	-
£200.0m 1.819% index linked bond due 2049 (b), (d)	275.2	-
£200.0m 1.771% index linked bond due 2057 (b), (d)	275.2	-
£350.0m 1.760% index linked due 2062 (b), (d)	481.5	-
£500.0m 4.000% fixed rate due 2025 (b)	495.9	-
£40.0m 0.750% index linked loan due 2034 (b), (d)	43.5	-
£45.0m 0.721% index linked loan due 2027 (b), (d)	48.9	-
£300.0m 3.500% fixed rate loan due 2028 (b)	296.6	-
£400.0m 7.738% fixed rate bond due 2058 (b)	419.9	-
£250.0m 1.875% fixed rate bond due 2024 (b)	248.1	-
£250.0m 2.625% fixed rate bond due 2032 (b)	247.4	-
£300.0m 2.375% class B Fixed rate bond due 2023 (b)	298.8	-
£250.0m 2.875% class B Fixed rate bond due 2027 (b)	246.9	-
CAD 250.0m 2.875% fixed rate bond due 2024 (a), (b)	142.3	-
Fees	(9.5)	-
Thames Water Utilities Finance plc total	8,397.5	2,851.2
Thames Water Utilities Cayman Finance Limited (l)		
£300m 5.750% Class B Fixed rate bond due 2030	-	297.8
£300m 4.375% Fixed rate bond due 2034	-	295.5
€113m 2.300% CPI IL bond due 2022	-	104.6
20bn Yen 3.280% Fixed rate bond due 2038	-	134.2
£50m 3.853% Index linked bond due 2040	-	63.3
£500m 5.500% Fixed rate bond due 2041	-	489.6
£50m 1.980% Index linked bond due 2042	-	67.1
£55m 2.091% Index linked bond due 2042	-	71.0
£40m 1.974% Index linked bond due 2045	-	46.3
£300m 4.625% Fixed rate bond due 2046	-	293.1
£100m 1.846% Index linked bond due 2047	-	134.2
£200m 1.819% Index linked bond due 2049	-	267.9
£200m 1.771% Index linked bond due 2057	-	267.9
£350m 1.760% Index linked bond due 2062	-	468.8
£500m 4.000% Fixed rate bond due 2025	-	495.3
£40m 0.750% index linked bond due 2034	-	42.4
£45m 0.721% index linked bond due 2027	-	47.7
£300m 3.500% fixed rate bond due 2028	-	296.3
£400m 7.738% fixed rate bond due 2058	-	394.1
£250m 1.875% fixed rate bond due 2024	-	247.8
£250m 2.625% fixed rate bond due 2032	-	247.2
£42m floating rate loan due 2017	-	-
£300m 2.375% class B Fixed rate bond due 2023	-	298.5
£250m 2.875% class B Fixed rate bond due 2027	-	246.6

18. Borrowings (continued)

Breakdown of bonds (continued):

CAD 250.0m 2.875% fixed rate bond due 2024	-	136.3
Fees	-	(9.7)
Thames Water Utilities Finance Limited total	-	5,443.8
Thames Water (Kemble) Finance plc		
£400m 7.75% fixed rate bond due 2019 (b)	399.3	399.0
£175m 5.75% fixed rate bond due 2022 (b)	174.0	173.7
Thames Water (Kemble) Finance plc total	573.3	572.7
Total bonds	8,970.8	8,867.7

All bonds are Class A except where highlighted.

- (a) The Group has entered into Cross currency swap agreements which convert this debt into sterling debt
- (b) These bonds are shown net of issue costs.
- (c) The Group has entered into swap agreements that convert this debt into £ index-linked debt.
- (d) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index ("RPI").
- (e) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
- (f) These fees have been shown within bonds to reflect that they relate to index linked debt issued in 2007.
- (g) This bond includes £1.0 million (2018: £1.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
- (h) This bond includes £58.0 million (2018: £61.6 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
- (i) This bond includes £46.6 million (2018: £48.7 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
- (j) This bond includes £58.7 million (2018: £60.4 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
- (k) This bond includes £12.1 million (2018: £15.5 million) fair value adjustments to carrying value at acquisition by Kemble Water Holding Group.
- (l) On 31 August 2018, the debt instruments previously held by TWUCF were transferred to TWUF.

Breakdown of Other financing

Kemble Water Eurobond plc		
£310.4m Shareholder loan due 2021	310.4	310.4
Kemble Water Eurobond plc total	310.4	310.4
Total other financing	310.4	310.4

The total carrying value of the fair value adjustment to the debt on acquisition of the Thames Water Group by Kemble is £178.1 million (2018: £189.7 million). Capitalised debt issuance costs in relation to the debt portfolio are £86.0 million (2018: £86.2 million).

19. Financial instruments

Categories of financial instruments

The carrying values of the primary financial assets and liabilities are as follows:

	2019 £m	Restated 2018 £m
Financial assets:		
<i>Fair value through profit and loss</i>		
Cross currency swaps	73.1	13.2
Index-linked swaps	78.5	71.7
Interest rate swaps	10.7	-
	162.3	84.9
<i>Amortised cost</i>		
Trade and other receivables excluding prepayments	366.5	377.7
Short term investments	-	-
Cash and cash equivalents	527.1	162.4
Total	1,055.9	625.0
Financial liabilities:		
<i>Fair value through profit and loss</i>		
Cross currency swaps – not hedge accounted	(60.0)	(69.6)
Interest rate swaps – not hedge accounted	(180.7)	(176.2)
Index-linked swaps – not hedge accounted	(995.5)	(947.1)
<i>Derivatives designated as hedging instruments</i>		
Forward starting interest rate swaps – cash flow hedges	(26.2)	(45.3)
	(1,262.4)	(1,238.2)
<i>Amortised cost</i>		
Trade and other payables (excluding other taxation and social security)	(682.9)	(610.1)
Borrowings	(13,536.3)	(12,508.1)
Total	(15,481.6)	(14,356.4)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Group's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The fair values of interest rate and index linked swaps are determined, in part, from unobservable inputs but the use of these unobservable inputs does not significantly impact the result. As a result we have concluded that it is appropriate to continue to classify the derivatives instruments as Level 2. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March:

	Level 2 ¹	
	2019 £m	2018 £m
<i>Financial assets - derivative financial instruments:</i>		
Cross currency swaps	73.1	13.2
Index-linked swaps	78.5	71.7
Interest rate swaps	10.7	-
	162.3	84.9
<i>Financial liabilities - derivative financial instruments:</i>		
Cross currency swaps	(60.0)	(69.6)
Interest rate swaps	(180.7)	(176.2)
Index-linked swaps	(995.5)	(947.1)
Forward starting interest rate swaps	(26.2)	(45.3)
	(1,262.4)	(1,238.2)
Net total	(1,100.1)	(1,153.3)

The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index-linked swaps and options, are measured using discounted cash flows. The future cash flows are estimated based on forward inflation rates and interest rates from observable yield curves at the period end and discounted at a rate that reflects the credit risk of the Group and the counterparties. Currency cash flows are translated at spot rate.

19. Financial instruments (continued)

In mid-2014 the Group executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. £300.0 million of these swaps commenced during the year (2018: £800.0 million). On commencement these swap were reclassified from forward starting interest rate swaps to interest rate swaps. The fair value movements till commencement were recognised on cash flow hedge reserve. Subsequent to commencement the fair value movement on these swaps has been recognised as changes in fair value through the income statement and the cash flow hedge has been discontinued prospectively. During the year a £8.9 million loss (2018: gain of £16.3 million) was recognised on cash flow hedge reserve and £84.3 million (2018: £84.3 million) was recycled from cash flow hedge reserve to income statement, see Statement of changes in equity. The loss of £34.2m consisted of £27.4m loss related to hedged exposure that crystallised during the year and a £6.8m loss due to hedge accounting discontinuation.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Group's trade and other receivables and trade and other payables are considered to be approximate to their fair values. The fair values and carrying values of the Group's other financial assets and financial liabilities are set out in the table below:

	2019		2018	
	Book value £m	Fair value £m	Book value £m	Fair value £m
Financial assets:				
<i>Non-current</i>				
Derivative financial instruments				
Cross currency swaps	73.1	73.1	4.7	4.7
Index-linked swaps	78.5	78.5	71.7	71.7
Interest rate swaps	10.7	10.7	-	-
	162.3	162.3	76.4	76.4
<i>Current</i>				
Short term investments	-	-	-	-
Cash and cash equivalents	527.1	527.1	162.4	162.4
Derivative financial instruments	-	-	-	-
Cross currency swaps	-	-	8.5	8.5
Total	689.4	689.4	247.3	247.3
Financial liabilities:				
<i>Non-current</i>				
Borrowings:				
Secured bank loans and private placements	(3,009.4)	(3,291.1)	(2,974.8)	(3,203.3)
Bonds	(8,570.5)	(10,738.4)	(8,866.7)	(11,150.0)
Other financing	(310.4)	(310.4)	(310.4)	(310.4)
Derivative financial instruments:				
Cross currency swaps	(60.0)	(60.0)	(69.6)	(69.6)
Interest rate swaps	(180.7)	(180.7)	(176.2)	(176.2)
Index-linked swaps	(956.9)	(956.9)	(934.8)	(934.8)
Forward starting interest rate swaps	(26.2)	(26.2)	(45.3)	(45.3)
	(13,114.1)	(15,563.7)	(13,377.8)	(15,889.6)
<i>Current</i>				
Borrowings:				
Secured bank loans and private placements	(964.4)	(977.7)	(120.6)	(122.1)
Bonds	(400.3)	(400.3)	(1.0)	(1.0)
Interest payable	(281.3)	(281.3)	(180.5)	(180.5)
Derivative financial instruments:				
Index-linked swaps	(38.6)	(38.6)	(12.3)	(12.3)
Interest rate swaps	-	-	-	-
Total	(14,798.7)	(17,261.6)	(13,692.2)	(16,205.5)

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

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

19. Financial instruments (continued)

Capital risk management

Capital risk primarily relates to whether the Group is adequately capitalised and financially solvent. The Board reviews the Group's exposure to these risks and actively oversees the treasury activities, reviewing the treasury policy and approving the treasury strategy and funding plan.

The Group's key objectives in managing capital are:

- To maintain a broad portfolio of debt, diversified by source and maturity
- To retain the Group's investment grade credit rating
- To provide liquidity sufficient to fund ongoing obligations for a minimum of a 15-month forward period on an ongoing basis
- To maintain customer bills at a level which is both affordable and sustainable

Derivative financial instruments are used, where appropriate to manage the risk of fluctuations in interest rates, inflation and foreign exchange rates. No open or speculative positions are taken.

The Group is part of a Whole Business Securitisation ("WBS") Group of companies. The Group guarantees the funding activity of TWUF which raises debt finance in external debt markets through the issuance of secured bonds and the issue of loans. The Securitisation Group is required to comply with certain covenants, which include, amongst others:

- An interest cover ratio
- A gearing ratio.
- An obligation to manage the maturity profile of debt arrangements
- An obligation to manage the proportion of future interest cost which is fixed and/or index linked

The Securitisation Group complied with these ratios throughout the financial year.

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

	2019 £m	2018 £m
Cash and cash equivalent	527.1	162.4
Short term investments	-	-
Secured bank loans, private placements and other financing	(12,944.6)	(11,963.1)
Other financing	(310.4)	(310.4)
Interest payable on secured bank loans, private placements and other financing	(281.3)	(234.6)
Net debt (statutory basis)	(13,009.2)	(12,345.7)
Shareholder loan	310.4	310.4
Interest payable on secured bank loans, private placements and other financing	281.3	234.6
Unamortised debt issuance costs and discount	(86.0)	(86.2)
Derivative financial liabilities	(222.0)	(237.8)
Fair value adjustment on acquisition to loans	178.1	189.7
IFRS9 transition adjustment	25.8	-
Cash held by non-covenant entities	(26.6)	(33.9)
Net debt (covenant basis)	(12,548.2)	(11,968.9)

Net debt (covenant basis) excludes parent company loans, accrued interest, unamortised debt issuance costs and discounts, fair value adjustment made to the Thames Water Group's borrowing on acquisition by the Kemble Water consortium, cash held by non-covenant entities and includes derivative financial liabilities related solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate to cross currency swaps.

A summary of the Group's net debt (covenant basis) by different types of debt is as follows:

	2019 £m	2018 £m
Securitised Class A debt	(10,646.1)	(10,121.8)
Securitised Class B debt	(1,243.3)	(1,125.6)
Subordinated debt	(1,159.3)	(850.0)
Cash net of cash held by non-covenant entities	500.5	128.5
Net debt (covenant basis)	(12,548.2)	(11,968.9)
Equity attributable to owners of the group	1,320.2	1,386.3

19. Financial instruments (continued)

Reconciliation of liabilities arising from financing activities

The reconciliation below between the opening and closing balances for liabilities arising from financing activities evaluates changes in liabilities including both changes arising from cash flow and non-cash changes.

	2019		2018	
	Borrowings	Derivative financial liabilities	Borrowings	Derivative financial liabilities
	£m	£m	£m	£m
Opening balance	(12,508.1)	(1,238.2)	(11,943.9)	(1,421.8)
Non-Current	(12,152.0)	(1,225.9)	(11,562.4)	(1,398.0)
Current	(356.1)	(12.3)	(381.5)	(23.8)
Cash flows				
New loans raised	(1,452.7)	-	(2,238.3)	-
Repayment of borrowings	670.2	-	1,799.8	-
Derivative settlement	-	(2.8)	-	28.4
Interest paid ¹	436.8	-	405.2	-
Interest received	-	(8.5)	-	(8.5)
	(345.7)	(11.3)	(33.3)	19.9
Non-cash changes				
Net interest (charge)/income and fees amortisation	(490.2)	8.9	(467.5)	9.2
Foreign exchange movement	(68.0)	-	72.6	-
Accretion	(110.1)	-	(148.6)	-
IFRS9 adjustment	(25.8)	-	-	-
Fair value changes	-	(21.8)	-	154.5
Fair value amortisation	11.6	-	11.6	-
Other	-	-	1.0	-
	(682.5)	(12.9)	(530.9)	163.7
Closing balance	(13,536.3)	(1,262.4)	(12,508.1)	(1,238.2)
Non-Current	(11,890.3)	(1,223.8)	(12,152.0)	(1,225.9)
Current	(1,646.0)	(38.6)	(356.1)	(12.3)

¹ Interest paid of £436.8 million (2018: £351.7 million) includes £109.3 million of capitalised borrowing costs (2018: £100.7 million) and excludes £0.5 million of bank charges (2018: £0.3 million).

Financial risk management

Market risk relates to fluctuations in external market variables such as interest rates, inflation and foreign exchange rates that could affect the Group's income or the value of the financial instruments it holds. The Group's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described on page 12. Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk:

Market risk

Below is the effective interest rate and foreign currency risk profile of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk excluding fair value adjustment on acquisition to loans and excluding £250.0 million (2018: £550.0 million) forward starting swaps which will commence after year end:

As at 31 March 2019:	Total at fixed rates £m	Total at floating rates £m	Total at index linked rates £m	Total £m
Interest bearing loans and borrowings Net of corresponding swap assets				
- £ Sterling	6,847.2	901.2	5,254.7	13,273.1
Total	6,847.2	901.2	5,254.7	13,273.1
As at 31 March 2018:				
Interest bearing loans and borrowings Net of corresponding swap assets				
- £ Sterling	6,562.6	364.1	5,394.9	12,321.6
Total	6,562.6	364.1	5,394.9	12,321.6

19. Financial instruments (continued)

Financial risk management (continued)

The weighted average interest rates of the debt held by the Group after taking into account the derivative financial instruments used to manage market risk and the period until maturity for which the rate is fixed or index linked are given below excluding £250.0 million (2018: £550.0 million) forward starting swaps which will commence after year end:

	Weighted average interest rate		Weighted average period until maturity	
	2019 %	2018 %	2019 Years	2018 Years
Fixed	5.5	5.4	10.1	11.1
Index-Linked	4.4	5.7	20.9	21.9

(i) Interest rate risk sensitivity analysis

The Group holds both fixed and floating rate borrowings. Fixed rate borrowings are exposed to a risk of change in their fair value due to changes in interest rates. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Group uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2018. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant.

	2019		2018	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit	275.0	(338.0)	276.6	(328.0)
Equity	287.7	(350.9)	300.7	(354.2)

(ii) Exchange rate risk sensitivity analysis

The Group's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Group uses cross currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations. The Group has no material unhedged monetary assets or liabilities denominated in a currency other than sterling.

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2018. This analysis assumes that all other variables in the valuation remain constant.

	2019		2018	
	+10% £m	-10% £m	+10% £m	-10% £m
Profit	(20.9)	8.4	(5.4)	2.0
Equity	(20.9)	8.4	(5.4)	2.0

(iii) Inflation risk sensitivity analysis

The Group has entered into financial instruments that are directly linked to inflation including RPI linked bonds, loans and swaps. In addition, the Group as a regulated water and wastewater Group is subject to fluctuations in its revenues due to movements in inflation. Therefore the Group's RPI linked borrowings and swaps form a partial economic hedge as the assets and liabilities partially offset.

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2018. This analysis assumes that all other variables, in particular exchange rates, remain constant.

	2019		2018	
	+1% £m	-1% £m	+1% £m	-1% £m
Profit	(635.7)	511.4	(607.3)	515.1
Equity	(635.7)	511.4	(607.3)	515.1

19. Financial instruments (continued)

(a) Credit risk

Credit risk relates to the potential financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. This arises principally from the Group's trade receivables, its loan with its immediate parent entity Thames Water Utilities Holdings Limited, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

The Group has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Group and the significant number of households within this area, there is considered to be no concentration of trade receivables credit risk, however, the Group's credit control policies and procedures are in place to minimise the risk of bad debt arising from its household trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15. For non-household customers, the credit risk lies with a small number of retailers rather than the end user and exposure to retailer default would be limited due to conditions that exist within the non-household market.

Under the terms of the WBS agreement, counterparties to the Group's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. For derivative counterparties there is a mechanism for the counterparty to post collateral when amounts due to the Group under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

The Group's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement explained on page 42.

The following table summarises fair value of derivatives assets by credit rating of counterparties.

	2019 £m	2018 £m
A+	88.1	61.0
A	36.0	15.8
AA-	38.2	8.1
Total	162.3	84.9

Financial risk management (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that manageable debt maturity profiles are maintained. The Group also maintains a level of committed liquidity facilities provided by a range of financial institutions. Details of the nature and management of the Group's liquidity risk is provided on page 12.

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below.

	2019 £m	2018 £m
Within one year	1,364.7	121.6
Between one and two years	526.3	895.3
Between two and three years	739.1	527.0
Between three and four years	409.3	722.8
Between four and five years	1,113.4	406.1
After more than five years	9,102.2	9,600.7
Total	13,255.0	12,273.5

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Group's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows:

19. Financial instruments (continued)

Undiscounted amounts payable	2019 £m	2018 £m
Within one year	(2,536.1)	(1,854.7)
Between one and two years	(971.8)	(1,378.6)
Between two and three years	(1,175.1)	(951.8)
Between three and four years	(795.0)	(1,149.9)
Between four and five years	(1,540.6)	(794.9)
After more than five years	(20,730.9)	(21,741.8)
Total	(27,749.5)	(27,871.7)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Group's financial derivatives (which include interest rate swaps and cross currency swaps), based on undiscounted cash flows, is as follows:

Undiscounted amounts payable	2019 £m	2018 £m
Within one year	(46.9)	5.2
Between one and two years	(19.5)	(48.4)
Between two and three years	24.9	(15.7)
Between three and four years	(68.6)	17.7
Between four and five years	(137.4)	(48.4)
After more than five years	(1,521.5)	(1,690.0)
Total	(1,769.0)	(1,779.6)

Cash flow hedges

The Group has designated a number of contracts which qualify as hedges in accordance with IFRS9 *Financial Instruments* as cash flow hedges. The accounting policy on cash flow hedges is explained on page 36.

In mid-2014 the Group executed £2.25 billion of forward-starting fixed to floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the new debt to be issued from 2017 to 2020. This protects the Group against adverse movements in underlying interest rates by matching debt issuance against a derivative instrument with fixed cash flow.

During the year £300.0 million (2018: £800.0 million) of forward starting swaps commenced. These were reclassified from forward starting interest rate swaps to interest rate swaps and the cash flow hedge for these swaps has been discontinued prospectively, see Fair value measurements section above for more details. On commencement, the fair value of these swaps was £28.0 million, which included £21.2 million recognised on the cash flow hedge reserve and £6.8 million recycled to the income statement.

The Group cash flow hedge reserve disclosed on the statement of changes in equity on page 31 relate to forward starting interest rate swaps.

	2019 £m	2018 £m
At 1 April 2018	(138.9)	(222.4)
Loss on cash flow hedge	(8.9)	16.3
Cash flow hedge transferred to income statement	34.2	84.3
Deferred tax	(4.3)	(17.1)
At 31 March 2019	(117.9)	(138.9)

	2019 £m	2018 £m
Carrying amount	26.2	45.3
Notional amount	250.0	550.0
Maturity date	September 2024	March 2024 (£300.0 million) September 2024 (£250.0 million)
Hedge ratio		1:1
Change in fair value during the year	5.5	8.1
Change in the value of hedged item used to determine hedge effectiveness	5.6	8.3

19. Financial instruments (continued)

The expected cash flows of the Group's cash flow hedges are as follows:

Undiscounted amounts payable	2019 £m	2018 £m
Within one year	(2.4)	-
Between one and two years	(4.9)	(6.5)
Between two and three years	(4.9)	(8.4)
Between three and four years	(4.9)	(8.4)
Between four and five years	(4.9)	(8.4)
After more than five years	(2.4)	(10.4)
Total	(24.4)	(42.1)

In respect of the above cash flow hedges, a loss of £8.9 million was recognised in other comprehensive income in the year (2018: gain of £16.3 million). The amount reclassified from equity to income statement for the year was £34.2 million (2018: £84.3 million).

20. Deferred tax

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

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedge £m	Other £m	Total £m
At 1 April 2017 (Restated ^{1,2})	(1,152.4)	50.6	195.4	77.4	(829.0)
Credit/(charge) to income	(6.6)	(1.3)	(19.5)	(2.6)	(30.0)
Credit/(charge) to equity	-	(17.1)	(17.1)	-	(34.2)
At 31 March 2018 (Restated ^{1,2})	(1,159.0)	32.2	158.8	74.8	(893.2)
Restatement for IFRS9 ¹	-	-	-	4.5	4.5
Charge to income	15.0	3.7	(3.4)	(30.2)	(14.9)
Charge to equity	-	4.3	(4.3)	-	-
At 31 March 2019 (liability)/asset	(1,144.0)	40.2	151.1	49.1	(903.6)

¹ The impact of the transition to new accounting standards, IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers' is discussed on pages 45 to 47.

² The impact of the change in accounting policy for the TWMIPS pension scheme surplus is discussed on pages 52.

A deferred tax liability arises in respect of accelerated tax depreciation, because the rate of tax relief specified in UK tax legislation on most of our capital expenditure is quicker than the rate of accounting depreciation on that expenditure. These temporary differences unwind and affect current tax over the life of the relevant assets, but the continued high levels of capital investment within TWUL mean that the temporary differences currently tend to increase every year.

Deferred tax assets have arisen on the following temporary differences:

- **Retirement benefit obligations:** A deferred tax asset is provided on the net retirement benefit obligations booked in the accounts. The £40.2m deferred tax asset carried forward is the net of an asset of £57.5m (17% of the TWPS pension scheme deficit of £338.8m) less a liability of £16.0m (35% of the surplus on the MIPS pension scheme of £45.8m) and a liability of £1.3m (17% of the SUURBS surplus of £7.7m). Current tax relief will be available in the future for pension contributions paid to reduce these obligations. Deferred tax movements will also arise on any non-cash changes in the obligations, for example those arising from actuarial valuations.
- **Cash flow hedge:** A deferred tax asset is provided on certain fair values booked in respect of financial instruments in the accounts. Current tax relief will be available in the future as the cash flows arise over the lives of the derivatives. Deferred tax movements will also arise on any non-cash changes in the fair value of the derivatives.
- **Other:** A deferred tax asset is provided on the temporary differences arising on amounts for which a tax deduction is spread over a number of years in accordance with tax legislation, including certain pension contributions. Current tax relief will be available in future when tax relief is available in accordance with the legislation. A deferred tax asset is also provided on fair values on loans booked on consolidation; there will be no current tax impact in future but deferred tax charges will arise as these fair values are amortised in the accounts.

20. Deferred tax (continued)

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

	2019 £m	Restated 2018 £m
Deferred tax asset	240.4	265.8
Deferred tax liability	(1,144.0)	(1,159.0)
Total	(903.6)	(893.2)

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset not recognised at 17% (2017: 17%) is:

	2019 £m	2018 £m
Deferred tax asset not recognised in respect of tax losses	9.4	6.2

21. Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Capital Infrastructure provision £m	Other provisions £m	Total £m
At 31 March 2018	5.7	63.6	21.8	43.1	134.2
Utilised during the period	(5.7)	(15.2)	-	(8.4)	(29.3)
Charge/(credit) to income statement	4.6	10.9	-	(9.9)	5.6
Charge/(credit) to capital project	-	-	(1.3)	-	(1.3)
Transfer to current liabilities	-	-	-	0.5	0.5
At 31 March 2019	4.6	59.3	20.5	25.3	109.7

Emissions provisions relate to the obligation to purchase carbon emissions allowances, see note 14.

The insured liability provision arises from insurance claims from third parties received by the Group, and represents the estimated cost of settlement. Where we have insurance cover for these claims, we recognise the reimbursement value from captive and third party insurance companies net of retentions. The receivable is disclosed in note 15. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The capital infrastructure provision is to cover various potential third party costs arising from the construction of infrastructure assets.

The AMP4 provision represents agreed settlement in respect of an information request received from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. The provision is utilised against contributions made to various charity schemes. The associated outflows are expected to arise over AMP6.

Other provisions principally relate to a number of contractual and legal claims against the Group and potential fines for non-compliance with various regulations the Group is obliged to meet. The amount recorded represents management's best estimate of the value of settlement and associated costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

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

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

22. Share capital and other reserves

Share capital

	2019 £m	2018 £m
<hr/>		
<i>Allotted, called up and fully paid:</i>		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6

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.

Other reserves

	2019 £m	Restated 2018 £m
<hr/>		
Cash flow hedge reserve	(118.0)	(139.0)
Retained earnings	(553.4)	(466.3)
<hr/>		
Total	(671.4)	(605.3)

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

23. Retirement benefit obligations

Background

The Group operates four material pension schemes, one of which is a defined contribution scheme and the other three are defined benefit schemes.

	What are they?	How do they impact the Group's financial statements?
<p>Defined Contribution Scheme</p> <p>This scheme was set up in April 2011, is managed through Standard Life, and is open to all new employees of the Group.</p>	<p>In a defined contribution pension scheme the benefits are linked to:</p> <ul style="list-style-type: none"> • contributions paid; • the performance of the individual's chosen investments; and • the form of benefits 	<p>A charge of £11.0 million (2018: £8.1 million) was recognised in the income statement relating to the contributions payable by the Group based upon a fixed percentage of employees' pay.</p> <p>There were £1.5 million (2018: £1.1 million) of outstanding contributions at the year-end recognised in the statement of financial position. These were paid in the following financial year.</p> <p>The Group has no exposure to investment or other experience risks.</p>
<p>Defined Benefit Schemes</p> <p>Defined benefit arrangements for the Group's eligible employees are provided through three defined benefit pension schemes:</p> <ul style="list-style-type: none"> • Thames Water Mirror Image Pension Scheme ("TWMIPS"). Thames Water Pension Scheme ("TWPS"); • Thames Water Mirror Image Pension Scheme ("TWMIPS"); and • The SUURBS Arrangement ("SUURBS"). <p>The SUURBS Arrangement provides retirement benefits to a previous director, and their spouse, of Thames Water Limited, a subsidiary entity in the Group. The scheme is an unfunded arrangement but is secured against assets held by Thames Water Limited.</p> <p>Both TWMIPS and TWPS are career average pension schemes. Their assets are held separately from the rest of the Group in funds in the United Kingdom which are independently administered by the Pension Trustees. TWMIPS has been closed to new entrants since 1989 and on 1 April 2011 TWPS closed to new entrants, who now join the defined contribution scheme.</p>	<p>In a defined benefit pension scheme the benefits:</p> <ul style="list-style-type: none"> • are defined by the scheme rules • depend on a number of factors including age, years of service and pensionable pay; and • do not depend on contributions made by the members or the Group 	<p>A charge was recognised in the income statement of £41.3 million (2018: £36.8 million) relating to the following:</p> <ul style="list-style-type: none"> • service cost representing the increase in the defined benefit liability arising from pension benefits earned by active members in the current period; • administrative expenses for the pension schemes; • the net interest expense on pension scheme assets and liabilities; and • the effect of restriction in the surplus. <p>A loss of £23.4 million (restated 2018: gain of £87.0 million) on the value of the pension scheme was recognised in the statement of other comprehensive income. This reflects the impact of changes in financial assumptions and the demographic of the scheme members when compared with those at the start of the year, as well as the return on the schemes' assets over and above the amount included in the net interest expense.</p> <p>A pension asset of £45.8 million (restated 2018: £50.6 million) is recognised in the statement of financial position for the TWMIPS scheme. A pension deficit of £338.8 million (2018: £300.8 million) is recognised in the statement of financial position for the TWPS scheme. A pension asset of £7.7 million (2018: £7.1 million) is recognised in the statement of financial position for the SUURBS scheme. As at 31 March 2019, the net pension deficit is £285.3 million (restated 2018: £242.7 million).</p> <p>The Group is exposed to investment and other experience risks. Where it is estimated that the benefits will not be met by regular contributions, assets held or expected investment income, additional contributions are being made by the Group.</p>

In addition to the cost of the UK Pension arrangements, the Group operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2019 these related payments amounted to £0.1 million (2018: £0.5 million).

23. Retirement benefit obligations (continued)

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

The most recent full valuation of the SUURBS Arrangement was carried out at 28 February 2018 on behalf of the pension Trustees by Hymans Robertson LLP, the independent and professionally qualified consulting actuaries to the scheme. This resulted in a funding surplus of £1.2 million.

This funding valuation is different from the accounting valuation presented in the financial statements due to the use of different assumptions and changes in market conditions from the time of the most recent valuation to 31 March 2018. The 2016 funding valuation has been updated to an accounting valuation as at 31 March 2019 by Hymans Robertson LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19 *Employee Benefits* and shown in this note to the financial statements.

Amounts included in the financial statements

Income Statement

The amounts recognised in the income statement with respect to the defined benefit pension schemes are detailed below:

	2019			Restated 2018 ¹		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
Current service cost	18.1	3.6	-	19.4	3.8	-
Past service cost including curtailments ²	6.8	2.2	-	-	-	-
Scheme administration expenses	-	-	-	2.7	1.2	-
Effect of restriction of surplus	2.7	1.3	-	-	0.9	-
Net interest cost/(income)	7.9	(1.3)	(0.2)	9.5	(0.5)	(0.2)
Total	35.5	5.8	(0.2)	31.6	5.4	(0.2)

The net expense is recognised in the following captions within the income statement:

	2019			Restated 2018 ¹		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
Operating expenses	27.6	7.1	-	22.1	5.9	-
Net finance expense/(income)	7.9	(1.3)	(0.2)	9.5	(0.5)	(0.2)
Total	35.5	5.8	(0.2)	31.6	5.4	(0.2)

¹ In previous years, the Directors had reviewed the scheme rules of the defined benefit pension schemes and concluded that for the TWMIPS scheme, the provisions of IFRIC 14 applied. This resulted in a restriction of the surplus for the scheme and as such no surplus was recognised. Our retirement benefit obligations consisted only of the TWPS scheme. Following a review into our approach, the Directors have concluded that a different interpretation of IFRIC 14 provided a truer, fairer picture of our pension scheme arrangements for our stakeholders. As a result, the Group have recognised the surplus for the TWMIPS scheme and have restated the comparative periods. Refer to page 52 for the adjustments to the comparative periods.

² Refer to the GMP equalisation section below for information on the past service costs including curtailments.

23. Retirement benefit obligations (continued)

Statement of other comprehensive income

Actuarial gains and losses on the defined benefit schemes have been recognised within other comprehensive income. An analysis of the amount presented is set out below:

	2019 £m	Restated 2018 £m
Cumulative actuarial losses recognised at 1 April	(471.7)	(558.7)
Actual return less expected return on pension scheme assets	76.5	2.9
Experience (loss)/gain arising on scheme liabilities	1.3	(10.9)
Gain/(loss) arising due to change in assumptions	(158.0)	66.6
Change in asset ceiling	56.8	28.6
Total actuarial gain/(loss)	(23.4)	87.2
Cumulative actuarial losses recognised at 31 March	(495.1)	(471.7)

Statement of financial position

The net pension (liability)/asset recognised within the statement of financial position is as follows:

	2019			Restated ¹ 2018		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
Fair value of scheme assets	1,508.2	805.2	15.4	1,442.9	805.6	14.6
Present value of defined benefit obligations	(1,847.0)	(759.4)	(7.7)	(1,743.7)	(755.0)	(7.5)
(Deficit)/surplus	(338.8)	45.8	7.7	(300.8)	50.6	7.1
Net pension deficit			(285.3)			(243.1)

IFRIC 14 considerations

For some defined benefit pension schemes IFRIC 14: *The limit on a defined benefit asset, minimum funding requirements and their interaction* potentially limits the surplus that can be recognised on the balance sheet or requires additional liabilities to be recognised where future deficit contributions are greater than the unadjusted accounting deficit.

The Directors have reviewed the scheme rules of the defined benefit pension schemes and have concluded that, for the TWMIPS scheme, as the Group does not have an unconditional right to a refund of any surplus, including as a deduction to future contributions payable, the provisions of IFRIC 14 apply. Consequently the surplus for this scheme has been restricted with an obligation recognised for the present value of deficit funding contributions payable to the scheme.

Reconciliation of defined benefit plan assets and liabilities

The movement in the present value of the defined benefit obligations were as follows:

	2019			2018		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	1,743.7	755.0	7.5	1,776.2	806.8	8.0
Current service cost	18.1	3.6	-	19.4	3.8	-
Past service cost including curtailments	6.8	2.2	-	-	-	-
Interest cost	45.7	19.1	0.2	46.4	20.1	0.2
Contributions from scheme members	0.1	-	-	0.4	-	-
Benefits paid	(47.9)	(40.0)	(0.4)	(52.8)	(37.8)	(0.4)
Termination benefits	0.1	-	-	0.5	-	-
Actuarial (gains)/losses	80.4	19.1	0.4	(46.4)	(37.9)	(0.3)
At 31 March	1,847.0	759.4	7.7	1,743.7	755.0	7.5

23. Retirement benefit obligations (continued)

The movements in the fair value of scheme assets were as follows:

	2019			2018		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
At 1 April	1,442.9	805.6	14.6	1,411.4	828.5	14.3
Interest income on scheme assets	37.8	20.4	0.4	36.9	20.6	0.4
Contributions by sponsoring employers	18.8	3.1	0.4	41.3	0.7	0.4
Contributions from scheme members	0.1	-	-	0.4	-	-
Administration costs paid from scheme assets	(2.7)	(1.3)	-	(2.7)	(1.2)	-
Benefits paid	(47.9)	(40.0)	(0.4)	(52.8)	(37.8)	(0.4)
Contributions for termination benefits	0.1	-	-	0.5	-	-
Gains/(losses) on assets above interest	59.1	17.4	0.4	7.9	(5.2)	(0.1)
At 31 March	1,508.2	805.2	15.4	1,442.9	805.6	14.6

Analysis of assets

	2019				2018			
	Quoted £m	Unquoted £m	Total £m	Total (%)	Quoted £m	Unquoted £m	Total £m	Total (%)
Equities								
UK	33.5	-	33.5	1.4	34.8	-	34.8	1.5%
Rest of World	335.9	2.2	338.1	14.6	344.0	1.8	345.8	15.3%
Private Equity	-	-	-	0.0	-	1.1	1.1	0.0%
Bonds								
Government – UK	21.2	-	21.2	0.9	47.0	-	47.0	2.1%
Government – Rest of World	203.8	-	203.8	8.8	195.3	-	195.3	8.6%
Corporates – UK	10.0	-	10.0	0.4	9.4	-	9.4	0.4%
Corporates – Rest of World	215.5	-	215.5	9.3	193.6	-	193.6	8.6%
Property								
UK	6.2	1.4	7.6	0.3	5.7	103.4	109.1	4.8%
Rest of world	4.4	-	4.4	0.2	3.9	-	3.9	0.2%
Alternative assets								
Liability driven instruments	1,262.4	-	1,262.4	54.6	1,105.5	-	1,105.5	48.8%
Other (including derivatives)	113.1	2.4	115.5	5.0	106.5	3.1	109.6	4.8%
Cash	101.4	-	101.4	4.4	108.0	-	108.0	4.8%
Total market value of assets	2,307.4	6.0	2,313.4	99.9	2,153.7	109.4	2,263.1	99.9%

IAS 19 Assumptions

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

Approach to set the assumptions	
Discount rate	As per IAS 19, the discount rate is determined using the market yields on high quality corporate bonds as at the reporting date with the currency and term of these bonds being consistent with the currency and term of the pension liabilities. The discount rate is calculated by applying the projected cash flows of these schemes to an AA-corporate bond yield curve as at 31 March 2019.
RPI inflation	The RPI inflation assumption uses the inflation curve weighted by projected future cash flows with an adjustment made for an inflation risk premium.
CPI inflation	This CPI inflation assumption is taken at a margin below RPI factoring in market forces and third party estimates of the difference expected.
Salary increases	Both TWPS and TWMIPS provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.
Pension increases	It is assumed that benefits will increase in line with the RPI and CPI inflation assumptions detailed above, based on the appropriate index for increasing benefits.
Longevity	The mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

23. Retirement benefit obligations (continued)

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

	2019			2018		
	TWPS	TWMIPS	SUURBS	TWPS	TWMIPS	SUURBS
Price inflation – RPI	3.25%	3.30%	3.30%	3.15%	3.15%	3.15%
Price inflation – CPI	2.25%	2.30%	2.30%	2.15%	2.15%	2.15%
Rate of increases in salaries	-	-	-	-	-	-
Rate of increase to pensions in payment – RPI	3.25%	3.30%	3.30%	3.15%	3.15%	3.15%
Rate of increase to pensions in payment – CPI	2.25%	2.30%	2.30%	2.15%	2.15%	2.15%
Discount rate	2.40%	2.35%	2.35%	2.65%	2.60%	2.60%

Both the TWPS and TWMIPS schemes provide benefits on a Career Average (“CARE”) benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required.

In valuing the liabilities of the pension schemes, mortality assumptions have been made as indicated below, however in respect of the SUURBS Arrangement as mortality assumptions have been made regarding the schemes only member and their spouse they have not been disclosed. These mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

	2019		2018	
	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
<i>Life expectancy from age 60:</i>				
Male	26.9	26.0	27.4	26.6
Female	28.9	28.5	29.4	29.0
<i>Life expectancy from age 60 currently age 40:</i>				
Male	28.4	27.6	29.0	28.1
Female	30.5	30.1	31.0	30.6

Actuarial risk factors

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

Definition of risk

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

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

	2019			2018		
	TWPS £m	TWMIPS £m	SUURBS £m	TWPS £m	TWMIPS £m	SUURBS £m
Change in discount rate (+ 1% p.a.)	330.0	90.0	0.8	315.0	90.0	0.8
Change in rate of inflation (-1% p.a.)	215.0	75.0	0.8	205.0	75.0	0.8
Change in life expectancy (-1 year)	75.0	30.0	0.3	70.0	30.0	0.3

23. Retirement benefit obligations (continued)

Future expected cash flows

The Group made a pension deficit repair payment of £22.7 million on 1 April 2019 in relation to 2018/19 having made a similar payment of £22.0 million on 31 March 2018 in relation to 2017/18. The Group expects to contribute approximately £22.8 million in aggregate to the defined benefit pension schemes in the next financial year. The average duration of the benefit obligation at the end of the year is 20 years for TWPS and 13 years for TWMIPS (2018: 20 years for TWPS and 13 years for TWMIPS).

In June 2017, the funding valuation as at 31 March 2016 for TWMIPS and TWPS was finalised and agreed with the scheme Trustees and actuaries. In order to address the combined funding deficit the Group is scheduled to make future deficit repair payments in line with the table below:

Year to 31 March	2020	2021	2022	2023	2024	2025	2026	2027
Deficit contribution (£m)	22.8	23.1	23.3	23.5	23.7	24.0	24.2	17.9

The expected cash flows are undiscounted liability cash flows based on the funding valuation as at 31 March 2016. The future cash flows are sensitive to the assumptions used and therefore actual cash flows may differ from those expected.

GMP Equalisation

On 26 October 2018, the High Court concluded on the case involving the Lloyds Banking Group's defined benefit pension schemes. Guaranteed Minimum Pensions ("GMPs") built up in our pension schemes between their commencement and 5 April 1997. They form a part of the overall pension and need to be provided before April 1997 as a condition of our opting out of the earnings related part of the state pension, as a result of which Thames Water and the pension scheme members paid reduced rate national insurance contributions up to April 2016. GMPs are subject to increase in payment and in deferment at different rates from the increases to benefits in excess of GMPs.

Even though state pension ages are now the same for men and women, GMPs for women are generally higher than those for men. Despite the equalisation of state pension ages, GMPs are still required to come into payment on the 60th birthday of women and the 65th birthday for men. As such GMPs are unequal between men and women of identical ages, salary histories and periods of service. The Lloyds case requires this inequality to be remedied and has given rise to additional pension liabilities for the Group.

24. Capital commitments

	2019 £m	2018 £m
Property, plant and equipment	395.7	377.3
Intangible assets	17.2	15.2
Contracted for but not provided	412.9	392.5

In addition to these commitments, the Group has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network.

25. Contingent liabilities

Contingent liabilities represent potential future cash outflows which are either not probable or cannot be measured reliably. The Company does not have any contingent liabilities.

26. Operating leases

Lease payments under operating leases of £13.4 million (2018: £10.8 million) were recognised as an expense in the year.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2019 £m	2018 £m
Within one year	10.7	10.1
Between one and five years	37.9	34.8
After more than five years	56.2	67.6
Total	104.8	112.5

Operating lease payments represent rentals payable by the Group for certain office properties, and plant and equipment. Where the Group has the ability and intent to exit a property lease prior to the term end date and it is probable that this option will be exercised, we have only included lease payments up to the assumed lease exit date.

27. Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases;
- outsourcing contracts; and
- guarantees.

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of IT support, legal services, supply chain, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Group.

28. Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and Thames Water Utilities Finance plc are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt at 31 March 2019 was £11.9 billion (2018: £11.2 billion).

At 31 March 2019 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m million (2018: £20.0 million). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8 million (2017: £0.8 million).

Kemble Water Finance Limited and its subsidiary, Thames Water (Kemble) Finance Plc (the "Kemble Financing Group") have provided security by way of a debenture over each of their assets in relation to monies owed by the Kemble Financing Group under certain financing arrangements which accede from time to time as secured debt pursuant to an intercreditor agreement. Pursuant to the intercreditor agreement, Kemble Water Finance Limited also guarantees the obligations of its subsidiary, Thames Water (Kemble) Finance Plc pursuant to any secured indebtedness it may raise. The total amount outstanding at the Kemble Water Finance Limited level at 31 March 2019 amounts to £585.0 million (2018: £275.0 million). The total amount of guaranteed secured debt raised at the Thames Water (Kemble) Finance Plc level outstanding at 31 March 2019 is £574.0 million (2018: £575.0 million).

Thames Water Insurance Company Limited, a wholly owned subsidiary of the Group, has no letters of credit in issue (2018: £0.8 million).

In addition there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No un-provided loss is expected to arise under these arrangements.

29. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	Underlying £m	2019	Total £m	Restated 2018 ¹		
		BTL £m		Underlying £m	BTL £m	Total £m
Profit/(loss) for the financial year	(87.6)	44.4	(43.2)	85.1	24.9	110.0
Less profit on the sale of non-household retail business	-	-	-	(89.7)	-	(89.7)
Less finance income	(18.8)	-	(18.8)	(10.4)	-	(10.4)
Add finance expense	500.9	-	500.9	517.7	-	517.7
(Less gains)/add losses on fair value of financial instruments	37.7	-	37.7	(41.0)	-	(41.0)
Taxation on profit/(loss) on ordinary activities	12.1	2.8	14.9	28.4	1.6	30.0
Operating profit	444.3	47.2	491.5	490.1	26.5	516.6
Depreciation on property, plant and equipment	544.8	-	544.8	520.1	-	520.1
Amortisation of intangible assets	22.0	-	22.0	27.6	-	27.6
(Profit) / loss on sale of property, plant and equipment	7.0	-	7.0	(11.4)	-	(11.4)
Difference between pension charge and cash contribution	12.4	-	12.4	(14.4)	-	(14.4)
Decrease/(increase) in inventory	5.9	-	5.9	3.6	-	3.6
Decrease/(increase) in trade and other receivables	10.3	(48.3)	(38.0)	50.2	(28.7)	21.5
Decrease/(increase) in contract assets	(30.9)	(0.9)	(31.8)	(22.0)	-	(22.0)
Increase in trade and other payables	72.3	7.6	79.9	8.5	-	8.5
(Increase)/decrease in contract liabilities	33.6	(0.6)	33.0	51.3	3.2	54.5
Decrease in group relief payable	-	-	-	2.2	(2.2)	-
(Decrease)/increase in provisions	(24.5)	-	(24.5)	(12.5)	-	(12.5)
Cash generated from operations	1,097.2	5.0	1,102.2	1,093.3	(1.2)	1,092.1

¹ The prior year results have been restated due to the impact of the transition to new accounting standard IFRS 15 'Revenue from Contracts with Customers' on 1 April 2018 as discussed on pages 47 to 50 as well as other restatements which are discussed on pages 44 to 46.

Non-cash transactions

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

	2019 £m	2018 £m
Movement in cash	(14.8)	9.1
Movement in short-term deposits	379.5	50.5
Total	364.7	59.6

30. Ultimate parent company and controlling party

The Directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the 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.

31. Related party transactions

Key management personnel

Key management personnel comprise the members of the Board of Directors and the Executive Committee of the Group's principal trading subsidiary Thames Water Utilities Limited during the year. Information regarding transactions with post-employment benefits plans is included in note 23.

	2019 £'000	2018 £'000
Short term employee benefits	6,485	6,553
Post-employment benefits	542	451
Other long-term benefits	-	31
Termination benefits	282	222
Other	202	999
Total	7,511	8,256

Company

The Company receives dividend income and pays and receives interest to and from subsidiary undertakings in the normal course of business. Total dividend income received during the year amounted to £nil (2018: £nil) and total net interest receivable during the year was £442.6 million (2018: £402.3 million).

As at 31 March 2019 net amounts owed to the Company from subsidiary undertakings were £2,721.1 million (2018: £4,001 million). As at 31 March 2019 and 31 March 2018, no related party receivables and payables were secured and no guarantees were issued. Balances will be settled in accordance with normal credit terms.

32. Post balance sheet events

Subsequent to 31 March 2019, two further dormant companies were liquidated and hence removed from the Group. These companies were Thames Water Nominees Limited and Thames Water Developments Limited. Their removal had an immaterial financial impact on the Company.

33. Adjustments to the prior year

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

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

In addition, the Group have restated the prior years as a result of changes in accounting policies and amendments to our accounting approach. Refer to page 41 for more information on adjustments that have impacted prior years.

Reconciliation of consolidated profit and loss for the year ended 31 March 2018

	Note	As previously stated			Transition Underlying £m	Adjustment Underlying £m	Restated 2018 ¹		
		Underlying £m	BTL £m	Total £m			Underlying £m	BTL £m	Total £m
Revenue	1	2018.3	26.9	2045.2			2,018.3	26.9	2045.2
Operating expenses	2	(1,621.3)	(0.4)	(1,621.7)		0.9	(1,620.4)	(0.4)	(1,620.8)
(Loss)/profit on the sale of property, plant and equipment		11.4	-	11.4			11.4	-	11.4
Other operating income	4	92.8	-	92.8	(12.0)		80.8	-	80.8
Operating profit		501.2	26.5	527.7	(12.0)	0.9	490.1	26.5	516.6
Profit on the sale of retail non- household business	5	89.7	-	89.7			89.7	-	89.7
Finance income	6	116.0	-	116.0		(105.6)	10.4	-	10.4
Finance expense	7	(623.3)	-	(623.3)		105.6	(517.7)	-	(517.7)
Net (losses) / gains on financial instruments	8	41.0	-	41.0			41.0	-	41.0
(Loss)/profit on ordinary activities before taxation		124.6	26.5	151.1	(12.0)	0.9	113.5	26.5	140.0
Taxation on loss/(profit) on ordinary activities	9	(30.1)	(1.6)	(31.7)	2.0	(0.3)	(28.4)	(1.6)	(30.0)
(Loss)/profit for the year		94.5	24.9	119.4	(10.0)	0.6	85.1	24.9	110.0

Reconciliation of other comprehensive income for the year ended 31 March 2018

	Note	As previously stated			Transition Underlying £m	Adjustment Underlying £m	Restated 2018 ¹		
		Underlying £m	BTL £m	Total £m			Underlying £m	BTL £m	Total £m
(Loss) /profit for the year		94.5	24.9	119.4	(10.0)		84.5	24.9	109.4
Other comprehensive income <i>Will not be reclassified to the income statement:</i>									
Net actuarial gains/(losses) on pension schemes	23	74.2	-	74.2		13.0	87.2	-	87.2
Deferred tax (charge)/credit on net actuarial gain/loss	20	(12.6)	-	(12.6)		(4.5)	(17.1)	-	(17.1)
<i>May be reclassified to the income statement:</i>									
Gains/(losses) on cash flow hedges		16.3	-	16.3			16.3	-	16.3
Cash flow hedges transferred to income statement	8	84.3	-	84.3			84.3	-	84.3
Deferred tax (charge)/credit on cash flow hedges	20	(17.1)	-	(17.1)			(17.1)	-	(17.1)
Other comprehensive income/(loss) for the year		145.1	-	145.1	(10.0)	8.5	153.6	-	153.6
Total comprehensive (loss)/income for the year		239.6	24.9	264.5	(10.0)	8.5	238.1	24.9	263.0

33. Adjustments to the prior year (continued)

Reconciliation of consolidated statement of financial position for the year ended 31 March 2018

	Note	As previously stated			IFRS 15 Transition Adjustment			Restated 2018 ¹		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Goodwill	10	1,468.1	-	1,468.1				1,468.1	-	1,468.1
Interest in joint venture	11	-	-	-				-	-	-
Intangible assets	12	169.0	-	169.0				169.0	-	169.0
Property, plant and equipment	13	15,185.6	-	15,185.6				15,185.6	-	15,185.6
Trade and other receivables	15	3.0	56.7	59.7			32.7	35.7	56.7	92.4
Pension asset SUURBS	23	7.1	-	7.1				7.1	-	7.1
Pension asset TWMIPS	23	-	-	-			50.6	50.6	-	50.6
Derivative financial assets	19	76.4	-	76.4				76.4	-	76.4
		16,909.2	56.7	16,965.9			83.3	16,992.5	56.7	17,049.2
Current assets										
Inventories and current intangible assets	14	18.1	-	18.1				18.1	-	18.1
Assets held for sale		-	-	-				-	-	-
Contract asset	15	-	-	-	225.9	0.4	(39.7)	186.2	0.4	186.6
Trade and other receivables	15	624.8	3.8	628.6	(225.9)	(0.4)	(32.7)	366.2	3.4	369.6
Cash and cash equivalents	16	159.8	2.6	162.4				159.8	2.6	162.4
Derivative financial assets	19	8.5	-	8.5				8.5	-	8.5
Short term investments		-	-	-				-	-	-
		811.2	6.4	817.6			(72.4)	738.8	6.4	745.2
Current liabilities										
Contract liabilities	17	-	-	-	(123.1)	(4.1)		(123.1)	(4.1)	(127.2)
Trade and other payables	17	(809.2)	(7.6)	(816.8)	134.6	4.1	61.5	(613.1)	(3.5)	(616.6)
Borrowings	18	(356.1)	-	(356.1)				(356.1)	-	(356.1)
Derivative financial liabilities	19	(12.3)	-	(12.3)				(12.3)	-	(12.3)
		(1,177.6)	(7.6)	(1,185.2)	11.5	-	61.5	(1,104.6)	(7.6)	(1,112.2)
Net current (liabilities)/assets		(366.4)	(1.2)	(367.6)	-	-	(10.9)	(365.8)	(1.2)	(367.0)
Non-current liabilities										
Contract liabilities	17	-	-	-	(589.8)			(589.8)	-	(589.8)
Trade and other payables	17	(445.8)	-	(445.8)	445.8			-	-	-
Borrowings	18	(12,152.0)	-	(12,152.0)				(12,152.0)	-	(12,152.0)
Derivative financial liabilities	19	(1,225.9)	-	(1,225.9)				(1,225.9)	-	(1,225.9)
Deferred tax	20	(898.0)	-	(898.0)	22.5		(17.7)	(893.2)	-	(893.2)
Provisions for liabilities and charges	21	(112.4)	-	(112.4)			(21.8)	(134.2)	-	(134.2)
Retirement benefit obligations TWPS	23	(300.8)	-	(300.8)				(300.8)	-	(300.8)
		(15,134.9)	-	(15,134.9)	(121.5)		(39.5)	(15,295.9)	-	(15,295.9)
Net (liabilities)/assets		1,407.9	55.5	1,463.4	(110.0)	-	32.9	1,330.8	55.5	1,386.3
Equity										
Called up share capital	22	1,991.6	-	1,991.6				1,991.6	-	1,991.6
Cash flow hedge reserve	22	(139.0)	-	(139.0)				(139.0)	-	(139.0)
Retained earnings	22	(444.7)	55.5	(389.2)	(110.0)		32.9	(521.8)	55.5	(466.3)
Total equity		1,407.9	55.5	1,463.4	(110.0)	-	32.9	1,330.8	55.5	1,386.3

33. Adjustments to the prior year (continued)

Reconciliation of consolidated statement of cashflow for the year ended 31 March 2018

	2018			IFRS 15 restatement			Restated 2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Adjustment Underlying £m	Underlying £m	BTL £m	Total £m
(Loss)/profit for the financial year	94.5	24.9	119.4	(10.0)	-	0.6	85.1	24.9	110.0
Less profit on the sale of non-household retail business	(89.7)	-	(89.7)				(89.7)	-	(89.7)
Less finance income	(116.0)	-	(116.0)			105.6	(10.4)	-	(10.4)
Add finance expense	623.3	-	623.3			(105.6)	517.7	-	517.7
Less net gains/(add net losses) on fair value of financial instruments	(41.0)	-	(41.0)				(41.0)	-	(41.0)
Taxation on (loss)/profit on ordinary activities	30.1	1.6	31.7	(2.0)	-	0.3	28.4	1.6	30.0
Operating profit	501.2	26.5	527.7	(12.0)	-	0.9	490.1	26.5	516.6
Depreciation on property, plant and equipment	520.1	-	520.1				520.1	-	520.1
Amortisation of intangible assets	27.6	-	27.6				27.6	-	27.6
Write-off of costs from assets in development	-	-	-				-	-	-
Profit on sale of property, plant and equipment	(11.4)	-	(11.4)				(11.4)	-	(11.4)
Difference between pension charge and cash contribution	(14.4)	-	(14.4)				(14.4)	-	(14.4)
Decrease/(increase) in inventory	3.6	-	3.6				3.6	-	3.6
Decrease/(increase) in trade and other receivables	21.2	(28.7)	(7.5)	22.0	-	7.0	50.2	(28.7)	21.5
Decrease/(increase) in contract assets				(22.0)			(22.0)	-	(22.0)
Increase in trade and other payables	43.7	3.2	46.9	(39.3)	(3.2)	4.1	8.5	-	8.5
(Increase)/decrease in contract liabilities				51.3	3.2		51.3	3.2	54.5
Decrease in group relief payable	2.2	(2.2)	-				2.2	(2.2)	-
(Decrease)/increase in provisions	(1.4)	-	(1.4)			(11.1)	(12.5)	-	(12.5)
Cash generated from operations	1,092.4	(1.2)	1,091.2	-	-	0.9	1,093.3	(1.2)	1,092.1

33. Adjustments to the prior year (continued)

Reconciliation of consolidated statement of cashflow for the year ended 31 March 2018

	2018			IFRS 15 restatement			Adjustment	2018		
	Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m		Underlying £m	BTL £m	Total £m
Cash generated from operations	1,092.4	(1.2)	1,091.2					1,093.3	(1.2)	1,092.1
Payments for group relief	-	-	-					(0.3)	-	(0.3)
Net cash generated by/(used in) operating activities	1,092.4	(1.2)	1,091.2	-	-	-	-	1,093.0	(1.2)	1,091.8
<i>Investing activities:</i>										
Interest received	106.8	-	106.8				(97.2)	9.6	-	9.6
Decrease in current asset investments	1.0	-	1.0					1.0	-	1.0
Net proceeds from sale of intercompany entities	-	-	-					-	-	-
Purchase of property, plant and equipment	(1,100.6)	-	(1,100.6)					(1,100.6)	-	(1,100.6)
Purchase of intangible assets	(61.7)	-	(61.7)					(61.7)	-	(61.7)
Proceeds from sale of property, plant and equipment	18.8	-	18.8					18.8	-	18.8
Net cash used in investing activities	(1,035.7)	-	(1,035.7)	-	-	-	(97.2)	(1,132.9)	-	(1,132.9)
<i>Financing activities:</i>										
New loans raised	2,238.3	-	2,238.3					2,238.3	-	2,238.3
Repayment of borrowings	(1,799.8)	-	(1,799.8)					(1,799.8)	-	(1,799.8)
Interest paid	(401.6)	-	(401.6)				97.2	(304.4)	-	(304.4)
Facility fees paid	(4.4)	-	(4.4)					(4.4)	-	(4.4)
Derivative settlements	(28.4)	-	(28.4)					(28.4)	-	(28.4)
Net cash generated by/(used in) financing activities	4.1	-	4.1	-	-	-	97.2	101.3	-	101.3
Net increase/(decrease) in cash and cash equivalents	60.8	(1.2)	59.6	-	-	-	-	61.1	(1.2)	59.9
Net cash and cash equivalents at beginning of year	99.0	3.8	102.8					92.7	3.8	96.5
Net cash and cash equivalents at end of year	159.8	2.6	162.4	-	-	-	-	153.8	2.6	156.4

33. Adjustments to the prior year (continued)

Reconciliation of consolidated statement of financial position for the year ended 31 March 2017 and 1 April 2017

	Note	As previously stated			Transition		Adjustment	Restated 2017 ¹		
		Underlying £m	BTL £m	Total £m	Underlying £m	BTL £m	Underlying £m	Underlying £m	BTL £m	Total £m
Non-current assets										
Goodwill	10	1,468.1	-	1,468.1				1,468.10	-	1,468.1
Interest in joint venture	11	-	-	-				-	-	-
Intangible assets	12	141.0	-	141.0				141.0	-	141.0
Property, plant and equipment	13	14,627.0	-	14,627.0				14,627.0	-	14,627.0
Trade and other receivables	15	2.8	30.4	33.2			36.0	38.8	30.4	69.2
Pension asset SUURBS	23	6.3	-	6.3				6.3	-	6.3
Pension asset TWMIPS	23	-	-	-			21.7	21.7	-	21.7
Derivative financial assets	19	170.6	-	170.6				170.6	-	170.6
		16,415.8	30.4	16,446.2			57.7	16,473.5	30.4	16,503.9
Current assets										
Inventories and current intangible assets	14	21.7	-	21.7				21.7	-	21.7
Assets held for sale		1.0	-	1.0				1.0	-	1.0
Contract asset	15	-	-	-	247.9	0.4	(32.7)	215.2	0.4	215.6
Trade and other receivables	15	644.0	0.8	644.8	(247.9)	(0.4)	(36.0)	360.1	0.4	360.5
Cash and cash equivalents	16	99.0	3.8	102.8				99.0	3.8	102.8
Derivative financial assets	19	-	-	-				-	-	-
Short term investments		1.0	-	1.0				1.0	-	1.0
		766.7	4.6	771.3			(68.7)	698.0	4.6	702.6
Current liabilities										
Contract liabilities	17	-	-	-	(126.2)	(0.2)		(126.2)	(0.2)	(126.4)
Trade and other payables	17	(913.3)	(4.4)	(917.7)	136.0	0.2	65.6	(711.7)	(4.2)	(715.9)
Borrowings	18	(381.5)	-	(381.5)				(381.5)	-	(381.5)
Derivative financial liabilities	19	(23.8)	-	(23.8)				(23.8)	-	(23.8)
		(1,318.6)	(4.4)	(1,323.0)	(9.8)	-	65.6	(1,243.2)	(4.4)	(1,247.6)
Net current (liabilities)/assets		(551.9)	0.2	(551.7)	(9.8)	-	(3.1)	(545.2)	0.2	(545.0)
Non-current liabilities										
Contract liabilities	17	-	-	-	(536.0)			(536.0)	-	(536.0)
Trade and other payables	17	(404.9)	-	(404.9)	404.9			-	-	-
Borrowings	18	(11,562.4)	-	(11,562.4)				(11,562.4)	-	(11,562.4)
Derivative financial liabilities	19	(1,398.0)	-	(1,398.0)				(1,398.0)	-	(1,398.0)
Deferred tax	20	(836.6)	-	(836.6)	20.5		(12.9)	(829.0)	-	(829.0)
Provisions for liabilities and charges	21	(113.9)	-	(113.9)			(32.9)	(146.8)	-	(146.8)
Pension deficit	23	(379.8)	-	(379.8)			15.0	(364.8)	-	(364.8)
		(14,695.6)	-	(14,695.6)	(110.6)	-	(30.8)	(14,857.5)	-	(14,857.5)
Net assets/ (liabilities)		1,168.3	30.6	1,198.9	(100.9)	-	23.8	1,070.7	30.6	1,101.3
Equity										
Called up share capital	22	1,991.6	-	1,991.6				1,991.6	-	1,991.6
Cash flow hedge reserve	22	(222.5)	-	(222.5)				(222.5)	-	(222.5)
Retained earnings	22	(600.8)	30.6	(570.2)	(100.9)	-	23.8	(677.9)	30.6	(647.3)
Total equity		1,168.3	30.6	1,198.9	(100.9)	-	23.8	1,070.7	30.6	1,101.3

Notes to the Company financial statements

34. Investment in subsidiaries

	2019 £m	2018 £m
Cost of shares in subsidiary undertakings	1.0	1.0
Provision for impairment	-	-
Net book value	1.0	1.0

A full listing of direct and indirect subsidiary and associated undertakings has been included in note 39 to these financial statements.

35. Intercompany loans receivable

	2019 £m	2018 £m
<i>Intercompany loans receivable:</i>		
Due from Kemble Water Eurobond Plc	1,990.6	1,990.6
<i>Interest on intercompany loans receivable:</i>		
Due from Kemble Water Eurobond Plc	3,125.3	2,435.4
Impairment of interest receivable	(2,394.7)	(558.0)
	730.6	1,877.4
Total	2,721.2	3,868.0
Disclosed within non-current assets	2,721.2	3,868.0
Disclosed within current assets	-	-

The loan due from Kemble Water Eurobond Plc, the Company's immediate subsidiary entity, is unsecured, repayable on demand and charges interest at 10%.

During the year the Company adopted IFRS 9. On transition we assessed the recoverability of the intercompany loan receivable and determined that at 1 April 2018 it was unlikely that the full value of the principal and interest expected to accumulate over the life of the loan would be recovered. As such the Company determined the expected credit loss of the loan by estimating the expected recoverability based on different scenarios under which we expect repayment will or could be made.

For the base case scenario, the Company has made this assessment by estimating the future expected enterprise valuation of the creditor derived through the application of an observable market multiplier uplift to the underlying entities Regulatory Capital Value (RCV). This provides our best estimate of the cashflows that will be available in the future to repay the principal and interest. As we have forecast recoverability in the future this has required estimates to be made on this multiplier in to 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 (Thames Water Utilities Limited) 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 our viability statement) which would increase the impairment required.

As a result of this assessment at 1 April 2018 we estimate the recoverable amount to be £2,474.3 million and have recorded an IFRS 9 transition adjustment to adjust the loan value to this.

As no interest is currently being paid on the loan, it is deemed to be in default at both 1 April 2018 and throughout the financial year based on the presumptions in IFRS 9. Therefore, although interest continues to be accrued at 10.0% p.a. this is calculated on the impaired carrying value during FY19.

The calculations were revisited at 31 March 2019 and it was assessed that there was no change in the underlying estimates or probabilities from the initial assessment on transition and therefore no further impairment charge has been raised. As these are intercompany balances they have no formal credit risk rating grade. A summary of the changes in the carrying value of the loan and accumulated interest is shown below:

Original loss allowance (under IAS 39)	£558.0m
Additional loss allowance on IFRS 9 transition	£1,394.1m
Opening loss allowance under IFRS 9	£1,952.1m

No further loss allowance has arisen in the year.

36. Trade and other payables

	2019 £m	2018 £m
Amounts payable in respect of group relief	366.9	282.8

All amounts owed to group undertakings are unsecured, interest free and repayable on demand.

37. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the accounting policies. The Company does not hold any derivative financial assets or liabilities (2018: none).

Categories of financial instruments

The carrying values of the financial assets and liabilities are as follows:

	2019 £m	2018 £m
Financial assets:		
<i>Amortised cost</i>		
Intercompany loans receivable	2,473.9	3,868.0
Total	2,473.9	3,868.0
Financial liabilities:		
<i>Amortised cost</i>		
Trade and other payables	(366.9)	(282.8)
Total	(366.9)	(282.8)

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable. Unless otherwise stated all of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly.

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's intercompany loan receivables and trade payables are considered to be approximate to their fair values.

Capital risk management

Details of the Group's capital risk management strategy can be found on page 12. The capital structure of the Company is as follows:

	2019 £m	2018 £m
Net debt	-	-
Equity attributable to the owners of the Group	2,108.0	3,719.2

Financial risk management

The Group's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. Details of the nature of each of these risks along with the steps the Group has taken to manage them is described on page 12 to 13. The Company's activities expose it to credit and liquidity risk.

(a) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, therefore the maximum exposure to credit risk at the year-end date was £2,473.9 million (2018: £3,868.0 million).

37. Financial instruments (continued)

(b) Liquidity risk

Details of the nature and management of the Group's liquidity risk is provided on page 13.

The maturity profile of the Company's financial liabilities disclosed in the statement of financial position are given below.

	2019 £m	2018 £m
Within one year	366.9	282.8
Between one and two years	-	-
Between two and three years	-	-
Between three and four years	-	-
Between four and five years	-	-
After more than five years	-	-
Total	366.9	282.8

38. Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2019 £m	2018 £m
Profit/(Loss) for the financial year	163.1	(136.1)
Less finance income	(247.2)	(402.3)
Add impairment of interest receivable from Kemble Water Eurobond Plc	-	462.0
Add taxation on profit on ordinary activities	84.1	76.4
Cash generated from operations	-	-

39. 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	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
Direct					
Kemble Water Eurobond Plc	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Indirect					
Kemble Water Finance Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Finance Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Ventures Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Commercial Services Limited	Trading Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water (Kemble) Finance Plc	Finance Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Insurance Company Limited	Insurance Company	Guernsey	Guernsey	Ordinary	100%
Thames Water Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
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 Limited	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%
Foudry Properties Limited	Property Company	United Kingdom	United Kingdom	Ordinary	50%
Shapeshare Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
PWT Projects Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Developments Limited*	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Innova Park Management Company Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water International Service Holdings Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Limited	Holding Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Asia PTE Limited	Non-trading Company	Singapore	Singapore	Ordinary	100%
Thames Water International (Thailand) Limited	Non-trading Company	Thailand	Thailand	Ordinary	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*	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Pension Trustees (MIS) Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Property Services Limited	Property Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Puerto Rico Inc	Non-trading Company	Puerto Rico	Puerto Rico	Ordinary	100%
Thames-Dick Superaqueduct Partners Inc	Joint venture	Puerto Rico	Puerto Rico	Ordinary	50.0%
Thames Water Senior Executive Pension Trustees Limited	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%

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

Subsidiaries in liquidation process	Principal undertaking	Country of incorporation	Tax resident	Class of shares held	Proportion of voting rights & shares held
Stella Meta-Filters Limited *	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Portacel Limited *	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Dorm 1 Limited *	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products SH Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products UPE Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Procurement Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
PCI Membrane Systems Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Overseas Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Environmental Services Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Liquidations complete					
TransAM Limited*	Legacy Investment	United Kingdom	United Kingdom	Ordinary	25%
Chlorination Equipment Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Retail Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
The Water Quality Centre Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Simon N-Viro Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
B O P Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Pipeline Solutions Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Sub-Scan Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Castings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Haymills Engineering Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products SGE Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products UPEI Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Coplastic Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Stockdale Filtration Systems Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Mentech (UK) Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Sura Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
S Holdings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Total Pipeline Solutions Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Products Coatings Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
T M Products Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Country Wide Collections Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water (UK) Pension Trustees Limited*	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Drainage Services Limited *	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Healthcare Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Overseas Consultancy Limited*	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Share Scheme Trustees Limited*	Pension Trustees	United Kingdom	United Kingdom	Ordinary	100%
Water Projects International Limited*	Legacy Investment	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Limited*	Finance company	Cayman Islands	United Kingdom	Ordinary	100%
Thames Water Utilities Cayman Finance Holdings Limited*	Holding Company	Cayman Islands	United Kingdom	Ordinary	100%

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

	Principal undertaking	Country of incorporation	Country of tax residence	Class of shares held	Proportion of voting rights and shares held
5 companies struck off					
Kemble Water Liberty Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Kemble Water Structure Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Kemble Water Investments Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Kemble Water Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%
Thames Water Holdings Limited	Dormant Company	United Kingdom	United Kingdom	Ordinary	100%

*During the financial year, management reduced the number of undertakings in the Group's corporate structure. A project was undertaken to eliminate 44 dormant companies which are no longer active. As at 31 March 2019, this resulted in 28 companies completely liquidated, five companies struck off, nine companies in the liquidation process and two companies that have not entered liquidation which are due to enter liquidation in June 2019.

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)
- House, South Church Street, George Town, Grand Cayman, Cayman Islands)
- Thames Water International (Thailand) Limited (999/9 The offices at Central World, 29th Floor, Unit 2973K, Rama I Road, Kwaeng Pathumwan, Khet Pathumwan, Bangkok)
- Thames Water Insurance Company Limited (St. Martin's House, Le Bordage, St Peter Port, GY1 4AU, Guernsey)