

Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Limited
(formerly Thames Water Utilities Finance Plc)

Annual Report and Financial Statements

For the year ended 31 March 2008

Thames Water Utilities Finance Limited

Annual report and financial statements for the year ended 31 March 2008

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Thames Water Utilities Finance Limited

Directors and advisors

Directors

A Beaumont
R Bloor

Independent auditors

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Registered office

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Finance Limited

Directors' Report for the year ended 31 March 2008

The directors present their report and the audited financial statements of the Company for the year ended 31 March 2008.

The Company's previous accounting period was extended to 31 March 2007 in order to coincide with Kemble Water Limited, its new owner. As a result, the comparative figures within this report and the financial statements cover a 15 month period and financial and related information linked to the period may not, therefore, be directly comparable with the figures for the current year ended 31 March 2008.

Review of business, principal activities and future developments

The Company was established to make certain financing arrangements on behalf of Thames Water Utilities Limited.

Following the acquisition of Thames Water Holdings Limited, by Kemble Water Limited, the whole business securitisation of Thames Water Utilities Holdings Limited and Thames Water Utilities Limited, including its wholly owned subsidiaries, was completed in August 2007. Following the securitisation the Company is not expected to be used for raising new finance for Thames Water Utilities Limited.

The Company was re-registered as a limited company on 4 June 2007.

The directors of the Company manage the group's operations on a divisional basis. For this reason, the company's directors believe that analysis using key performance indicators for the Company is not necessary or appropriate for an understanding of the development, performance or position of the business of the Company.

Results and dividends

The profit and loss account for the year is set out on page 8. The directors do not recommend the payment of a dividend (2007: £nil).

Directors indemnity provisions

On 28 June 2007, the Company executed deeds of indemnity for the benefit of each director of the Company. These provisions are qualifying third party indemnity provisions as defined by s.309B of the Companies Act 1985.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Kemble Water Holdings Limited Group ("Group"), which include those of the Company, are discussed in the Group's annual report which does not form part of this report.

Directors

The directors who held office during the year and to the date of signing are given below:

A Beaumont
J Chadwick (appointed 12 June 2007, resigned 23 November 2007)
H Reid (resigned 12 June 2007)
R Bloor (appointed 5 October 2007)

Thames Water Utilities Finance Limited

Directors' Report for the year ended 31 March 2008 (continued)

Financial risk management

The Company has access to the Group Executive Management Team, which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, liquidity risk, interest rate risk and exchange rate risk.

The operation of the Treasury function is governed by specific policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Company, see note 11 for further details.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that year.

In preparing these financial statements, the directors are required to:

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

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Statement as to disclosure of information to auditors

Each of the directors at the date of the approval of this report confirm that there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware. Each of the directors have taken all the necessary steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

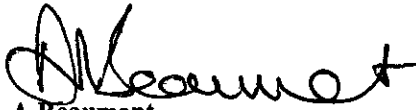
Thames Water Utilities Finance Limited

Directors' Report for the year ended 31 March 2008 (continued)

Independent auditors

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

Approved by the Board of Directors on 4 June 2008 and signed on its behalf by



A Beaumont
Director

Thames Water Utilities Finance Limited

Independent auditors' report to the members of Thames Water Utilities Finance Limited

We have audited the financial statements of Thames Water Utilities Finance Limited for the year ended 31 March 2008 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Thames Water Utilities Finance Limited

Independent auditors' report to the members of Thames Water Utilities Finance Limited (continued)

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2008 and of its loss for the year then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading

4 June 2008

Thames Water Utilities Finance Limited

Profit and loss account for the year ended 31 March 2008

	Note	Year end 31 March 2008 £'000	15 Month period end 31 March 2007 £'000
Turnover	2	165,818	155,162
Interest payable and similar charges	3	<u>(165,834)</u>	<u>(155,141)</u>
(Loss)/profit on ordinary activities before taxation		(16)	21
Tax charge on (loss)/profit on ordinary activities	5	<u>(2)</u>	-
Retained (loss)/profit for the year	13	<u>(18)</u>	<u>21</u>

All amounts above relate to continuing operations.

The Company has no recognised gains and losses other than the results above and therefore no separate statement of total recognised gains and losses has been presented.

There is no difference between the (loss)/profit on ordinary activities before taxation and the retained (loss)/profit for the period stated above and their historical cost equivalents.

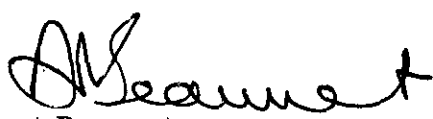
Thames Water Utilities Finance Limited

Balance sheet at 31 March 2008

	Note	31 March 2008 £'000	31 March 2007 £'000
Current assets			
Debtors: amounts falling due within one year	7	52,685	52,107
Debtors: amounts falling due after more than one year	8	<u>2,899,590</u>	<u>2,877,579</u>
		2,952,275	2,929,686
Creditors: amounts falling due within one year	9	<u>(52,682)</u>	<u>(52,086)</u>
Net current assets		2,899,593	2,877,600
Creditors: amounts falling due after more than one year	10	<u>(2,899,540)</u>	<u>(2,877,529)</u>
Net assets		<u>53</u>	<u>71</u>
Capital and reserves			
Called-up share capital	12	50	50
Profit and loss account	13	<u>3</u>	<u>21</u>
Shareholder's funds	13	<u>53</u>	<u>71</u>

The notes on pages 10 to 16 form part of these financial statements.

The financial statements were approved by the Board of Directors on 4 June 2008 and signed on its behalf by:


A Beaumont
Director

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with the historical cost convention, with applicable accounting standards in the United Kingdom and with the Companies Act 1985.

In accordance with the requirements of FRS 18, the directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

The Company's previous accounting period was extended to 31 March 2007 in order to coincide with Kemble Water Limited, its new owner. As a result, the comparative figures within this report and the financial statements cover a 15 month period and financial and related information linked to the period may not, therefore, be directly comparable with the figures for the current year ended 31 March 2008.

The group has adopted FRS 29, 'Financial Instruments: Disclosures'. The adoption of this standard represents a change in accounting policy and the comparative figures have been restated accordingly. There is no prior year adjustment to reserves resulting from adopting this standard, as its provisions relate to disclosure.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements, which have been applied consistently are set out below.

(a) Turnover

Turnover represents the recharge to Thames Water Utilities Limited of costs and interest incurred in respect of the raising of finance on that company's behalf. All costs of loans and interest are directly recharged, except for one loan's interest which is recharged at an additional margin. See note 10 below for details.

(b) Related party disclosures

The Company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8 'Related party disclosures', which requires the disclosure of the details of material transactions between the reporting entity and any related parties, on the grounds that it is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered in the United Kingdom.

(c) Cash flow

The Company is exempt from the requirements of FRS1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary and consolidated financial statements, which include the Company's financial statements, are publicly available.

(d) Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received which represents the fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the profit and loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies (continued)

(e) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

Taxable profit can differ from the net profit as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other years and it may further exclude items that are never taxable or deductible.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the profit and loss account.

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred taxation is measured on a non-discounted basis. Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with via the Statement of Total Recognised Gains and Losses in Equity.

(f) Foreign currencies

The financial statements are presented in Sterling, which is the functional currency of the majority of the Group and is therefore also the presentational currency of the Group. Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling on the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the year.

(g) Financial risk management

The Company's operations expose it to a variety of financial risks that include the effects of changes in debt market prices, liquidity risk and interest rate risk.

Treasury operations are managed centrally by a specialist team. The operation of the Treasury function is governed by specific policies and procedures that set out specific guidelines for the management of interest rate risk and foreign exchange risk and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Group.

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

1 Principal accounting policies (continued)

(g) Financial risk management (continued)

The Company is not exposed to any significant currency or interest rate risk as the Company's financial assets match the liabilities of the Company, so that no net exposure to interest or exchange rates exists. The objective of treasury operations is to ensure the availability of a timely flow of funds at a cost that reflects the credit standing of the Company. Treasury is managed as a cost centre and not as a profit centre and no material open or speculative positions are taken. The financing arrangements of the Company are further described in note 11 (pages 14 to 16) of these financial statements.

2 Turnover

The Company's turnover and result arises in the United Kingdom and are attributable to the one principal activity of the Company.

3 Interest payable and similar charges

	Year end 31 March 2008 £'000	15 Month period end 31 March 2007 £'000
Interest payable on other loans	<u>165,834</u>	<u>155,141</u>

4 Directors' emoluments and employee information

The Company had no employees during the year (2007: Nil). No director received any remuneration in respect of their services to the Company (2007: £Nil).

5 Taxation on profit on ordinary activities

	Year end 31 March 2008 £'000	15 Month period end 31 March 2007 £'000
Current tax:		
Amounts receivable in respect of group relief	(4)	-
Prior year charge re current tax	<u>6</u>	<u>-</u>
Total current tax charge	<u>2</u>	<u>-</u>

The tax charge assessed for the year is higher (2007: lower) than the standard rate of corporation tax in the United Kingdom of 30%. The differences are explained below:

	Year end 31 March 2008 £'000	15 Month period end 31 March 2007 £'000
(Loss)/profit on ordinary activities before tax	<u>(16)</u>	<u>21</u>
(Loss)/profit on ordinary activities at corporation tax of 30% (2007: 30%)	(4)	6
Effects of:		
Prior year adjustment for current tax	6	-
Other	<u>-</u>	<u>(6)</u>
Current tax charge	<u>2</u>	<u>-</u>
There is no tax charge or credit for deferred tax.		

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

6 Auditors' remuneration

The auditors' remuneration is to be borne by the Company's immediate parent company.

7 Debtors: amounts falling due within one year

	31 March 2008 £'000	31 March 2007 £'000
Amounts owed by immediate parent undertaking	52,681	52,107
Group relief receivable	4	-
	<u>52,685</u>	<u>52,107</u>

There are no amounts past their due by dates.

8 Debtors: amounts falling due after more than one year

	31 March 2008 £'000	31 March 2007 £'000
Amounts owed by immediate parent undertaking - loan (see note 10)	2,899,480	2,877,469
Amounts owed by immediate parent undertaking - non-loan	72	72
Called up share capital not paid	38	38
	<u>2,899,590</u>	<u>2,877,579</u>

9 Creditors: amounts falling due within one year

	31 March 2008 £'000	31 March 2007 £'000
Amounts due to immediate parent undertaking	6	-
Interest payable	52,676	52,086
	<u>52,682</u>	<u>52,086</u>

10 Creditors: amounts falling due after more than one year

	31 March 2008 £'000	31 March 2007 £'000
Guaranteed Bonds	2,899,480	2,877,469
Other creditors	60	60
	<u>2,899,540</u>	<u>2,877,529</u>

The Company has in issue £2,899,480,000 (2007: £2,877,469,000) of Guaranteed Bonds due between 2009 and 2055 (2007: due between 2008 and 2055). The net proceeds were loaned to Thames Water Utilities Limited under the same interest terms for all loans except for the £225m 6.60% Guaranteed bond due 2021 which includes a margin of 1 basis point. Net proceeds of £2,899,480,000 (2007: £2,877,469,000) are included in amounts owed by the immediate parent company in respect of these loans. Thames Water Utilities Limited has guaranteed the principal and interest payments due under the terms of the Guaranteed Bonds.

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

11 Financial instruments

Financial Reporting Standard 25 requires disclosure of the Company's Funding and Treasury Policy together with further details on its financial assets and liabilities.

Funding and Treasury Policy

The Company's funding policy is in accordance with that of Kemble Water Holdings Limited's which is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

The Company's debt arises from Guaranteed Bonds. However the company will no longer be issuing debt under its Debt Issuance Programme.

The Company's treasury operations are managed centrally by a small specialist team, and are managed as a cost centre, not a profit centre; no material open or speculative positions are taken.

Short term debtors and creditors other than Guaranteed Bonds, have been excluded from the financial instruments' disclosures.

Interest rates earned on, and currency of denomination of, the Company's financial assets, are matched against those of the Company's financial liabilities. These assets and liabilities hedge each other, so that the Company has no net exposure to movements in interest rates or exchange rates. Where current financial assets and current financial liabilities attract floating rates of interest, these are linked to LIBOR. Index linked debt is related to UK RPI.

Fair values

	Book value		Fair value	
	31 March 2008 £'000	31 March 2007 £'000	31 March 2008 £'000	31 March 2007 £'000
Primary financial instruments				
- Financial assets	2,899,480	2,877,469	3,171,752	3,180,683
- Financial liabilities	(2,899,480)	(2,877,469)	(3,171,752)	(3,180,683)
Total	-	-	-	-

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale. The table above sets out a comparison of the book and fair values of the Company's financial instruments.

Primary financial instruments include bonds that are traded on a public market. Fair values for these have been calculated using the 31 March 2008 quoted prices. Mark-to-market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values that approximate to book value.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effects of revaluing foreign currency borrowings at closing rates are included in the fair valuation.

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

11 Financial instruments (continued)

Financial assets

Interest rate risk profile at 31 March

	Total at fixed rates*		Total book value		For fixed rate assets only*			
					Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 %	2007 %	2008 Years	2007 Years
Other loans								
- £ Sterling	2,841,950	2,808,112	2,841,950	2,808,112	5.91	5.48	24.22	25.08
- \$ US	7,685	7,978	7,685	7,978	6.31	6.31	3.10	4.10
- Other	49,845	61,379	49,845	61,379	5.49	5.79	1.25	1.89
	2,899,480	2,877,469	2,899,480	2,877,469	5.91	5.49	23.82	24.53

Financial liabilities

Interest rate risk profile at 31 March

	Total at fixed rates*		Total book value		For fixed rate liabilities only*			
					Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2008 £'000	2007 £'000	2008 £'000	2007 £'000	2008 %	2007 %	2008 Years	2007 Years
Other loans								
- £ Sterling	2,841,950	2,808,112	2,841,950	2,808,112	5.91	5.48	24.22	25.08
- \$ US	7,685	7,978	7,685	7,978	6.31	6.31	3.10	4.10
- Other	49,845	61,379	49,845	61,379	5.49	5.79	1.25	1.89
	2,899,480	2,877,469	2,899,480	2,877,469	5.91	5.49	23.82	24.53

*Included in fixed rate assets/liabilities are Index linked bonds at a fixed coupon rate and indexation based on RPI calculation.

Maturities

	31 March 2008 £'000	31 March 2007 £'000
Other loans (secured)		
- Between one and two years	49,845	17,537
- Between two and five years	257,631	301,743
- After more than five years	2,592,004	2,558,189
	2,899,480	2,877,469

Loans are repayable between 2009 and 2055.

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March 2008

11 Financial instruments (continued)

Maturities (continued)

Loans include:

- £330m 6.75% Guaranteed bond due 2028
- £200m 6.50% Guaranteed bond due 2032
- £600m 5.13% Guaranteed bond due 2037
- £175m 3.38% Index linked bond due 2021
- £300m 1.68% Index linked bond due 2053
- £300m 1.68% Index linked bond due 2055
- £225m 6.60% Guaranteed bond due 2021
- £250m 4.75% Guaranteed bond due 2010
- £200m 4.90% Guaranteed bond due 2015
- £200m 5.05% Guaranteed bond due 2020

The Company has a £5 billion (March 2007: £5 billion) Guaranteed bond programme. No further issuance under this programme is expected.

12 Share capital

	31 March 2008 £'000	31 March 2007 £'000
Authorised		
50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
Allotted, called-up and partly paid		
50,000 ordinary shares of £1 each (25p paid up)	<u>50</u>	<u>50</u>

13 Profit and loss account

	31 March 2008 £'000	31 March 2007 £'000
At 1 April and 1 January	21	-
(Loss)/profit for the year/period	<u>(18)</u>	<u>21</u>
At 31 March	<u>3</u>	<u>21</u>

Reconciliation of movements in shareholder's funds

	31 March 2008 £'000	31 March 2007 £'000
At 1 April and 1 January	71	50
(Loss)/profit for the year/period	<u>(18)</u>	<u>21</u>
At 31 March	<u>53</u>	<u>71</u>

14 Immediate and ultimate parent company and controlling party

The immediate parent undertaking is Thames Water Utilities Limited, which owns 100% of the share capital.

Kemble Water Finance Limited, a company incorporated in the United Kingdom is the intermediate parent company and the smallest group to consolidate these financial statements.

The directors consider the ultimate parent company and controlling party is Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest group to consolidate these financial statements.

Copies of the financial statements of all of the above companies may be obtained from The Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.