

Thames Water Utilities Limited

**Interim report and financial
statements for the six month period
ended 30 September 2008**



Registered no: 02366661 (England and Wales)

Thames Water Utilities Limited

Interim report and financial statements

For the six month period ended 30 September 2008

Thames Water Utilities Limited

Contents

	Pages
Report of the Chief Executive Officer	2 - 3
Report of the Chief Financial Officer	4 - 8
Responsibility statement of the directors	9
Auditors' independent review report	10
Condensed Profit and loss account	11
Condensed Statement of total recognised gains and losses	11
Condensed Balance sheet	12
Condensed Cash flow statement	13
Notes to the financial statements	14 - 21

Thames Water Utilities Limited

Report of the Chief Executive Officer for the six month period ended 30 September 2008

This report presents a business and financial overview for Thames Water Utilities Limited (“the Company”). The principal activity of the Company continues to be the provision of water and wastewater services.

This report has been prepared in accordance with pronouncements on interim reporting issued by the Accounting Standards Board and the voluntarily applied Disclosure and Transparency Rules as stated in the Statement of directors’ responsibility report (see page 9).

Business Review

The business continued to deliver strong financial performance in the 6 months to 30 September 2008 with operating profit increasing by 10.6% to £323.2m, compared to £292.3m for the 6 months to 30 September 2007 (“the prior period”). This resulted from continued focus on delivering operating cost efficiency and increased turnover. The inflation linked price increases allowed by the Water Services Regulation Authority (“Ofwat”) has helped fund the capital expenditure programme which is on target to deliver £1 billion of investment for the second year in succession, by far the largest investment programme in the sector (see financial overview on page 4 for further details).

The 6 months to 30 September 2008 was also characterised by further improvement in operational performance with leakage levels continuing to reduce as a result of further investment in replacing Victorian mains in London. The Company’s achievement of 100% sewerage works compliance in 2007/08 has been maintained and it has now had, for the first time ever, a full year without a compliance failure in any of its 349 sewerage treatment works. The Company achieved best-ever performance in 2007/08 for drinking water quality and current performance indicates that this result will be maintained for 2008/09. Finally, significant investment in telephony and IT systems in the Company’s customer centre has started to deliver improved customer service and reductions in written complaints (see Non financial performance measures on page 6 for further details).

PR09

The Company submitted its draft Business Plan to Ofwat on 11 August 2008. This builds on its Strategic Direction Statement and sets out how the Company plans to deliver its medium-term strategy and its vision: “If customers had a choice they would choose Thames Water”.

The Company’s objectives are based on the most extensive customer and stakeholder research that it has ever undertaken and address the clear priorities that customers and stakeholders have said that they support and are willing to pay for. The plan addresses the legacy of past under-investment and targets those areas that need immediate attention to ensure security of supply and continuity of service for the future.

The plan meets the needs of the rapidly-growing population in the Company’s supply area, through the proposed construction of a major reservoir in Oxfordshire to provide secure supplies, especially in times of drought, for the next 25 years. The plan provides the service improvements that customers have said that they want and, in particular, greatly reduces the number of homes threatened by sewer flooding. This is the worst service failure that customers can experience and customers and stakeholders support the Company’s commitment to eliminating it. The plan supports the economic growth of the capital city and the Thames Valley and addresses the very real and present challenges of climate change. It delivers the essential improvements, including sustainability, required by the Environment Agency, Drinking Water Inspectorate, and Natural England, and is consistent with the Government’s Water Strategy and the findings of the Pitt review.

The plan includes a £6.5 billion investment programme, which is the minimum necessary to achieve these objectives and is essential to maintain service levels to customers. Approximately £1.3 billion is due to the Tideway Tunnel development and associated projects, the development of which, is supported by the Government to mitigate storm water discharge from sewers into the River Thames.

Thames Water Utilities Limited

Report of the Chief Executive Officer for the six month period ended 30 September 2008 (continued)

Business Review (continued)

PR09 (continued)

Customers support the proposals contained in the draft plan and are willing to pay the associated price increase of around 3% per annum (before inflation) on the average household bill over the next five years. For a small minority of customers this rise in prices may not be affordable and the plan proposes new tariff arrangements on 'an ability to pay' basis and extends the Thames Water Charitable Trust for those who genuinely cannot afford to pay for their water services.

The Company is now working to finalise its Business Plan for re-submission to Ofwat in April 2009, the next major milestone in the price review process. It is building on the proposals contained in the draft plan and responding to consultation with customers and stakeholders. Whilst welcoming the scrutiny that Ofwat will give the plan, the Company is convinced that its final plan will provide the service that its customers have said that they want and the investment that the Company needs to make to secure the performance of its assets for the future.

Transforming Thames

The Company has recently undertaken a number of business led initiatives, the cornerstone of which is to organise Thames with the aspiration to become 'the best utility by far in the UK'. Underpinning these initiatives are two major projects:

- The establishment of an Asset Owner/Service Provider organisation.
- The implementation of SAP's enterprise business application suite.

As an infrastructure business with a requirement for investment estimated to be £6.5 billion within the next Asset Management Period, the Company recognises that to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business, it will need to implement a new business model based on an Asset Owner and Service Provider organisation. This restructuring of the business will provide clear accountability, introduce commercially-based Key Performance Indicators and simplify the Company's business processes. It will also provide the catalyst and visibility to build an excellent asset management capability.

Alongside the development of an Asset Owner and Service Provider organisation, the implementation of SAP will enable the Company to deploy best practice, end-to-end, business processes across its operations and provide further operating efficiencies. Both of these initiatives will be delivered in 2009.

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2008

Financial overview

Financial results

Turnover

Turnover for the six month period ended 30 September 2008 was £780.5m (2007: £745.0m), an increase of 4.8% compared to the prior period. Real price increases as agreed with Ofwat, together with increases linked to the Retail Price Index (RPI), increased turnover by 5.6%. This increase has been diluted due to the loss of income relating to the sale of the Company's Multi-utility activity to Veolia Water UK Plc, which in turn was part of the wider disposal by Kemble Water Holdings Limited of its commercial business on 28 November 2007.

Operating expenditure

Operating expenditure for the six month period ended 30 September 2008 has remained broadly in line with the prior period. Increases in power costs have been mitigated by the removal of operating costs associated with the sale of the Company's Multi-utility activity and continued emphasis on driving operating efficiencies, whilst ensuring the delivery of the Company's regulatory outputs.

EBITDA

The increases in turnover and the small reduction in operating costs have contributed to the 6.1% improvement in EBITDA compared to the prior period. This improvement has been diluted by the significant reduction in operating income in the period as a result of the general slow down in asset disposal activity in the property market. See Financial Key Performance Indicators on page 5.

Net interest payable and similar charges

Net interest payable for the six month period ended 30 September 2008 was £126.8m (2007: £92.6m), an increase of £34.2m (36.9%) compared to the prior period. This increase has been driven by the increase in net debt of £0.7 billion since 30 September 2007, which has been used to help fund the Company's capital programme, see note 13.

Taxation

The current tax charge is £46.0m (2007: £41.8m) and deferred tax is £7.2m (2007: £58.4m credit). The deferred tax credit for the six month period to 30 September 2007 had been calculated after taking into account the reduction in the corporation tax rate from 30% to 28% with effect from 1 April 2008. This one-off change resulted in a credit to the profit and loss account of £78.5m.

The current tax effective rate for the six month period to 30 September 2008 was 24% compared to 21% for the prior period.

Net Cash outflow before financing activities

Net cash outflow before financing activities of £312.9m was £727.0m lower than the prior period, principally as a result of the loan to Thames Water Utilities Holdings Limited in 2007 (£1.2 billion) offset by increased capital investment (£169.3m) reflecting the increase in the Company's capital programme; dividend payment (£131.0m) and movement of liquid resources (£148.8m).

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2008 (continued)

Financial overview (continued)

Financial results (continued)

Balance sheet

Net assets as at 30 September 2008 are £6.0m higher than 31 March 2008, principally reflecting increases in net current assets. This increase has resulted principally from annual billing and increased fixed assets, reflecting capital spend in the first six months of the year offset by increased net debt, which are both discussed under 'Other financial indicators' below.

Other financial indicators

Capital expenditure has increased by 10% on the prior period from £478.2m to £526.7m, reflecting the continued substantial investment programme, which is estimated to again reach £1 billion for the year.

Net debt has increased to £5.1 billion from £4.7 billion at 31 March 2008, principally reflecting the requirements of the capital expenditure as noted above.

The Company paid an interim dividend of £131.0m on 30 May 2008 in respect of the year ended 31 March 2008 (2007: £nil).

On 1 October 2008 the Board of Directors approved an interim dividend of £91.0m (8.8p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was subsequently paid on 31 October 2008.

Financing

As at 30 September 2008, the Company had committed facilities in place with a syndicate of nine relationship banks to the value of £1.055 billion, all of which were un-drawn. These facilities will provide the Company with the necessary liquidity to fund the operation of the business for at least the next twelve months and ongoing into the next Asset Management Period.

Financial Key Performance Indicators (KPI's)

Methodology and calculation of financial KPI's

1. EBITDA: Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge ("IRC").
2. Total Capex Spend: Total expenditure on tangible fixed assets excluding contributions received, see note 5.
3. Net cash inflow from operating activities: Total cash inflow from all operating activities; see Cash flow statement on page 13.
4. Operating expenditure: Operating costs excluding amortisation, depreciation and IRC, see note 2.

Performance Measure	Half year to 30 September 2008 £m	Half year to 30 September 2007 £m
EBITDA	487.0	458.8
Total Capex Spend	526.7	478.2
Net cash inflow from operating activities	501.6	515.3
Operating expenditure	294.4	295.6

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2008 (continued)

Principal risks and uncertainties

The Company is exposed to a number of potential risks and uncertainties which could have a material impact on its long-term performance. These comprise a mix of embedded, (i.e. internal operational risks), and those of external origin (i.e. imposed risks). Details of the principal risks and uncertainties relevant in this financial year are itemised below. Further details of these risks and uncertainties can be found on pages 27 to 29 of the Company's Annual Report and Financial Statements for the year ended 31 March 2008. They include:

Operational risks

- PR09 Determination.
- Failure to deliver the regulatory contract.
- Failure to comply with current laws or regulations.
- Operational loss as a result of a failure to comply with internal processes.

External risks

- Future changes in laws or regulations.
- Managing increased competition in the water industry.
- Increasing energy prices.
- The effects of climate change and long-term changes in weather patterns.

In addition to the risks listed above, the Company is also exposed to the following key risk, the full impact of which is not yet being felt.

Global financial crisis

At present, management has not seen an increase in bad debt occurrences arising from the global financial crisis although it is expected that, if economic conditions continue to worsen in the medium to long term, this would affect the profits of the Company.

The more immediate concerns for the Company in relation to the current financial crisis is the impact on the cost of debt, which has increased significantly over the past year and may continue to increase in the medium to long term.

Non Financial Performance Measures – Service Performance Overview

The non-financial performance measures used by the Company are largely those used by Ofwat to measure the Company's performance against the regulatory targets set out in the 2004 Final Determination.

The following commentary provides the Company's best view of the likely outcome for 2008/09 based on performance to the end of September 2008 and compares this with the Company's performance in 2007/08.

Drinking water quality

The Company achieved a best-ever performance in 2007/08 for mean zonal compliance and current performance indicates that this result will be maintained for 2008/09.

Sewage works compliance

The Company's achievement of 100% sewage works compliance in 2007/08 has been maintained and expects that this result will be maintained for 2008/09.

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2008 (continued)

Non Financial Performance Measures – Service Performance Overview (continued)

Leakage

The Company remains ahead of last year's leakage performance but with a more aggressive target to achieve by year end. Performance remains within the 95 percentile confidence band to deliver the year end target.

Security of Supply

Performance remains ahead of the regulatory target due to reductions in customer demand and reductions in leakage.

Serviceability

The Company achieved having three out of its four asset categories assessed as stable in 2007/08. For 2008/09, it expects that all four will be assessed as stable.

DG2 – Properties at risk of inadequate water pressure

Current performance is ahead of last year with fewer properties at risk of low pressure. Engineering solutions have been identified and are being implemented to deliver a result significantly below the 2007/08 result, outperforming the Company's regulatory target and representing a new best-ever performance.

DG3 – Interruptions to water supply

This measure represents the number of customers affected by interruptions to their water supply and the duration of the event for those affected. In 2007/08 the Company significantly improved its operational response, producing a best-ever result in terms of performance. In 2008/09, the Company's performance has been affected by a small number of events affecting a large number of customers. This is due to the configuration of the Company's network which means that a single water main can feed thousands of properties. The Company's improvements in operating practice have continued and it can demonstrate that the duration of these events has declined, bringing more rapid service recovery. Whilst the Company will be unable to repeat the result for last year, its performance for 2008/09 is expected to be within the regulatory target. The Company's investment plans for AMP5 include provision for reconfiguration of its network.

DG4 – Restrictions on water use

It has not been necessary to introduce water use restrictions this year.

DG5 – Properties at risk of flooding from overloaded sewers

The Thames Water area has experienced a lower level of internal sewer flooding incidents compared to last year. This measure excludes severe weather incidents but is primarily driven by weather conditions. The Company expect to meet its 2008/09 target for reducing the number of properties on the "at risk" register.

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2008 (continued)

Non Financial Performance Measures – Service Performance Overview (continued)

DG5 – Properties at risk of flooding from sewer blockages, collapses or equipment failure

The number of incidents in the first six months has reduced compared to last year. This measure is also weather-related but the major cause of failure is the disposal of unsuitable material (e.g. fats, oils and greases) in domestic sewers. The Company has customer-education and sewer-cleaning programmes to tackle repeat issues and has recently changed the focus of its operational response to identify and prevent repeat incidents. The Company expects to outperform last year's result and to be within its regulatory target.

DG6 – Response to billing enquiries

Performance to date is ahead of last year and the Company is on track to outperform the regulatory target for the year.

DG7 – Response to written complaints

Performance to date is broadly in line with last year and is on track to deliver the regulatory target for the year. A new action plan has been implemented this year, targeted at addressing root causes of complaints, first time resolution of complaints when received and improved escalation where necessary.

DG8 – Bills based on a meter reading

The Company narrowly missed the regulatory target last year and has a focused action plan to deliver the target for this year. Performance is measured on a cumulative basis throughout the year as metered accounts are read and billed. Year to date performance is ahead of last year and initiatives are in place to improve the likelihood of meeting the year end target.

DG9 – Calls abandoned

The Company has made a significant investment in new telephony and IT systems at its customer centre. After a temporary increase in the abandoned call rate whilst systems were implemented and bedded in, the Company is back on track to deliver performance in line with 2007/08.

Thames Water Utilities Limited

Responsibility statement of the directors in respect of the half-yearly financial report

The directors have voluntarily complied with the Disclosure and Transparency Rules, except in the case of applying DTR 4.2 8R in respect of related party transactions on the grounds that the Company is exempt as it does not issue shares, as the Company is required under licence condition 6A.5B to publish information about its interim results as if subject to the Listing Rules of the Financial Services Authority.

The directors confirm that to the best of their knowledge:

- The condensed set of financial statements has been prepared in accordance with the Statement *Half-yearly financial reports* issued by the UK Accounting Standards Board.
- The interim management report includes a fair review of the information required by [DTR 4.2.7R](#) of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

The directors of the Company are listed in the Company's Annual Report and Financial Statements for the year ended 31 March 2008. There have been no changes to the directors subsequent to the publication of the Annual Report and Financial Statements for the year ended 31 March 2008.

The above statement of directors responsibilities was approved on 26 November 2008.

By order of the Board

Thames Water Utilities Limited

Auditors' independent review report for the six month period ended 30 September 2008

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2008, which comprises the condensed profit and loss account, the condensed balance sheet, the condensed cash flow statement, the condensed Statement of total recognised gains and losses and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

The half-yearly report is the responsibility of, and has been approved by, the directors.

The annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the regulatory annual report and financial statements for the year ended 31 March 2008.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2008 is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the regulatory annual report and financial statements for the year ended 31 March 2008.

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London
26 November 2008

Thames Water Utilities Limited

Condensed Profit and loss account for the six month period ended 30 September 2008

	Note	Six months to 30 September 2008 (unaudited)	Six months to 30 September 2007 (unaudited)	Year to 31 March 2008 (audited)
		£m	£m	£m
Turnover		780.5	745.0	1,494.2
Operating costs	2	(458.2)	(462.1)	(949.2)
Operating income		0.9	9.4	45.1
Operating profit		323.2	292.3	590.1
Net interest payable and similar charges		(126.8)	(92.6)	(183.2)
Other finance (expense)/income		(0.7)	-	12.3
Profit on ordinary activities before taxation		195.7	199.7	419.2
Taxation on profit on ordinary activities	3	(53.2)	16.6	(39.2)
Profit for the period		142.5	216.3	380.0

All amounts above relate to continuing operations.

There are no differences between the profit on ordinary activities before taxation for the periods as stated above and their historic cost equivalents.

Condensed Statement of total recognised gains and losses for the six month period ended 30 September 2008

	Six months to 30 September 2008 (unaudited)	Six months to 30 September 2007 (unaudited)	Year to 31 March 2008 (audited)
	£m	£m	£m
Profit for the period	142.5	216.3	380.0
Actuarial (loss)/gain on pension scheme	(7.6)	6.8	3.9
Deferred tax relating to actuarial (loss)/gain	2.1	(1.5)	(1.1)
Total recognised gains for the period	137.0	221.6	382.8

Thames Water Utilities Limited

Condensed Balance Sheet at 30 September 2008

	Note	30 September 2008 (unaudited)	30 September 2007 (unaudited)	31 March 2008 (audited)
		£m	£m	£m
Fixed assets				
Tangible assets	5	6,811.9	6,164.3	6,459.2
Investments		0.1	0.1	0.1
		6,812.0	6,164.4	6,459.3
Current assets				
Stocks		7.5	6.2	7.0
Debtors:				
Amounts falling due within one year		838.1	823.8	519.3
Amounts falling due after more than one year	6	1,259.4	1,180.0	1,223.8
Total debtors		2,097.5	2,003.8	1,743.1
Investments		51.9	-	15.6
Cash at bank and in hand		13.1	90.8	65.8
		2,170.0	2,100.8	1,831.5
Creditors: amounts falling due within one year	7	(1,356.2)	(1,150.2)	(1,192.7)
Net current assets		813.8	950.6	638.8
Total assets less current liabilities		7,625.8	7,115.0	7,098.1
Creditors: amounts due after more than one year	7	(4,975.6)	(4,564.9)	(4,461.6)
Deferred income		(172.7)	(169.3)	(173.1)
Provisions for liabilities and charges	8	(881.5)	(844.2)	(877.3)
Net asset excluding pension assets		1,596.0	1,536.6	1,586.1
Net pension assets		22.2	16.4	26.1
Net assets including pension assets		1,618.2	1,553.0	1,612.2
Capital and reserves				
Called up share capital		1,029.0	1,029.0	1,029.0
Share premium account		100.0	100.0	100.0
Profit and loss account	9	489.2	424.0	483.2
Total shareholder's funds	10	1,618.2	1,553.0	1,612.2

The interim financial statements were approved by the Board of Directors on 26 November 2008 and signed on its behalf by:

Mark Braithwaite
Chief Financial Officer

Thames Water Utilities Limited

Condensed Cash flow statement for the six month period ended 30 September 2008

	Note	Six months to 30 September 2008 (unaudited) £m	Six months to 30 September 2007 (unaudited) restated £m	Year to 31 March 2008 (audited) £m
Net cash inflow from operating activities	11	501.6	515.3	920.0
Net cash outflow from returns from investments and servicing of finance		(74.3)	(107.1)	(188.2)
Taxation		(44.8)	(21.8)	(76.2)
Net cash outflow from capital investment and financial investment activities		(528.1)	(1,538.8)	(2,008.2)
Equity dividends paid		(131.0)	-	(102.0)
Management of liquid resources		(36.3)	112.5	96.9
Net cash outflow before financing		(312.9)	(1,039.9)	(1,357.7)
Financing	12	260.2	1,041.3	1,334.1
(Decrease)/increase in cash	12	(52.7)	1.4	(23.6)

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

1. Basis of preparation

These condensed interim financial statements (“the financial statements”) for the period ended 30 September 2008 have been prepared in accordance with the historic cost convention, except as noted below and on the basis of the accounting policies consistent with those set out in the Regulatory Annual Report and Financial Statements for the year ended 31 March 2008.

The Company has not prepared consolidated group financial statements and therefore these statements represent Company only results.

The cash flow statement (page 13) and note 10 (page 18) prior period comparatives for the period ended 30 September 2007 have been restated to reflect the reclassification of the loan to Thames Water Utilities Holdings Limited from ‘Net cash flow from operating activities’ to ‘Net cash outflow from capital investment and financial investment activities’. This restatement is consistent with the disclosures in both the Company’s Regulatory and Statutory Annual Report and Financial Statements for the year ended 31 March 2008 and has no effect on the reported profit and loss account for the period ended 30 September 2007.

The financial statements are consistent with the regulatory historic cost financial statements for the year ended 31 March 2008, which the Company prepares in accordance with Condition F of the Instrument of Appointment by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Industry Act 1991.

The financial statements do not include all the information required for full annual financial statements, do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985, and should be read in conjunction with the Annual Report and Financial Statements for the year ended 31 March 2008. The financial statements have been prepared in accordance with the Accounting Standards Board’s “Half-Yearly Financial Reports” statement, and the requirements of the Disclosure and Transparency Rules issued by the Financial Services Authority. These financial statements have been reviewed by KPMG Audit Plc.

The financial statements have been prepared in accordance with the historical cost convention and, except for the classification of profit on the sale of fixed assets, the treatment of infrastructure renewals expenditure and the treatment of certain capital contributions as explained below, have been prepared in accordance with the Companies Act 1985. The departures from applicable UK Accounting Standards are necessary to comply with regulatory reporting requirements laid down by the Water Services Regulation Authority (“Ofwat”).

Profit on sale of fixed assets

Profit and loss on sale of fixed assets has been included within operating profit, as operating income, in accordance with RAG 3. This represents a departure from FRS 3 as adopted in the Company’s 31 March 2008 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit.

Infrastructure renewals expenditure

Infrastructure renewals expenditure (“IRE”) has been accounted for in accordance with RAG 3 in these financial statements and is consistent with the reporting of IRE in the Company’s regulatory historic cost financial statements for the year ended 31 March 2008. Accordingly IRE net of depreciation has been included within debtors.

This treatment of reporting IRE net of depreciation within debtors in the regulatory historic cost financial statements for the year ended 31 March 2008 and these financial statements represents a departure from the accounting policy adopted in the Company’s 31 March 2008 statutory financial statements for infrastructure renewals expenditure and renewals accounting per FRS 15, which requires this amount to be included within fixed assets. The effect of this reclassification on fixed assets is shown in note 5 of these financial statements.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

1. Basis of preparation (continued)

Capital contributions

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Companies Act 1985, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the latter accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the Directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have a determinable finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account.

The statutory accounts for the year ended 31 March 2008 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The regulatory accounts for the year ended 31 March 2008 have been delivered to Ofwat. The auditors' report on these accounts confirmed that they contained the information required to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991.

2. Operating costs

	Six months to 30 September 2008 (unaudited)	Six months to 30 September 2007 (unaudited)	Year to 31 March 2008 (audited)
	£m	£m	£m
Operating costs before depreciation	294.4	295.6	622.6
Infrastructure renewals charge	54.4	53.2	106.9
Depreciation – Non-infrastructure	109.4	113.3	219.7
	458.2	462.1	949.2

3. Taxation

The corporation tax charge is based upon UK corporation tax of 28% (half year to 30 September 2007 and full year to 31 March 2008 30%).

The interim corporation tax charge for the half year to 30 September 2008 is based upon the forecast effective tax rate for the full year to 31 March 2009 applied to the profits earned in the six months to 30 September 2008.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

4. Dividends

	Six months to 30 September 2008 (unaudited)	Six months to 30 September 2007 (unaudited)	Year to 31 March 2008 (audited)
	£m	£m	£m
First interim dividend paid 12.7p (March 2008: 9.91p) per ordinary share	131.0	-	102.0
	131.0	-	102.0

On 1 October 2008, the directors approved an interim dividend of £91.0m (8.8p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was subsequently paid to Thames Water Utilities Holdings Limited on 31 October 2008.

5. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
UK GAAP (FRS 15) historic cost values				
Cost				
At 1 April 2008	2,305.7	3,619.7	4,053.5	9,978.9
Additions	61.6	193.0	272.1	526.7
Disposals	-	(13.2)	-	(13.2)
At 30 September 2008	2,367.3	3,799.5	4,325.6	10,492.4
Capital Contributions				
At 1 April 2008	-	-	545.1	545.1
Additions	-	-	14.3	14.3
At 30 September 2008	-	-	559.4	559.4
Depreciation				
At 1 April 2008	570.4	1,654.8	712.7	2,937.9
Provided during the period	19.3	90.1	54.4	163.8
Disposals	(0.3)	(12.4)	-	(12.7)
At 30 September 2008	589.4	1,732.5	767.1	3,089.0
UK GAAP Net Book Value				
At 30 September 2008	1,777.9	2,067.0	2,999.1	6,844.0
At 31 March 2008	1,735.3	1,964.9	2,795.7	6,495.9
RAG3 net infrastructure renewal reclassification				
At 1 April 2008	-	-	(36.7)	(36.7)
Infrastructure renewal expenditure in the period	-	-	(49.8)	(49.8)
Infrastructure renewal depreciation charge	-	-	54.4	54.4
At 30 September 2008	-	-	(32.1)	(32.1)
Regulatory historic cost net book value				
At 30 September 2008	1,777.9	2,067.0	2,967.0	6,811.9
At 31 March 2008	1,735.3	1,964.9	2,759.0	6,459.2

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

6. Debtors: amounts falling due after more than one year

This comprises the following two items:

- an unsecured loan of £1,180.0m (September 2007: £1,180.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking.
- interest receivable of £79.4m (September 2007: £Nil) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking, on the loan of £1,180.0m. Interest is Libor + 0.35%. The directors are not anticipating any repayment of the loan or payment of any interest within the next 12 months.

7. Creditors: amounts owed to group undertakings

Included within loan and interest amounts owed to group undertakings are:

- £2,974.5m (September 2007: £2,940.3m) comprising principal and interest owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £97.8m (September 2007: £47.0m) is included within creditors due within one year and £2,876.7m (September 2007: £2,893.3m) within creditors due after more than one year.
- £1,456.4m (September 2007: £900.0m) comprising principal and interest owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking, of which £16.9m (September 2007: £Nil) is included within creditors due within one year and £1,439.5m (September 2007: £900.0m) within creditors due after more than one year

8. Provisions for liabilities and charges

	Deferred tax	Restructuring	Other	Total
	£m	£m	£m	£m
At 1 April 2008 (audited)	841.4	3.3	32.6	877.3
Utilised during the period	-	(1.7)	-	(1.7)
Charge/(credit) to profit and loss for the period	6.6	0.4	(1.1)	5.9
At 30 September 2008 (unaudited)	848.0	2.0	31.5	881.5

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

9. Profit and loss account

	Six months to 30 September 2008 (unaudited)
	£m
Profit and loss account at the beginning of the year	483.2
Profit for the period	142.5
Dividends paid	<u>(131.0)</u>
Retained profit	11.5
Actuarial loss on pension scheme	(7.6)
Deferred tax relating to actuarial loss on pension scheme	<u>2.1</u>
Profit and loss account at the end of the period including total pension asset	<u>489.2</u>
Total pension asset	<u>22.2</u>
Profit and loss account at the end of the period excluding total pension asset	<u>467.0</u>

10. Reconciliation of movements in shareholder's funds

	Six months to 30 September 2008 (unaudited)	Six months to 30 September 2007 (unaudited)	Year to 31 March 2008 (audited)
	£m	£m	£m
Shareholder's funds at the beginning of the year	1,612.2	1,331.4	1,331.4
Profit for the period/year	142.5	216.3	380.0
Dividends paid	<u>(131.0)</u>	-	<u>(102.0)</u>
Retained profit	11.5	216.3	278.0
Actuarial (loss)/gain on pension scheme	(7.6)	6.8	3.9
Deferred tax relating to actuarial (loss)/gain on pension scheme	<u>2.1</u>	<u>(1.5)</u>	<u>(1.1)</u>
Shareholder's funds at the end of the period including pension asset	<u>1,618.2</u>	1,553.0	1,612.2

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

11. Reconciliation of operating profit to net cash inflow from operating activities

	Six months to 30 September 2008 (unaudited) £m	Six months to 30 September 2007 (unaudited) restated £m	Year to 31 March 2008 (audited) £m
Operating profit	323.2	292.3	590.1
Infrastructure renewals charge	54.4	53.2	106.9
Depreciation – Non-infrastructure	109.4	113.3	219.7
Assets written off	-	6.8	6.9
Difference between pension charge and cash contributions	(3.0)	-	(4.2)
Profit on sale of assets	(0.9)	(9.4)	(45.1)
(Increase)/decrease in stocks	(0.5)	0.1	(0.9)
Increase in debtors and prepaid expenses	(317.3)	(382.9)	(26.1)
Increase in creditors and accrued expenses	345.4	447.6	71.8
(Decrease)/increase in provisions	(2.4)	-	13.1
Deferred income release	(6.7)	(5.7)	(12.2)
Net cash inflow from operating activities	501.6	515.3	920.0

12. Reconciliation of net debt

	Note	Six months to 30 September 2008 (unaudited) £m	Six months to 30 September 2007 (unaudited) £m	Year to 31 March 2008 (audited) £m
Opening net debt		(4,746.5)	(3,236.1)	(3,236.1)
(Decrease)/increase in cash		(52.7)	1.4	(23.6)
Increase/(decrease) in short term deposits		36.3	(112.5)	(96.9)
Movement on borrowings - Cash		(260.2)	(1,041.3)	(1,334.1)
- Non-cash		(70.6)	(19.5)	(55.8)
Total	13	(5,093.7)	(4,408.0)	(4,746.5)

Non-cash changes include the carrying value uplift by RPI, of a number of RPI index-linked bonds. This adjustment is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

13. Analysis of net debt

	Note	Six months to 30 September 2008 (unaudited) £m	Six months to 30 September 2007 (unaudited) £m	Year to 31 March 2008 (audited) £m
Cash at bank and in hand		13.1	90.8	65.8
Short term deposits		51.9	-	15.6
		65.0	90.8	81.4
Debt due within 1 year		(183.1)	(26.9)	(366.3)
Debt due after 1 year		(4,766.0)	(4,265.0)	(4,257.1)
Finance leases		(209.6)	(206.9)	(204.5)
Total	12	(5,093.7)	(4,408.0)	(4,746.5)

14. Commitments and contingencies

The Company's capital commitments as at 30 September 2008 amounted to £454.6m (March 2008: £497.5m).

There have been no material changes to the Company's other commitments and contingencies in the period.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2008

15. Ultimate parent company

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

Kemble Water Holdings Limited, is owned by a consortium of investors led by Macquarie European Infrastructure Funds 1 and 2 ("MEIF 1 & 2"), wholesale investment funds that make long-term investments in infrastructure and related businesses located across Europe. The company's remaining shareholders are international pension funds and institutional investors. MEIF 1 & 2 invest in businesses which:

- Provide an essential service to the community.
- Have a strong competitive position.
- Generate stable cash flows over the long term.

MEIF 1 & 2 aim to deliver sustainable cash yields and moderate capital growth from their diversified portfolios of quality infrastructure investments.

MEIF 1 & 2 are managed by Macquarie Capital Funds (Europe) Limited ("MCFEL"). MCFEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Services Authority under the UK Financial Services and Markets Act 2000. MCFEL is resourced by executives of Macquarie Capital Funds.

These executives are:

Andrew Hunter, Executive Director and Head of Macquarie Capital Europe
Ian Leamonth, Executive Director, Macquarie Capital Products
Martin Stanley, Executive Director, Macquarie Capital Funds
Robert Tallentire, Division Director, Macquarie Group

As manager of MEIF 1/2, MCFEL's role includes:

- Sourcing, assessing and negotiating potential investments.
- Managing the Fund's investments, including appointing representatives to the boards of portfolio companies where appropriate.
- Determining appropriate liquidity strategies for the fund.
- Identifying and assisting with strategic enhancements within portfolio companies.

www.thameswater.co.uk



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