

Thames Water Utilities Limited

**Annual report and financial
statements for the year ended
31 March 2009**



Registered no: 02366661 (England and Wales)

Thames Water Utilities Limited

Annual report and financial statements

For the year ended 31 March 2009

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Directors and Advisors at 31 March 2009

Directors

Sir Peter Mason KBE (Chairman)
M W Baggs
E Beckley
R Blomfield-Smith
M W Braithwaite
C R Deacon
S Kolenc
D W Owens
A F C DeP Santos
D J Shah
S F Shine
M S W Stanley

Independent non-executive directors

S J Box
M J Pavia
W Smit

(See page 23 for changes in directors since 31 March 2008).

Registered auditors

KPMG Audit Plc
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB

Company Secretary & registered office

J E Hanson
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Limited

Chairman's introduction

I am pleased to report that this years results show a continued improvement in the operational and financial performance of Thames Water. A year ago, we reported our best-ever operational performance for the 2007/08 year, and we have improved on that still further while delivering around £1.0bn of investment and improving our profit before tax by 3.8% to £435.1m. This has been achieved by continuing with our 'back to basics' approach in which we have established and followed clear corporate objectives and it takes us a step closer to achieving our vision; "If customers had a choice, they would choose Thames Water".

We have delivered a further improvement in the Water Services Regulation Authority ("Ofwat") 'Overall Performance Assessment', a measure used by Ofwat to assess the performance of all companies in the regulated Water & Waste services sector. We have beaten our leakage target for the third year running despite a severe winter, which caused a major increase in burst pipes. All 349 of our sewage treatment works are fully compliant.

The recession has had a significant impact on the Company with lower demand for water from our commercial and metered customers. We have also seen a change in our customers' ability to pay and a resulting increase in our bad debt charge. Despite the increase in bad debts and higher energy costs, operating costs have remained in line with last year. This has been achieved by delivering over £35m of efficiency savings during the year. We have shared the results of this success with our customers through our 'Ten for Ten' initiative (see page 21), a £10m commitment which includes initiatives to benefit disadvantaged customers and fund community projects.

The continuing recession presents further challenges and shows that we are not operating in a risk-free environment. The regulatory model in the economic downturn means our revenues will be lower than expected and the new financial landscape means that raising new debt is more expensive than in previous years. These factors, along with the increase in bad debt, will make it more difficult to fund essential investment in the network that is required to meet our customers needs whilst continuing to maintain returns to our investors.

Nevertheless, our achievements have given us a solid platform from which to approach the proposals set out in our five-year Business Plan, which we recently submitted to Ofwat. In producing this, we have struck a careful balance between the work we must do to continue delivering our best-ever level of service and the ability and willingness of our customers to pay for the necessary bill increases. Before preparing our Plan, we carried out our largest-ever programme of customer research, to ensure we addressed the priorities of our customers and stakeholders. We made further consultations on our draft proposals in autumn 2008, and received continued support, in spite of the economic downturn. We are confident, therefore, that the proposals we submitted to Ofwat reflect the requirements of the communities we serve, whilst addressing the essential investment in the services we provide. At less than £1 a day, our bills will remain below the industry average for the next five years.



Sir Peter Mason
Chairman
17 June 2009

Thames Water Utilities Limited

Chief Executive Officer's Business review

The following business review forms part of the Directors' report.

Business review

Introduction

Unless otherwise stated, all current year data included in this review is for the year ended 31 March 2009 ("2008/09").

The review contains a number of forward-looking statements that the Company believes to be reasonable based on the knowledge and information available to the directors at the date of preparation, but about which it is unable to give any assurance that they will prove to be correct. Such forward-looking statements involve a number of risks and uncertainties and are subject to change at any time. In the event that such risks or uncertainties materialise, the Company's results could be materially affected. These risks and uncertainties include, but are not limited to, risks associated with the Company's operational performance, the regulatory regimes under which it operates and the need to obtain planning consents and other authorisations for capital works.

Nature of business

Background

The Company is the largest supplier of water and provider of sewerage services in the UK, based on the number of customers served. It is one of ten companies currently holding appointments as water and sewerage undertakers¹ in England and Wales, with a further 14 companies holding appointments as water only undertakers.

In total, the area served by the Company occupies approximately 13,331 km² and encompasses more than 9% of the area of England and Wales. This includes London and extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. This area has a population of about 13.6m people, which represents nearly a quarter of the total population of England and Wales. In approximate terms, the Company supplies 3.6m properties (just over 8.5m people) with water, and collects sewage from 5.3m properties (about 13.6m people), including 97% of households in its sewerage region.

¹ A company that has been appointed to provide water and/or sewerage services to customers in England and Wales is known as an "undertaker". The Company's Instrument of Appointment - usually referred to as "the Licence" - was issued by the Secretary of State for the Environment in August 1989

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Highlights

Over the last two years the Company has delivered a step change in both, operational performance and efficiency, meeting and beating the targets agreed with its regulators. This has been achieved by its "back to basics" approach and by setting clear corporate objectives.

The Company reported its best ever performance in 2007/08 across many areas of the business. The Company is pleased to report that it has beaten this performance in 2008/09 whilst delivering the largest investment programme in the industry and improving Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") by 3.8%.

- The Company has maintained a consistent level of operational expenditure despite an increase in power costs and an increased level of bad debt as a result of the economic downturn.
- The Company has delivered £1bn of investment this year, and still improving its EBITDA.
- Output delivery is on target or ahead of its Monitoring Plan in all key areas ensuring delivery of all outputs by the end of Asset Management Period ("AMP") 4.
- Leakage of 698 Ml/d means that, for the third successive year, the Company has beaten its leakage target.
- The Company achieved a Security Of Supply Index score of 56 compared with a target of 11.
- The Company achieved 99.99% compliance with drinking water standards at the customer's tap, its best ever result.
- Less than 50 properties are suffering from low water pressure, another Company record.
- The customer impact of increased burst mains during the cold spell was mitigated by prompt operational response allowing the Company to meet its target for interruptions to supply.
- 99.92% of the Company's customers are served by sewage works, which were compliant with effluent consent standards maintaining the high standard set last year.
- The Company's pollution avoidance process continues to deliver reductions in wastewater pollution incidents with no incidents in category one (the most serious impact) in 2008 (assessed on a calendar year) and only two pollution incidents in category two, another best ever performance for the Company.
- Stable serviceability attained across all four asset classes for the first time since these assessments were introduced.
- Improvements across customer service measures allowing the Company to meet or beat the targets set by Ofwat and producing its best ever composite customer contacts score.
- The Company has also won a RoSPA award (Royal Society for the Prevention of Accidents) for its health and safety performance. This is a highly respected award within the industry.
- The Company has reorganised for the future by introducing an Asset Owner, Service Provider business model (see page 10). This restructuring of the business will provide clear accountability, introduce commercially-based Key Performance Indicators and simplify the Company's business processes.
- The Company has achieved a "Gold" ranking in this years Business in the Community Corporate Responsibility Index, up from "Silver" in the previous year (this is an independent benchmark, which assesses how well companies manage their impacts on society and the environment).
- In 2008 the Company became the first utility to be awarded the Carbon Trust Standard, which recognises "real and sustained emissions reductions".

In total, the Company has achieved its best ever overall performance assessment ("OPA") score of 405.6 compared to 397.0 in 2007/08 (out of a maximum of 437.5).

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Financial results

Financial Key Performance Indicators (KPIs)

Performance Measure	Year to 31 March 2009 £m	Year to 31 March 2008 (Restated*) £m	% Movement
Turnover	1,558.2	1,487.6	4.7%
Operating expenditure ²	614.5	616.0	(0.2%)
EBITDA ³	951.8	916.7	3.8%
Total Capex Spend (see note 9) ⁴	982.4	997.1	(1.5%)

* The restatement is explained in note 1 to the financial statements.

Turnover

Turnover increased by £70.6m, up 4.7%, to £1,558.2m reflecting real increases in price ('K'), see page 100, as agreed with Ofwat, together with increases linked to the Retail Price Index (RPI). 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. Turnover was £60.6m lower than assumed by Ofwat, reflecting lower volumes due to weather conditions, change in customer behaviour following the 2006/07 drought and the economic downturn.

Operating expenditure

Operating expenditure for the year ended 31 March 2009 has remained broadly in line with the prior year. The effect of increases in power costs has 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. The Company has increased the level of bad debt provisioning in the year as a result of the impact of the economic downturn.

EBITDA

The increase in turnover and the small decrease in operating costs have contributed to the 3.8% improvement in EBITDA compared to the prior year. This improvement has been diluted by the significant reduction in operating income in the year as a result of the general slow down in asset disposal activity in the property market.

² Operating expenditure: Operating costs, excluding depreciation and the Infrastructure Renewals Charge ("IRC").

³ EBITDA: Earnings before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge.

⁴ Total Capex Spend: Total expenditure on tangible fixed assets excluding contributions received, see note 9 to the financial statements.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Capital expenditure

2008/09 has been a successful year for capital delivery. The Company has delivered £36.5m of efficiency across Water and Waste services. Looking forward, the Company is already well advanced in the planning of the AMP5 programme with a cutting edge capital delivery strategy firmly in place to ensure it delivers all regulatory outputs at minimum cost. With a clear focus, tight contracts and streamlined delivery process the Company enters AMP5 in a strong capital delivery position.

Treasury

Treasury policy

The Company's treasury operations are managed centrally by a small specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. The key objectives of the funding strategy are defined by the regulatory regime within which the Company operates and are to ensure that it meets all funding related requirements under the terms of its Licence. This includes maintaining access to undrawn committed bank facilities in order to fund at least 12 months net cash flow (as discussed on page 22 Company policy extends this to a 15 month period) and to maintain an investment grade credit rating as set out in the terms of the Licence.

A key objective of treasury policy is to ensure compliance with financial covenants, including interest cover and gearing ratios; with the requirements to maintain liquidity and a balanced debt maturity profile, and to ensure that at least 85% of interest cost within the securitisation group is calculated on the basis of either fixed or RPI-linked interest rates.

Financing

As at 31 March 2009, the Company had committed facilities in place with a syndicate of nine relationship banks to the value of £1.055bn, all of which were undrawn at 31 March 2009. In addition, due to pre-funding activity undertaken in the final quarter of the year, the Company had £321.6m of cash on short-term deposit. The cash balance together with undrawn 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 AMP.

Debt financing

Debt financing is raised by the Company or through the Company's new wholly owned subsidiary; Thames Water Utilities Cayman Finance Limited. Previously, debt had been raised via Thames Water Utilities Finance Limited; another wholly owned subsidiary.

Moody's Investor Service rates Class A debt as issued by Thames Water Utilities Cayman Finance Limited, A3 long term with stable outlook. Moody's also issues a Corporate Family Rating for the securitisation group of companies, which stands at Baa1, reflecting the ability to issue Class B debt beyond 31 March 2010. Standard and Poor's Rating Services rates Class A debt as issued by Thames Water Utilities Cayman Finance Limited at BBB+ long-term with a stable outlook. Accordingly, the Company maintains an investment grade issuer credit rating in accordance with the requirements of its Licence.

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Chief Executive Officer's Business review (continued)

Capital structure

Key features of the Company's capital structure are as follows:

- The ratio of net debt to Regulated Capital Value ("RCV") within the securitisation group is limited to 75 per cent until the end of the current regulatory period (31 March 2010).
- All debt issued by the securitisation group will be documented pursuant to a Common Terms Agreement.
- Until March 2010, all Thames Water Utilities Limited debt will be in one single class ("Class A").
- From April 2010, the directors of Thames Water Utilities Limited will have the option to trigger an increase of the Debt/RCV ratio to 85 per cent by the issue of Subordinated Debt ("Class B").
- Each Obligor (the companies within the securitisation group) has entered into the Security Trust and Inter-creditor Deed ("STID") with the Security Trustee pursuant to which Thames Water Utilities Holdings Limited guarantees the obligations of each other Obligor under the finance documents and the Company and its wholly owned subsidiaries guarantees the obligations of each other under the finance documents, in each case to the Security Trustee.
- Following an event of default, the documents provide for an automatic 18-month standstill of the claims of the creditors that have entered into the STID.

Covenant compliance

Under the terms of its covenants, the Company is required to comply with various covenants such as interest cover and net debt to RCV. These covenants are measured semi-annually and involve both actual data and forecasts and are discussed further below:

Interest cover ratio (trigger: 1.3x): For the year to 31 March 2009 the ratio was 3.2x (2008: 2.1x). The improvement in the ratio is due to an increased level of RPI linked debt and RPI linked swaps.

Debt/RCV ratio (trigger: 75%)⁵: At 31 March 2009 the ratio was 72.0% (2008: 67.9%). The increase in the ratio is due to a combination of debt drawdown in order to fund the planned capital expenditure programme and a reduction in the growth in RCV due to downward pressure on inflation.

⁵ A trigger event would lead to lock up which would mean nil distributions outside of the securitisation group until resolved to the Security Trustee's satisfaction.

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Chief Executive Officer's Business review (continued)

Regulatory KPIs

Performance Measure	Components	Maximum OPA Score	Year to 31 March 2009	Year to 31 March 2008	Year to 31 March 2007
Water Supply	DG2 & Water quality	125.0	120.9	122.1	111.8
Sewerage service	DG5, Flooding incident	75.0	54.0	44.7	37.1
Security of supply	DG4, Leakage and security of supply	50.0	45.1	45.0	42.7
Customer services	DG6,7,8,9	75.0	74.6	72.7	69.8
Environmental performance-Water	Pollution incidents	12.5	11.7	12.5	11.7
Environmental performance-Waste	Pollution incidents & sludge disposal	100.0	99.3	100.0	69.8
Overall Performance Assessment ("OPA")		437.5	405.6	397.0	342.9
Incidence Rate – accidents per 1,000 employees	N/a	N/a	6.7	8.3	8.1

The above performance measures are an internal split to enable management of the various components of regulatory performance.

OPA

The OPA score is an important measure used by Ofwat to assess the performance of the water and sewerage undertakers. It incorporates all of the performance criteria that the Company needs to measure to ensure that it will meet the needs and priorities of its customers in line with the Company vision "If customers had a choice, they would choose Thames Water". In the prior year the Company saw a significant increase in the OPA score (being the first full year that the current management team was in office) and through continued focus on the various components of the OPA it has delivered further improvement to this score.

Regulatory KPI highlights

Below is a summary of some of the key changes in the business that the Company has used to drive its OPA improvement.

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Chief Executive Officer's Business review (continued)

Water Service

- The Company has beaten its leakage target for the third successive year and mitigated the impact of burst mains supply interruptions to customers whilst dealing with the coldest winter for 12 years.
- The Company has again improved security of water supplies to customers above the target level and reduced the number of customers affected by low pressure to an all-time low of just 34 properties.
- The Company has delivered its best-ever result for drinking water standards at the customer's tap at 99.99%.

Sewerage Service

- The Company has maintained its previous sewage works performance with 99.92% of its customers served by compliant works.
- The Company has further reduced pollution incidents with no incidents in category one (the most serious impact) in 2008 (based on a calendar year) and only two pollution incidents in category two, another best-ever performance for the Company.

Customer Service

- Improvements have been made across customer service measures allowing the Company to meet or beat Ofwat targets and producing its best ever, composite customer contacts score.
- The refurbished Customer Centre at Swindon includes a new telephony system to enable the Company to respond to customer calls more effectively.
- Through the "Ten for Ten" initiative the Company has committed £10m to benefit disadvantaged customers and fund community projects. Half the money is being endowed to the Thames Water Trust Fund. This independent charity launched in February 2009 and has already provided assistance to hundreds of disadvantaged customers in the Thames Water service area. The Company is working with a variety of partners and stakeholders in developing other "Ten for Ten" projects.
- The Company has increased the level of guarantee payments to customers in the event that it fails to meet its Customer Service Standards. It has also introduced discretionary payments for customers whose properties have been flooded more than once.
- By clarifying and upgrading its customer side leakage policy, the Company hopes to reduce the previously high level of complaints on this issue.

The Company's improvements mean it has seen a 27% reduction in complaint volumes this year.

Capital programme delivery

- Output delivery is on target or ahead of the Company's Monitoring Plan in all key areas ensuring delivery by the end of AMP4.
- Key projects are in progress such as the Tideway Tunnel. The London Borough of Newham and the London Gateway Development Corporation granted planning permission on 11 June 2009 for the Lee Tunnel. Meanwhile the Company is progressing well with enabling works at its Beckton site and it has short-listed the contractors from its tender evaluation. The Company continues to select sites for the route of the Thames Tunnel and has just issued a revised consultation document based on the feedback from its first consultation.
- The Government's decision to proceed with the Tideway Tunnel meant changes to the original requirements for the Company's Tideway sewage works. Improvements at five major sites are planned and the Company is currently out to tender for the work.
- The Victorian Mains Replacement Programme was accelerated to offset delays to the planning approval for the Thames Gateway Water Treatment Plant. The programme is proving successful in reducing leakage and Ofwat has agreed to extend the programme in AMP4 by a further 300km.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

- With the withdrawal of the challenge to the planning approval on the Thames Gateway Water Treatment Plant, the construction phase has now commenced.

Incidence Rate – accidents per 1,000 employees

Management continue to focus on health and safety. The headlines for 2008/09 show a significant improvement in the Company's processes and compliance capability:

- The Company has achieved a significant reduction in reportable accidents across the business.
- The new Thames Water online Health Safety and Environment Management System (Safeguard) has been rolled-out to Waste Water Services and Water Services, allowing remote, electronic reporting of accidents.
- During European Week for Health & Safety the Health, Safety and Environment Group ran a successful campaign focusing on risk assessment and hazard identification and received 89% of the required responses, making it the most successful campaign in recent years.

The Health, Safety & Environment Training section has achieved accreditation from the Institute of Occupational Safety and Health to run the Managing Safely course and the programme of courses began in October. It has also achieved Health and Safety Executive accreditation to run First Aid Training courses.

Transforming Thames

As disclosed in its half-year accounts, the Company has recently undertaken a number of business led initiatives, the cornerstone of which are 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 £5.5bn within the next AMP, 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. The model - based on an Asset Owner and Service Provider organisation - whereby the Asset Owner will agree the Plan and the Service Provider will attempt to beat that Plan by continuously driving efficiencies throughout the AMP. 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 substantially delivered in 2009 and significant progress has been made since the half-year accounts were published.

In January 2009, a Company wide reorganisation was announced as part of the implementation of the new operating model, as well as being in response to the current downturn in the external economic environment. Consultation with our recognised Trade Unions ("TUs") has continued throughout the re-organisation process and approximately 150 voluntary and compulsory redundancies will take place as a result of the reorganisation which is due to conclude by the end of June 2009. In addition, the Company has negotiated changes to working patterns for employees within parts of Customer Services to ensure that the needs of our customers are met.

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Chief Executive Officer's Business review (continued)

Principal risks and uncertainties

Risk overview

The Company's Risk Management process is integrated within the business, and is designed both to identify emerging risks and to minimise the adverse impact of emerging and existing risks. Each business area is responsible for managing its risks, and maintains a risk register, which is reviewed regularly. Significant risks are escalated and reviewed by the Executive Management Team ("EMT").

The Company is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These include:

- **PR09 Determination** – The PR09 process (see page 101) determines the level of expenditure authorised over the coming 5-year AMP and accordingly the revenue available to the Company. Although the Company has engaged fully with Ofwat and other stakeholders through the process to date, and will continue to do so, there remains a risk that there will not be sufficient funding to fully finance the Company and to maintain and upgrade its assets in order to provide the service expected by its customers.
- **Employee pension scheme funding** – The Company operates two Final Salary pension schemes. In March 2009, the Company agreed a deficit repair plan, including increased employer contributions backdated to April 2008 and increased employee contributions from April 2009, combined with a review of benefits. Falling asset values over the financial year have increased the potential pension deficit, and there is a risk that the Company may be required to make further employer contributions to safeguard members' benefits.
- **Failure to maintain adequate funding arrangements** – As at 31 March 2009, the Company has adequate cash at bank and short term deposits of £525.8m and undrawn committed bank facilities (£1.1bn) in place to provide liquidity as required. The Company will need to renew committed facilities before August 2010. The Company has been extremely successful in raising new debt financing in difficult market conditions, with circa £1.2bn raised in the financial year to 31st March 2009. However, due to on-going difficulties in credit markets there is a risk that the cost of raising new debt and refinancing bank facilities will put pressure on key financial covenants (as defined by our capital structure). The impact of the falling RPI on the RCV creates further pressure on financial covenant headroom, specifically the ratio of net debt to RCV ("Senior RAR").
- **Failure to meet regulatory targets** – The Company is required to meet targets set by Ofwat, the Environment Agency, the Drinking Water Inspectorate and other regulators. In order to achieve this, the Company must continue to deliver cost and efficiency savings while maintaining and improving operational performance. Performance against these is the subject of frequent management review.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Principal risks and uncertainties (continued)

- **Impact of the economic downturn** – Aside from the potential difficulties in obtaining finance, the Company is exposed to the risk of failure by external counterparties (banks, insurers and contracted service providers) and to increased risk of customer defaults on payments and reduced consumption.
- **Future changes in laws or regulations** – The Company is not funded by Ofwat for changes in obligations that would affect the whole economy. Consequently the Company may, for example, have to meet the obligations resulting from changes in environmental legislation without recourse to Ofwat. However, changes that are specific to, or are more material for, the water industry will be funded by Ofwat as a relevant change of circumstance.
- **Failure of a major asset** – A failure at one of the Company's major assets could significantly impact the safety of its workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets. The impact would be both financial and reputational, and as a result the Company has a specific process to manage the identified risks.
- **The effects of climate change and long-term changes in weather patterns** – As the Company continues to supply a rapidly increasing population, the effects of climate change could adversely affect its ability to maintain its Security of Supply Index (SoSI) requirements. Consequently, in addition to substantially enhanced demand management measures, the Company is currently making provision for increased storage capacity, greater network integrity and the development of new sources of potable water.
- **Shortage of skilled labour** – The shortage of available skilled labour in London and the South East creates an environment in which the Company must compete with other organisations for staff with the necessary skills, particularly engineering, in order to deliver the capital programme agreed in the Final Determination and additional major planned projects. Failure to deliver agreed targets may result in fines, intervention by Ofwat and less favourable future determinations.
- **Managing increased competition in the water industry** – As a result of the reduction in the barriers to entry to the water industry, the Company will have to meet the challenges posed by aspiring new entrants and the resultant effect of competition on its pricing schemes and modes of operation. Consequently, the Company has engaged with Ofwat in the consultation process and the discussion of potential competition models.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Critical accounting policies and key sources of estimation uncertainty

The preparation of financial statements requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

(a) Fixed assets and depreciation

The estimated useful economic lives of fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively.

The carrying values of fixed assets are also reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on the directors' best estimates of future prices, output and costs and is therefore subjective.

(b) Revenue recognition

The Company recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue.

For regulated utility operations, the Company raises bills and recognises revenue in accordance with its entitlements to receive revenue in line with the limits established by the periodic regulatory price review process. For water and wastewater customers with water meters, the revenue is dependent upon the volumes supplied and includes an estimate of the volume supplied between the date of the last meter reading and the period end. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the reporting period. The estimate of sales value is calculated using a defined methodology based on a measure of unbilled water consumed which is calculated from historical billing information.

(c) Pensions

Within the UK, the Company operates two registered defined benefit schemes. The Company accounts for these schemes in accordance with the amended FRS 17 'Retirement Benefits' with the cost of providing benefits determined using the projected unit credit method for Thames Water Pension Scheme ("TWPS") and the attained age method for Thames Water Mirror Image Pension Scheme ("TWMIPS"), and actuarial valuations being carried out at each reporting date. Inherent in these valuations are key assumptions, including: mortality rates, discount rates, expected returns on plan assets and compensation increases. These actuarial assumptions are reviewed annually and modified as appropriate. The Company believes that the assumptions utilised in recording obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

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Chief Executive Officer's Business review (continued)

Critical accounting policies and key sources of estimation uncertainty (continued)

(d) Accounting for provisions and contingencies

The Company is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate of the obligation can be made and after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

(e) Provision for doubtful debts

At each reporting date, the Company evaluates the collectability of trade receivables and records provisions for doubtful receivables based on experience. These provisions are based on, amongst other things, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

(f) Deferred taxation

Full provision is made for deferred taxation, as required under FRS 19 'Deferred Tax', at the rates of tax prevailing at the period end dates unless future rates have been substantively enacted. Deferred tax assets are recognised where it is more likely than not that they will be recovered.

(g) Financial risk management

The Company has an EMT, 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 is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Company aims to manage its risk by fixing contract prices where possible.

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

The operation of the Treasury function is governed by policies and procedures, which set out 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.

Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the Company's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable. The Company actively maintains a broad portfolio of debt, diversified by source and maturity and designed to ensure the Company has sufficient available funds for operations.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Looking further ahead

The Company submitted its final Business Plan to Ofwat in 2009. This Business Plan is an important milestone for Thames Water and its customers. It sets out the levels of service that the Company intends to provide between 2010 and 2015, and the improvements it will deliver during that time.

The Plan has been designed around the needs and priorities of the Company's customers. It will also deliver the statutory outcomes required by the Environment Agency, Drinking Water Inspectorate, and Natural England.

The Company's vision is: "If customers had a choice, they would choose Thames Water." The Company has ensured, through extensive consultation, that its customers are central to its proposals. The Company's final Business Plan builds on its Strategic Direction Statement, 'Taking care of water', published after extensive consultation in December 2007, and on many subsequent discussions with customers and stakeholders. It also responds to the constructive feedback received from Ofwat, the Consumer Council for Water and others on the draft Plan published in August 2008, demonstrating that the Company has listened and taken on board the comments raised.

In producing this final Plan, the Company has struck a careful balance between the work it must do in order to continue delivering its best ever levels of service to its customers, and the ability and willingness of its customers to pay for it.

Economic outlook

Since last summer, the economic outlook has changed markedly and the Company finds itself operating in very different conditions. There has been a prolonged period of instability in financial markets, resulting in a sharp increase in the cost of finance. The UK economy has entered a recession with the immediate reality of deflation.

These events have had a direct impact on the Company's business and have brought:

- An increase in the cost of borrowing money to finance the necessary investment in its assets.
- Further rises in levels of customer bad debt as tightening household financial circumstances and increased unemployment challenges its customers' ability to pay.
- Lower revenues as a result of a sharp decline in the metered demand for water.

These risks to the Company's business mean it faces a challenging final 12 months of this five-year period, and difficult economic conditions well into the next. In view of the economic downturn, which is affecting both the Company's customers and its business, the directors have re-examined every aspect of the Plan to ensure that all the work it intends to undertake continues to be essential in current circumstances. This has led the Company to take on substantially more operational, financial and reputational risk in its final Business Plan and to reduce its investment proposals in order to ensure its proposals remain affordable.

Implications for our investment proposals and Capital Incentive Scheme ("CIS") baseline

The Company has only been able to make the significant reductions to its investment plan by taking tough decisions. This has increased the level of risk it will have to bear from 2010 to 2015. The Company has accepted Ofwat's challenges levelled at non-cost beneficial projects and complied with their request to remove £400m of climate change driven investment on the basis that Ofwat will develop an adapted change mechanism to reflect additional funding required to meet the updated climate change scenarios. The Company believes this is the right approach in the current economic climate in order to ensure it can provide the service that its customers' want at an affordable price.

The Company's draft Business Plan received positive feedback from Ofwat, which ranked it third in the industry in terms of its CIS assessment of planned capital expenditure. The Company recognises that this was a good result – but it does not believe it was good enough.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Looking further ahead (continued)

Implications for our investment proposals and Capital Incentive Scheme ("CIS") baseline (continued)

The Company strongly believes that its much-improved demonstration of the asset planning approach it has undertaken responds to challenges Ofwat levelled at its Plan and provides strong justification for its capital maintenance expenditure.

The Company expects all of the confirmed new legal obligations it faces to be reflected in its final price limits, and believes that the scale of additional risk it is prepared to face over the next five years will be recognised by Ofwat when it sets the scale of the Company's efficiency challenge.

In recognition of the rigorous scrutiny and challenge the Company has applied to its proposals, it firmly believes that the capital expenditure in its final Business Plan will be fully funded by Ofwat.

Implications for the costs of capital

For the Company to meet its investment programme it will need to raise an unprecedented level of funding of around £3.0bn from lenders and investors in a financial market that is likely to remain both highly volatile and limited in capacity. The Company's ability to secure this funding will depend on its ability to provide returns that reflect the risks taken by those capital providers.

Economic conditions will be more challenging than assumed at the time of the last Price Review in 2004, and the Company is facing higher relative risk on this larger capital expenditure programme. The AMP5 Weighted Average Cost of Capital ("WACC") contains significant cost challenges but also passes on the relatively competitive debt terms obtained for the debt already raised in the early part of AMP4 to customers.

Implications for customers bills

It is understandable that many customers would prefer their bills were kept steady or even reduced. The problem is that this could only be achieved by delaying essential work and would inevitably lead to deterioration in service and higher bills at some stage in the future. The Company's research and consultation demonstrates that customers, in the main, recognise this, continue to offer the Company strong support, and are willing to pay for its proposed investment plans.

The Company has a responsibility to invest sensibly and consistently, and not only in the good times. In discussion with customer groups the Company has received the clear preference that if the work really needs to be done, then customers are prepared to pay for it to be done – as efficiently as possible. That is the Company's view too, and it is on that basis that it has prepared its final Business Plan. In addition, the Company has adjusted the balance of risk between itself and customers. The Company's shareholders will now bear a greater proportion of the total risk from increases in operating costs and the capital programme, leading to a reduction in the level of bill rises.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Looking further ahead (continued)

Conclusions on the Strategic Business Plan

Over the last two years the Company has delivered a step-change in operational performance and efficiency, meeting and beating the targets agreed with its regulators. The Company's Plan will continue that progress, driving further cost savings throughout the next five years, with the benefits being shared with customers.

But that alone will not be sufficient to achieve the Company vision. That is why the Company will focus its investment on tackling the root causes of the areas where customers are dissatisfied. In doing that, the Company can reduce the cost of dealing with complaints, provide a better service and release funds to pay for further improvements.

The Company's final Business Plan has been developed by its EMT, with the full engagement and support of the Board and its shareholders.

The Company's recent experience gives it confidence that it can deliver this large and important programme of improvements over the next five years.

However, the Company fully expects to be held accountable by its customers, by its regulators, and by its shareholders for ensuring that it delivers the Plan efficiently in every respect.

Relationships and resources

Employees

The Company's employees have continued to demonstrate high commitment and dedication levels during a challenging year and most notably during the severe weather events of 2008/09.

The People Strategy is now in its second year and continues to support the transformation of Thames Water in developing a positive working environment that celebrates diversity and inclusion, and provides excellence in HR solutions, products and processes. During 2008/09, the Company has introduced the following to support the business strategy and make the Company a great place to work:

- Launch of an Employee Recognition Scheme.
- Performance related pay for employee grades, linked to 2008/09 Performance and Development Review ratings implemented with first pay award to be made in July 2009.
- Introduction of talent management "Talking Talent" process.
- Introduction of core leadership development programmes.
- Continuation of the "Passionate about Thames" employee engagement methodology and first event for best practice teams.

The Chief Executive Officer ("CEO") and EMT continue to hold quarterly management briefings with managers and in addition, these meetings provide the opportunity to discuss performance and how Thames Water can continue to move forward. In addition, a management conference has been held for all people managers.

Resignation levels were lower in 2008/09 and staff turnover decreased from 16% in 2007/08 to 8.4% in 2008/09. The decrease can likely be attributed to a more engaged working environment following the change in Company ownership and also that fewer people are likely to change jobs during a period of economic uncertainty.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Relationships and resources (continued)

Employees (continued)

In 2008/09 the company sickness rate was 3.04% (2008: 3.33%). The Company has an attendance management policy in place with the overall aim of reducing and managing sickness absence.

The Company is committed to the training and development of all its employees and has signed the Government's 'Skills Pledge'. Average spend per employee on training and development in 2008/09 was £712 (2008: £167). Employees undertook 5708 training days in 2008/09.

Having a diverse workforce is crucial to enable the Company to reach its diverse customer base. Its employees are predominantly white (76%), with 8% of the workforce declaring themselves as being from an ethnic minority group in 2008/09, an increase from 7.3% in 2007/08 but still below the rate in population as a whole. 2.1% of the Company's workforce also declared themselves as having a disability. Males represent around 71% of the workforce (2008/09) and around 25% of our managers are female (2008: 23%). Currently males in management and non-management grades earn more on average than females (11% and 15% respectively). The Company will be carrying out an equal pay audit and are working with the TUs to address pay progression issues.

The Company are in the process of introducing a Diversity & Inclusion Strategic Framework, which will ensure that it can improve in this area. The implementation of SAP will enable the Company to monitor its diversity strategy more closely.

Stakeholders

Establishing and maintaining good working relationships with stakeholders is of vital importance to the Company. Stakeholders represent important constituencies and can have considerable influence over the Company's operations and, ultimately, business success. In addition, the Company's activities often have a significant impact on its stakeholders.

Key stakeholder groups include regulators such as Ofwat, the Drinking Water Inspectorate and the Environment Agency, shareholders, domestic and commercial customers, the Consumer Council for Water, Local, Regional, National and European Government, Natural England, local interest groups, environmental groups, employees, TUs, suppliers and contractors. In addition, the Company has a specialised group of stakeholders interested primarily in its financial performance, such as investment banks and bond investors.

The Company monitors customer and stakeholder expectations and perceptions on an ongoing basis, through quarterly customer satisfaction research and an annual reputation study. These research projects provide a valuable insight into the way the Company is perceived and are used to identify areas in which it should seek to improve performance.

Key suppliers and contractors

In 2008/09, the Company spent in excess of £1.2bn on construction, goods and services with a range of suppliers and contractors (2007/08: excess of £1.2bn). Approximately 24 key suppliers (2007/08: 18) were engaged with a spend greater than £10m each. The Company's policy is to establish trading arrangements, which are made following an open non-discriminatory, competitive bidding process. Procurement processes reflect the Company's corporate responsibility commitments and, where applicable, comply with the requirements of the Utilities Contracts Regulations 2006 (as amended).

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Relationships and resources (continued)

Research and development

The Company's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities. R&D deliver innovative technical solutions through a research programme aligned with business needs to address challenges for AMP4 and PR09 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.5m for the year (2008: £4.1m).

Intellectual property

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

Environmental matters

Climate change remains a serious concern for all operational aspects of the business both in the short and long-term. Climate change scenarios (UKCIP02) suggest that the magnitude of the impacts of climate change is likely to increase over time if society's greenhouse gas (GHG) emissions are not significantly reduced. The Company expects to see an increase in the occurrence of hotter, drier summers, generally wetter winters and an increase in frequency and intensity of extreme weather events such as floods (as seen in 2007) and drought (as experienced between 2004 and 2006). Because the Company operates in one of the driest and most densely populated parts of the UK, and in a sector that is particularly sensitive to the unavoidable impacts of climate change, it faces an increasingly difficult challenge but one that it is geared up to embrace.

Energy efficiency and renewable energy

Overall in 2008/09, the Company consumed 1,284 gigawatt-hours (GWh) of energy (2007/08: 1,348 GWh), of which 85% was purchased electricity and gas from outside the Company and 15% was self-generated energy. Over this period, the Company produced more electricity than ever before, generating 192.7 GWh from its 20 combined heat and power (CHP) engines and two sludge-powered generators. When added to heat energy, the Company generated a total of 306⁶ GWh of renewable energy for the year (2007/08: 437 GWh) (excludes export).

During 2008/09 the Company continued to improve its energy efficiency, through the delivery of specific programmes including the introduction of occupancy sensing and light level control at 11 key operational sites. The installation of these systems yielded energy savings of 1,640 MWh and 858 tonnes CO₂e (carbon emissions) per year and highlighted energy awareness at these sites.

The Company's operations are highly energy intensive and operational pumping is a significant user of energy. During the year the Company has continued to implement its pumping efficiency programme and has completed the refurbishment of 15 systems. By returning pumps to their original specification, a verified energy saving of 6,220 MWh and 3,340 tonnes CO₂e has been achieved.

To further improve energy management and in preparation for the Carbon Reduction Commitment (CRC), the Company will roll out Automatic Meter Reading (AMR) across the business (gas and electricity) to over 3000 sites by 2011.

⁶ The reduction in self-generated renewable energy reported this year compared to 2007/8 is due to the revision of our methodology for calculating heat generation, which is now based on kWh output and the assumed factory test heat efficiency. In future years we will be able to report actual heat data from our CHP units from the new meters that have recently been installed to measure this.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Social and community

Corporate responsibility

Thames Water is committed to being a socially, environmentally and ethically responsible business. Each year the Company publishes an externally assured Corporate Responsibility (CR) Report, which sets out its performance for the year, good and bad, across a wide range of impact areas, many of which are detailed in this report. As a follow-up to the publication of its CR Report in December about 40 external stakeholders attended a review session. Views expressed and feedback on the Company's report have been captured and will feed into its 'materiality' assessment to identify which key issues to report on in future years.

The Company participated in the Business in the Community Corporate Responsibility Index for the first time in 2007/08, to provide an independent benchmark of its management of CR issues and its performance in its material CR impact areas. The Company is pleased to have improved its performance in this year's Index achieving a 'Gold' band rating (up from 'Silver' last year) with an overall score of 93% (up from 89.5%).

Community Investment and Support

The Company works closely with its local communities to help understand their needs, improve reputation, minimise any negative impacts and improve employee engagement. The Company's Community Investment strategy continues to focus on three core water-related themes: environment, education and healthy living. Using the London Benchmarking Group reporting methodology, the unaudited value of the Company's Community Investment for 2008/09 was a little over £1m, maintaining a similar level of investment as last year. As an output of this investment, the Company has been able to leverage more than a further £350,000 through its customers, employees and partners, benefiting the community and various charitable organisations.

The Company's education team has met demand from schools and teachers for our curriculum-relevant resources and activities. The following are examples of our work within the community:

- The fourth module of the Company's Aquabatics primary teachers resource - 'Water Treatment' - is in its final stages, set to bring water and waste treatment to life for pupils from the comfort of their own classrooms, and will be launched early in 2009/10.
- Focusing on the skills debate, young people from London and the South East tried their hand at engineering with Thames Water at the UK's largest careers event, Skills London 2008.
- The Company was pleased to win the Employer Engagement Award 2009 from the Bexley Education Business Partnership in recognition of the support given to Primary Schools in Bexley.
- The London Youth Games and London Freewheel are two notable events that were supported with cash and also in-kind gifts of water and sports water bottles.
- The Company provides a bursary to Harry Akinees-Aryeetey, a young sprinter and potential medallist in 2012.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Social and community (continued)

Ten for Ten

Thames Water has committed a £10m fund for customers and community projects, funded through profits. £5m of this fund has been set aside to fund a charitable trust to help disadvantaged customers who are unable to pay their water bills or suffering other hardship related to water and wastewater services. The Thames Water Trust Fund was established as a registered charity during the year under the direction of independent trustees. The Fund went live in February 2009 and has already provided assistance to hundreds of vulnerable householders in the Thames Water service area.

The Company continues to work with a variety of partners and stakeholders in developing the other Ten for Ten projects, for which £5m has been committed.

Employee volunteering and working with charities

The Company recognises the importance of encouraging its employees to volunteer in the community. The 'Time to Give' employee volunteering scheme allows each employee two days a year during work time, to work with community partners. During the year employees have volunteered for a variety of projects including the Reading Rivers and Environmental Spaces Clean-Up Event, clean-ups of the River Thames with charity partner Thames21, habitat maintenance work with the National Trust and improving facilities for smaller local community groups.

During 2008/09 more than 600 employees volunteered in Company time. This amounts to the Company donating more than 500 days of employee time to charitable and community causes, equivalent to a value of £85,000. This meets the Company's target for the year for more than 10% of employees to take part in community-based volunteering projects.

The Matched Funding scheme seeks to double the Company's employees fundraising efforts up to a maximum of £2,000. Through 2008/09 the Company donated over £36,000 to good causes supported by employees through this scheme.

Preparations have also progressed well for the Love Water Ball 2009, where the Company expects to raise more than £500,000 for its partner charity, WaterAid, beating the £200,000 raised at the 2008 event.



David Owens
Chief Executive Officer
17 June 2009

Thames Water Utilities Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2009. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies.

Principal activities and likely future developments

The principal activities of the Company are the supply of water and the collection and treatment of sewage, serving approximately 13.6m customers in London and the Thames Valley.

The information which, complies with the Operating and Financial Review ("OFR") of the Companies Act 1985 can be found within the Chief Executive Officer's Business review on pages 3 to 21. The Company chose not to produce a voluntary OFR as these requirements are satisfied by the Chief Executive Officer's Business review. The Chief Executive Officer's Business review (which forms part of the Directors' report) comprises an analysis of the development and performance of the business and includes an assessment of future prospects, information about research and development activities, details of important events that have occurred since 31 March 2009 and Key Performance Indicators ("KPIs").

Details of parent and subsidiary undertakings are given in Notes 10 and 26 to the Financial statements, on page 50 and 65 respectively, and the Company has no branches outside the United Kingdom.

Business review

This has been discussed in the Chief Executive Officer's Business review on pages 3 to 21.

Results and dividends

The profit and loss account on page 33 gives the Company's financial results for the year.

The Company paid interim dividends totalling £222.0m during the year (2008: £102.0m).

On 3 April 2009 the directors approved a third interim dividend of £116.9m (11.4p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid to Thames Water Utilities Holdings Limited ("TWUHL") on 24 April 2009. TWUHL used this dividend to repay inter-company interest owed to Thames Water Utilities Limited. Also on 3 April 2009 the directors approved a further interim dividend of £60.0m (5.8p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid to TWUHL on 29 May 2009.

The Company's dividend policy is:

- to pay a progressive dividend commensurate with the long-term returns and business performance, 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 15-months.
- Post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

The Board does not recommend a final dividend (2008: £nil).

Thames Water Utilities Limited

Directors' report (continued)

Directors

Details of the directors who served from 1 April 2008 to the date of this report are shown below. The constitution of the Board is covered in more detail in the Company's Corporate governance report, which can be found on pages 27 to 30.

All Board members from 1 April 2008 to 31 March 2009 inclusive were Non-Executive Directors ("NEDs") throughout the period, with the exception of David Owens (Chief Executive Officer), Stephen Shine (Chief Operating Officer), and Mark Braithwaite (Chief Financial Officer).

Directors' serving from 1 April 2008 to the date of this report are as follows:

Sir Peter Mason KBE – Chairman
L F Abaira (resigned 1 January 2009)
M W Baggs
E Beckley (appointed 19 January 2009)
R Blomfield-Smith
S J Box
M W Braithwaite
C R Deacon
S Kolenc (appointed 9 February 2009)
D W Owens
G I W Parsons (resigned 19 January 2009)
M J Pavia
A F C DeP Santos (appointed 1 January 2009)
D J Shah
S F Shine
W Smit
M S W Stanley
L Webb (resigned 9 February 2009)

The following directors have formally appointed alternate directors to represent them when they are unavailable:

Director	Alternate Director
L F Abaira (resigned 1 January 2009)	P Gomez (resigned 1 January 2009)
R Blomfield-Smith	K Boesenberg (appointed 1 April 2009)
S Kolenc	L Webb (appointed 9 February 2009)
C R Deacon	P DeSouza (resigned 10 September 2008)
	R D Israel (appointed 10 September 2008)
G I W Parsons (resigned 19 January 2009)	E Beckley (resigned 19 January 2009)
A F C DeP Santos	S Batey (appointed 1 January 2009)
D J Shah	WR McKenzie (resigned 9 February 2009)
	C van Heijningen (appointed 9 February 2009)
L Webb (resigned 9 February 2009)	S Kolenc (resigned 9 February 2009)

Material financial instruments

Financial risk management is covered on page 14 of the Chief Executive Officer's Business review.

Thames Water Utilities Limited

Directors' report (continued)

Research and development activities

This has been noted in the Chief Executive Officer's Business review on page 19.

Employee involvement

Updates on operational and financial performance are available to all employees through briefings by the CEO, Company-wide emails and team briefings.

Methods of communication with employees vary dependent on the subject matter. Company-wide announcements, changes to Company policy and business updates are disseminated to all employees, and the CEO and his EMT undertake regular briefings for managers and employees.

Consultation with non-management employees is undertaken in partnership with the recognised TUs. Consultation with management level employees typically takes place on an individual basis, except in the case of changes that affect whole areas of the business. In these circumstances, consultation takes place on a group basis with employee representatives being elected for the relevant area.

Employment of disabled persons

The Company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995. The Company has policies and procedures in place that aim to ensure that both job applicants and employees with disabilities have equality of opportunity, are treated fairly and have a safe and practical workplace, free from discrimination, bullying, harassment or victimisation.

Through disability and attendance management policies, support and training is provided for employees who become disabled during the course of their employment so that they continue to work in a position appropriate to their experience and abilities.

Policy and practice on payment of creditors

The Company's policy is to pay all suppliers, contractors and service providers according to pre-agreed terms. During the year under review, the average amount due to trade creditors represented 70 days (2008: 70 days) purchases received from these creditors.

Political and charitable donations and expenditure

No political donations were made by the Company. The Company made charitable donations totalling £1,121,511 (2008: £344,619). Details of these charitable donations are:

- £377,426 (2008: £235,879) from the Company's Customer Assistance Fund, and £477,900 (2008: nil) to Thames Water Trust fund and Auriga Services thereby helping customers who were unable to settle their outstanding water bills owing to financial difficulty, hardship or distress.
- £152,385 (2008: £19,740) to the Charities Aid Foundation.
- £7,800 (2008: £29,000) to Wateraid.
- £60,000 (2008: £60,000) to Thames 21, a range of charities who assist in cleaning rivers and streams within the Thames Valley.
- £43,500 (2008: £nil) to improve the River Wandle in South London.
- £2,500 (2008: £nil) to a variety of small charities.

Thames Water Utilities Limited

Directors' report (continued)

Going concern

The directors believe, after due and careful enquiry, that the Company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2009 financial statements. Further information is set out in note 1 'Basis of preparation' on page 38.

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 has 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.

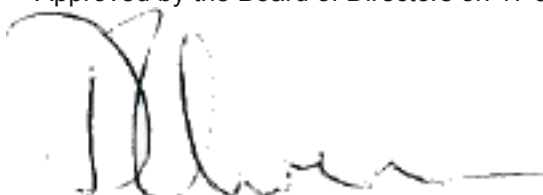
Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report.

Auditors

During the year PricewaterhouseCoopers LLP resigned as auditors and KPMG Audit Plc were appointed. A resolution to reappoint KPMG Audit Plc as the Company's auditors will be proposed at a General Meeting.

Approved by the Board of Directors on 17 June 2009 and signed on its behalf by



Signed on behalf of the Board
David Owens
Chief Executive Officer

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Limited

Statement of directors' responsibilities in respect of the Annual report and financial statements

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

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 period.

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

- Select suitable accounting policies and then apply them consistently.
- Make judgments and estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are 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 its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Thames Water Utilities Limited

Corporate governance report

Compliance Regime

The term 'corporate governance' is generally taken to refer to the supervision of how a company is run and how the risks to its business are managed. It embraces regulation, corporation structure, and the function of the Board of Directors. This statement is made in order to comply with Regulatory requirements.

The Company's shareholders and directors are all committed to maintaining high standards of corporate governance. This commitment is underpinned by the fact that, under the terms of its Licence from Ofwat, the Company is required to pay particular regard to the Combined Code on Corporate Governance (the "Code"), which is something that generally applies only to companies whose shares are listed on the London Stock Exchange. The Code introduction acknowledges that departure from the Code's provision may be justifiable in particular circumstances. As the Company is a wholly-owned subsidiary of a privately-owned group, the Board considers that a significant number of the provisions of the Code are not directly applicable.

Board Membership

The Board reserved matters are set out in the Shareholders' agreement. The Board is confident that it acts as independently of the shareholders as is feasible, and that it takes decisions objectively in the best interests of the Company. It also believes that it has demonstrated its commitment to ensuring that the Company's obligations to its stakeholders are understood and met and that the necessary financial and management resources, and systems of planning and internal control, are in place to achieve these obligations. Supported by the CEO and the EMT, the Board is taking positive action towards regenerating the Company's values and standards, and establishing a clear strategic direction for the future.

The current Board of Directors is chaired by Sir Peter Mason, KBE. Sir Peter has had a long and distinguished career in the engineering and construction industries, including Private Finance Initiatives and design and project management. He has also held several public service appointments, primarily with the Department for Trade and Industry. Sir Peter's current external appointments include directorships of BAE Systems plc and Acergy. Since he holds directorships in other group companies, Sir Peter is not considered to be independent, and nor was he so upon appointment. As Chairman, he is responsible for leadership of the Board, including ensuring its effectiveness in all aspects of its role and in setting its agenda. As well as making sure that there is effective communication with the Company's shareholders, he is also responsible for ensuring that the directors receive accurate, timely and clear information and that constructive relations exist between the Board and the executive management.

Between them, the directors have a specialist knowledge of the water industry and other regulated utilities. Both the Board and Ofwat consider three of the directors to be independent non-executives.

These independent non-executive directors are: Stephen Box – former Finance Director of National Grid; Michael Pavia – former Chief Financial Officer of the London Electricity Group; and Willem Smit – who was the Managing Director of the regulated utility, TXU Europe. The Board considers, and Ofwat has agreed, that Stephen Box fulfils the definition of independence, notwithstanding that he also serves on the Boards of Wales & West Utilities Limited and MGN Gas Networks together with fellow director, Martin Baggs.

External consultants Egon Zehnder International undertook the annual performance evaluation of the Board and its Committees in December 2008 and further actions to improve the effectiveness of the Board are being considered.

Thames Water Utilities Limited

Corporate Governance report (continued)

Committees of the Board

There are four standing committees of the Board:

- Audit & Risk Review
- Regulatory
- Health, Safety & Environment
- Compensation & HR

Each Committee has written Terms of Reference and, between them, they advise the Board on a range of matters that are commonly dealt with by Audit, Remuneration and Nomination committees. From time to time, other Board committees are formed to deal with specific matters, for example drought.

Membership of the Audit & Risk Review Committee ("ARRC"), the Regulatory Committee, the Health, Safety & Environment Committee and the Compensation & HR Committee throughout the year are set out below:

Audit & Risk Review Committee:	S Box (Chairman), M W Baggs and R Blomfield-Smith
Regulatory Committee:	M W Baggs (Chairman), S Box, G Parsons (resigned 19 Jan 2009), D Shah, and E Beckley (appointed 19 Jan 2009)
Health, Safety & Environment Committee:	M J Pavia (Chairman), M W Baggs and L Webb
Compensation & HR Committee:	M Stanley (Chairman), Sir Peter Mason, W Smit and C Deacon

The Board reviews risk management and the effectiveness of the system of internal control through the ARRC. The board also keeps under review ways in which to enhance the control and audit arrangements within the group.

The purpose of the ARRC is to ensure the preservation of good financial practices throughout the Company, to monitor that controls are in force to ensure the integrity of those practices, to review risk management processes, and to review the interim and annual financial statements and the June Return to the Water Services Regulatory Authority, and to provide by way of timely meetings, a line of communication between the Board and external auditors.

Thames Water Utilities Limited

Corporate Governance report (continued)

Internal Control

The Board acknowledges that it is ultimately responsible for the Company's system of internal control. In common with other organisations, the internal control system is designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, not absolute assurance against material misstatement or loss. Key features of the system of internal control and risk management are:

- A control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business.
- Comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years.
- Regular monitoring of risks and control systems throughout the year, supported by the use of risk registers.
- A self-certification process, whereby management are required to confirm that the system of internal control is operating effectively.
- An internal audit function providing independent scrutiny of internal control systems and risk management procedures.
- A review of reports produced by internal and external audit.

The directors routinely review the effectiveness of the system of internal control and risk management, principally by means of:

- Regular presentations to the ARRC and to the EMT by heads of individual business units and functional heads, describing their risk management strategies and detailing the status of significant business risks.
- Reports of significant changes to the Company's overall risk profile, which are reported to the ARRC and the Board.
- Standing reports to the ARRC from the Internal Audit Department.
- Reports to the ARRC on the results of a self-certification process, and independent reports thereon by the internal audit department.

Any weaknesses identified in the system of internal control will be dealt with through the processes noted above.

Thames Water Utilities Limited

Corporate Governance report (continued)

Auditors' independence and objectivity

The ARRC monitors regularly the non-audit services being provided to the Company by the external auditors. The auditors do not self review, make management decisions for the Company, have a mutuality of financial interest with the Company, or act in the role of advocate for the Company. The ARRC also meets with the auditors in private. Approval of the ARRC is required for any services provided by the external auditors where the fee is likely to be in excess of £100,000.

Details of the amount paid to the external auditors during the year for audit and other services are set out in Note 3 (see page 45) to the financial statements.

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

We have audited the financial statements of Thames Water Utilities Limited for the year ended 31 March 2009, which comprise of the Profit and loss account, the Balance sheet, the Cash flow statement, the Statement of total recognised gains and losses, the Reconciliation of movements in shareholders' funds and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 26.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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 other information contained in the Annual report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

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.

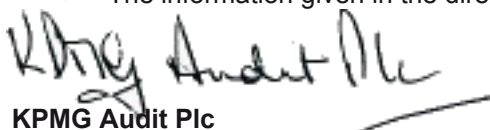
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity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

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

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- The information given in the directors' report is consistent with the financial statements.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

17 June 2009

Thames Water Utilities Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2009 £m	31 March 2008 (restated *) £m
Turnover		1,558.2	1,487.6
Operating costs	3	(952.9)	(942.6)
Operating profit		605.3	545.0
Profit on sale of fixed assets	4	8.2	45.1
Net interest payable and similar charges	6	(175.5)	(183.2)
Other finance (expense)/income	25	(2.9)	12.3
Profit on ordinary activities before taxation		435.1	419.2
Taxation on profit on ordinary activities	7	(120.3)	(39.2)
Profit for the financial year	20	314.8	380.0

All amounts above relate to continuing operations.

* The Company has restated turnover and operating costs for the year ended 31 March 2008 (£6.6m) to reflect the change in accounting treatment of income from energy generation and the national grid reserve service, which is now treated as other operating income within operating costs in accordance with direction from Ofwat. Previously this income was included within turnover. This reclassification does not affect operating profit.

There is no difference between the profit on ordinary activities before taxation for the periods stated above and their historical cost equivalents.

Statement of total recognised gains and losses for the year ended 31 March

	Note	31 March 2009 £m	31 March 2008 £m
Profit for the financial year		314.8	380.0
Actuarial (loss)/gain on pension scheme	25	(133.0)	3.9
Deferred tax relating to actuarial (loss)/gain		37.2	(1.1)
Total recognised gains in the year		219.0	382.8

Thames Water Utilities Limited

Balance sheet as at 31 March

	Note	31 March 2009 £m	31 March 2008 (restated *) £m
Fixed assets			
Tangible assets	9	7,123.8	6,495.9
Investments	10	0.1	0.1
		7,123.9	6,496.0
Current assets			
Stocks	11	6.1	7.0
Debtors: amounts falling due within one year	12	606.0	482.6
Debtors: amounts falling due after more than one year	13	1,180.0	1,223.8
		1,786.0	1,706.4
Current asset investments	16	321.6	15.6
Cash at bank and in hand	16	204.2	65.8
		2,317.9	1,794.8
Creditors: amounts falling due within one year	14	(1,110.7)	(1,149.9)
Net current assets		1,207.2	644.9
Total assets less current liabilities		8,331.1	7,140.9
Creditors: amounts falling due after more than one year	15	(5,663.1)	(4,634.7)
Provisions for liabilities and charges	17	(1,011.9)	(920.1)
Net assets excluding pension assets		1,656.1	1,586.1
Net pension (liabilities)/assets	25	(46.9)	26.1
Net assets including pension (liabilities)/assets		1,609.2	1,612.2
Capital and reserves			
Called-up share capital	18	1,029.0	1,029.0
Share premium account	19	100.0	100.0
Profit and loss account	20	480.2	483.2
Total shareholder's funds	21	1,609.2	1,612.2

* The Company has restated Creditors: amounts falling due within one year and Provisions for liabilities and charges at 31 March 2008 (£42.8m). This reclassification does not affect the net assets in accordance with Changes to accounting policies as disclosed on page 39.

The notes on pages 38 to 66 form part of these financial statements.

The financial statements were approved by the Board of Directors on 17 June 2009 and signed on its behalf by:



Mark Braithwaite
Chief Financial Officer

Thames Water Utilities Limited

Cash flow statement for the year ended 31 March

	Note	31 March 2009 £m	31 March 2008 £m
Net cash inflow from operating activities	(a)	915.2	920.0
Returns on investments and servicing of finance			
Interest received		63.8	12.7
Interest paid		(208.8)	(184.4)
Interest element in finance lease payments		(12.7)	(16.5)
Net cash outflow from returns on investments and servicing of finance		(157.7)	(188.2)
Taxation		(70.2)	(76.2)
Capital expenditure and financial investment			
Gross cost of purchased fixed assets		(915.5)	(800.0)
Infrastructure renewals expenditure		(104.8)	(160.4)
Receipt of grants and contributions		32.1	56.6
Movement on long term loans to group companies		-	(1,180.0)
Sale proceeds of fixed assets	(d)	8.7	75.6
Net cash outflow for capital expenditure and financial investment		(979.5)	(2,008.2)
Equity dividends paid		(222.0)	(102.0)
		(514.2)	(1,454.6)
Management of liquid resources			
(Increase)/decrease in short term deposits		(306.0)	96.9
Net cash outflow before financing		(820.2)	(1,357.7)
Financing			
Capital element in finance lease rebate/(payment)		4.6	(11.1)
New loans		1,320.3	1,369.6
Repayment of loans		(366.3)	(24.4)
Net cash inflow from financing	(b) & (c)	958.6	1,334.1
Increase/(decrease) in cash	(b) & (c)	138.4	(23.6)

Thames Water Utilities Limited

Notes to the cash flow statement for the year ended 31 March

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Note	31 March 2009 £m	31 March 2008 £m
Operating profit		605.3	545.0
Assets written off	3	-	6.9
Depreciation (infrastructure)	3	114.0	106.9
Depreciation (non infrastructure)	3	224.4	219.7
Difference between pension charge and cash contributions		(34.7)	(4.2)
Decrease/(increase) in stocks		0.9	(0.9)
Decrease/(increase) in debtors and prepaid expenses		24.5	(26.1)
(Decrease)/increase in creditors and accrued expenses		(0.2)	71.8
(Decrease)/increase in provisions		(4.0)	13.1
Release of deferred income		(15.0)	(12.2)
Net cash inflow from operating activities		915.2	920.0

(b) Reconciliation of net cash flow to movement in net debt

	Note	31 March 2009 £m	31 March 2008 £m
Increase/(decrease) in cash in the year		138.4	(23.6)
Cash inflow/(outflow) from increase/(decrease) in liquid resources		306.0	(96.9)
Cash inflow from movement in net debt and financing		(958.6)	(1,334.1)
Increase in net debt resulting from cashflows		(514.2)	(1,454.6)
Non-cash increase in net debt		(55.7)	(55.8)
Total increase in net debt		(569.9)	(1,510.4)
Opening net debt		(4,746.5)	(3,236.1)
Closing net debt	(c)	(5,316.4)	(4,746.5)

Non-cash changes comprise the carrying value accretion by RPI, of a number of RPI index-linked bonds and swaps. 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 cash flow statement for the year ended 31 March (continued)

(c) Analysis of movement in net debt

	As at 1 April 2008 £m	Cash flow £m	Other non- cash movements £m	As at 31 March 2009 £m
Cash at bank and in hand	65.8	138.4	-	204.2
Short term deposits	15.6	306.0	-	321.6
	81.4	444.4	-	525.8
Debt due within one year	(366.3)	13.1	-	(353.2)
Debt due after more than one year	(4,257.1)	(967.1)	(55.7)	(5,279.9)
Finance leases	(204.5)	(4.6)	-	(209.1)
	(4,827.9)	(958.6)	(55.7)	(5,842.2)
Total	(4,746.5)	(514.2)	(55.7)	(5,316.4)

(d) Profit on disposal of fixed assets

The proceeds received regarding the profit on the sale of fixed assets have been included within Capital expenditure and financial investment 2009: £8.7m, (2008: £75.6m).

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items, which are considered material to the financial statements, except as noted below.

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of this departure from the requirements of the Act is given in note 1(d) below.

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 has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated financial statements of its parent company Kemble Water Holdings Limited, a company registered in the United Kingdom.

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Business review on pages 3 to 21. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive Officer's Business review on pages 6 to 7. In addition, it includes details of the Company's Treasury policy, capital structure and financial risk management.

The Company meets its day to day working capital and capital programme requirements by raising new debt. There is an additional committed revolving credit facility with a group of 9 banks of £750m, which is rarely used and is due for renewal by 30 August 2010. The current economic conditions create uncertainty particularly over (a) the level of revenue earned from regulatory activities; (b) the increased occurrence of bad debts; and (c) the availability of bank finance in the foreseeable future. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility.

The Company will open renewal negotiations with the banks in due course and has at this stage not sought any written commitment that the facility will be renewed. However, the Company has held informal discussions with its banks about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

The directors believe, after due and careful enquiry, that the Company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2009 financial statements.

Changes to accounting policies

The same accounting policies used for the period ended 31 March 2008 have been applied in these financial statements, except as noted below.

The Company has restated turnover (page 33) and operating costs (page 44) for the year ended 31 March 2008 (£6.6m) to reflect the change in treatment of income from energy generation and the national grid reserve service, as directed by Ofwat, which is now treated as other operating income within operating costs. Previously this income was included within turnover. This reclassification does not affect operating profit.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

Changes to accounting policies (continued)

The Company has restated Creditors: amounts falling due within one year (see note 14, page 52) and Provisions for liabilities and charges (see note 17, page 57) as at 31 March 2008 (£42.8m) to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 'Provisions: contingent liabilities and contingent assets'. Previously, this liability has been treated as creditors: amounts falling due within one year. This reclassification does not affect the net assets of the Company.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies are consistently applied to all the periods presented, unless otherwise stated.

(a) Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided and is recognised in accordance with FRS 5 'Reporting the Substance of Transactions'. No adjustment is made to reduce revenue by an estimated bad debt charge to reflect the fair value as it is not deemed material. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end together with unbilled waste water charges, exclusive of value added tax.

The Company recognises all revenue at the time of delivery. Should the Company consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of delivery are recorded as deferred revenue.

(b) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers and pumped raw water storage reservoirs and sludge pipelines), and other assets (including land, buildings, properties, over ground plant and equipment).

Directly attributable costs are capitalised within fixed assets. These costs include employee costs and other internal costs that are incremental to the business due to the scale and nature of the capital implementation programme of the Company. Interest costs are not capitalised.

- **Infrastructure assets**

Infrastructure assets comprise a network of systems. In the UK Water and Waste regulated business, all expenditure on infrastructure assets is capitalised at cost, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as IRC within depreciation.

Following the completion of the Company's assessment of the infrastructure renewals expenditure requirement to the end of AMP7 for the Final Business Plan the Company now considers that it would be appropriate to reflect in the Company's regulatory and statutory accounts for 2008/09 and 2009/10 an infrastructure renewals charge consistent with our expenditure plans for the AMP5 to AMP7 (2010-2025) periods. On this basis we have included a charge of £114.0m in the Company's statutory and regulatory accounts for 2008/09.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(b) Tangible fixed assets (continued)

- Other assets (continued)

All other assets, comprising plant and equipment and land and buildings, are stated at cost less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Freehold land is not depreciated and assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, down to zero, based on management's judgement and experience, which are principally as follows:

Buildings	10 - 60 years
Operational structures	5 - 100 years
Other	20 - 60 years
Fixtures, fittings, vehicles and computers	3 - 40 years
Fixed and mobile plant	5 - 60 years

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

(c) Impairment of tangible fixed assets

Fixed assets are assessed for impairment whenever there is an indication of impairment to determine whether any assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of non-current assets is recognised in the profit and loss account within operating costs.

Where an impairment loss subsequently reverses, it is recognised in the profit and loss account and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(d) 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, which are accordingly 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 financial effect of this departure is disclosed in note 9.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

(e) Stocks and work in progress

Stock and work in progress are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(f) Taxation

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

- **Current taxation**

Current taxation, including UK corporation tax and foreign tax, is based on the taxable profit for the period 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 differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

- **Deferred taxation**

Deferred taxation is recognised without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet, except as otherwise required by FRS19.

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 tax rates that are expected to apply in the periods 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 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.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(g) Leased assets

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

- **Finance leases**

Finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease to the first break clause.

- **Operating leases**

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

(h) Pension and other post retirement benefits

The Company operates two defined benefit pension schemes, Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), which are independently administered funds, for the substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method (for TWPS) and the attained age method (for TWMIPS) at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates (a complete actuarial valuation is performed every three years). Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair value).

The difference between the assets and liabilities of the schemes are recognised as a surplus (to the extent that the surplus is recoverable) or obligation in the balance sheet.

The cost of providing pension benefits to employees is included in the profit and loss account within the cost of employee benefits. The difference between the expected return on scheme assets and interest on scheme liabilities are included within other finance income/expense in the profit and loss account.

Actuarial gains and losses are recognised outside the profit and loss account in retained earnings and are presented in the Statement of total recognised gains and losses.

In addition, the Company also operates two closed defined contribution pension schemes. The Company has no further payment obligations for these schemes; however, defined funds for individuals are held within these schemes.

(i) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the year.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(j) Cash

Cash includes cash at bank and in hand, deposits, and short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash at any time without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

(k) Debtors

Debtors are stated at nominal value (which approximates to fair value) less allowances for estimated irrecoverable amounts.

(l) Creditors

Creditors are stated at their nominal value (which approximates to fair value).

(m) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

- **Borrowings**

Interest bearing bank loans and overdrafts are recorded at the proceeds received, 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 in 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 period in which they arise.

- **Financial instruments and derivatives**

Interest rate swap agreements and financial futures are used to manage interest rate exposure. While the Company enters into currency swaps to manage its exposure to fluctuations in exchange rates, the Company does not use derivative financial instruments for speculative purposes.

The Company currently does not apply FRS 26 'Financial Instruments: Recognition and Measurement', and accordingly the disclosure requirements of FRS 29 'Financial Instruments: Disclosures' are not applicable. Therefore, the presentation requirements of FRS 25 'Financial Instruments: Presentation' have been applied. However, certain voluntary disclosures have been prepared to aid understanding and comparability with prior year.

Foreign currency and interest rate swaps are accounted for on an amortised cost basis in accordance with FRS 4 'Capital Instruments'.

(n) Accruals and deferred income

Grants and contributions receivable in respect of depreciating fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(o) Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(p) Provisions

Provisions are recognised when the Company 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. Insurance provisions are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Provisions are recorded in the balance sheet at their full value and are not therefore discounted.

(q) 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 within the Kemble Water Holdings Limited Group, on the grounds that it is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered in the United Kingdom.

(r) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at the date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

2 Segmental analysis

The directors consider that the Company has one class of business and this is conducted wholly within the United Kingdom.

3 Operating costs

Analysis of operating costs by type of expense:

	Note	31 March 2009 £m	31 March 2008 (restated *) £m
Staff costs	5	215.0	195.9
Materials and consumables		130.0	122.1
Other operating charges		394.3	409.8
Assets written off		-	6.9
Depreciation:			
Owned assets (infrastructure)	9	114.0	106.9
Owned assets (non-infrastructure)	9	214.8	210.1
Assets held under finance leases (non-infrastructure)	9	9.6	9.6
Rental under operating leases:			
Hire of plant and machinery		3.9	4.1
Other		6.8	7.4
Research and development		3.5	4.1
Other operating income		(7.7)	(6.6)
Foreign currency gain		(0.3)	-
		1,083.9	1,070.3
Own work capitalised		(131.0)	(127.7)
		952.9	942.6

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

3 Operating costs (continued)

* Other operating income comprises income from energy generation and the national grid reserve service, which is now treated as a reduction in operating costs based on direction from Ofwat. Previously, these were included in turnover. Prior year comparatives have been restated accordingly.

Power costs are now included within materials and consumables. Previously these were shown within other operating charges. The effect of this reclassification is an increase in prior year's materials and consumables by £64.0m, with a corresponding reduction in other operating charges.

These reclassifications do not have any impact on profit after tax.

Included in the above is auditors' remuneration in respect of the following:

Fees payable to current auditors:

	31 March 2009 £'000	31 March 2008 £'000
Fees payable to the Company's auditors for the audit of the Company's accounts	180	-
Fees payable to the Company's auditors and its associates for other services:		
Other services pursuant to legislation	133	-
Other services relating to taxation	35	-
All other services	25	-
Total aggregate remuneration	373	-

Fees payable to previous auditors:

	31 March 2009 £'000	31 March 2008 £'000
Fees payable to the Company's auditors for the audit of the Company's accounts	-	207
Fees payable to the Company's auditors and its associates for other services:		
Other services pursuant to legislation	65	107
All other services	43	-
Audit fees in respect of the Thames Water Limited pension schemes	59	65
Total aggregate remuneration	167	379

4 Profit on sale of fixed assets

	31 March 2009 £m	31 March 2008 £m
Profit on disposal of fixed assets	8.2	45.1
Taxation attributable, included in the charge for the period	1.0	3.6

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

5 Information regarding directors and employees

Aggregate directors' emoluments:

	31 March 2009 £'000	31 March 2008 £'000
Salary	988	833
Bonus	1,099	1,402
Other benefits	41	87
Total aggregate emoluments	2,128	2,322

At 31 March 2009 £49,660 is accruing to 3 directors (2008: £24,000) under the Group's defined benefit scheme.

At 31 March 2009 there was no compensation for loss of office (2008: £nil).

The directors agreed to no annual increase in salary as at 1 April 2009.

Highest paid director

Total emoluments in respect of the highest paid director in respect of work done for the Company during the year was £696,236 (2008: £766,421).

Employee information

The average number of persons employed by the Company, including executive directors, during the year was:

	31 March 2009 Number	31 March 2008 Number
Support	398	343
Operations	4,677	4,729
Total employee numbers	5,075	5,072

Employment costs including executive directors' remuneration were:

	31 March 2009 £m	31 March 2008 £m
	178.2	158.3
Salaries and wages	15.1	13.4
Social security costs	15.3	18.1
Pension costs	8.4	8.2
Severance costs		
Total	217.0	198.0
Employment costs included within research and development	(2.0)	(2.1)
Net employment costs	215.0	195.9

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

6 Net interest payable and similar charges

	31 March 2009 £m	31 March 2008 £m
Bank loans, overdrafts and other loans:		
Group loans	(244.8)	(194.1)
Bank loans	(26.7)	(26.6)
Other loans	(10.8)	(3.0)
Swaps	(24.8)	(18.2)
Finance charges in respect of finance leases	(10.6)	(10.0)
Interest payable and similar charges	(317.7)	(251.9)
Interest receivable:		
Group loans	73.1	43.8
Other loans	9.3	9.1
Swaps	59.8	15.8
Interest receivable	142.2	68.7
Net interest payable and similar charges	(175.5)	(183.2)

Amounts payable and receivable on swaps relate to interest rates swaps taken out to hedge rates on external borrowings. Refer to note 16.

7 Taxation

(a) Analysis of charge in the year

	Note	31 March 2009 £m	31 March 2008 £m
Current tax:			
Amounts payable in respect of corporation tax for the year		62.6	99.1
Adjustment in respect of prior years		(36.1)	11.1
Total current tax	7(b)	26.5	110.2
Deferred tax:			
Origination and reversal of timing differences		49.8	14.0
Timing difference on pension cost charge		8.9	4.2
Adjustments in respect of prior years		35.1	(12.1)
Effect of decreased tax rate from 30% to 28%		-	(60.1)
Release of deferred tax liability on abolition of industrial building allowances		-	(17.0)
Total deferred tax		93.8	(71.0)
Taxation on profit on ordinary activities		120.3	39.2

Of the deferred tax charge as at 31 March 2009 of £93.8m (2008: £71.0m credit), a deferred tax charge for the year ended 31 March 2009 of £84.9m (2008: £75.2m credit) is shown as a movement within note 17 (provisions for liabilities and charges), and a deferred tax charge for the year ended 31 March 2009 of £8.9m (2008: £4.2m) is shown within note 25 (pension schemes).

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

7 Taxation (continued)

(b) Factors affecting tax charge for the year

The tax charge for the year is lower (2008: lower) than the standard rate of corporation tax in the UK (28%), (2008: 30%). The differences are explained below:

	Note	31 March 2009 £m	31 March 2008 £m
Profit on ordinary activities before tax		435.1	419.2
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)		121.8	125.8
Effects of:			
Income not taxable (intra-group disposals of property) less disallowable expenditure		(0.5)	(7.9)
Capital allowances for the year in excess of depreciation and other timing differences		(49.8)	(13.9)
Pension cost charge lower than pension cost relief		(8.9)	(4.9)
Adjustments to tax charge in respect of prior years		(36.1)	11.1
Current tax charge for the year		26.5	110.2

8 Dividends

	Note	31 March 2009 £m	31 March 2008 £m
First interim paid: 12.7p (2008: 9.91p) per ordinary share		131.0	102.0
Second interim paid 8.8p (2008: Nil) per ordinary share		91.0	-
	20 & 21	222.0	102.0

As a post balance sheet event, on 3 April 2009 the directors approved a third interim dividend of £116.9m (11.4p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid to Thames Water Utilities Holdings Limited on 24 April 2009, and was used by Thames Water Utilities Holdings Limited to settle inter-company interest owing to Thames Water Utilities Limited. On the same day, the directors also approved a further interim dividend of £60.0m (5.8p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid to Thames Water Utilities Holdings Limited on 29 May 2009.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

9 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
Cost				
At 1 April 2008	2,305.7	3,619.7	4,053.5	9,978.9
Reclassification	-	(2.1)	2.1	-
Additions	159.9	375.7	446.8	982.4
Disposals	-	(13.7)	-	(13.7)
At 31 March 2009	2,465.6	3,979.6	4,502.4	10,947.6
Capital contributions				
At 1 April 2008	-	-	545.1	545.1
Additions	-	-	15.6	15.6
At 31 March 2009	-	-	560.7	560.7
Depreciation				
At 1 April 2008	570.4	1,654.8	712.7	2,937.9
Provided during the year	47.7	176.7	114.0	338.4
Disposals	-	(13.2)	-	(13.2)
At 31 March 2009	618.1	1,818.3	826.7	3,263.1
Net Book Value				
At 31 March 2009	1,847.5	2,161.3	3,115.0	7,123.8
At 31 March 2008	1,735.3	1,964.9	2,795.7	6,495.9

The directors' have reviewed certain assets previously shown within plant and equipment (£2.1m) and, after due consideration of the nature of these assets, consider that it is appropriate to reclassify these into infrastructure assets. These assets transferred to infrastructure assets are non-depreciable assets, therefore depreciation is unaffected by this reclassification.

The net book value of land and buildings is analysed as follows:

	31 March 2009 £m	31 March 2008 £m
Freehold land and buildings	1,841.5	1,731.9
Leasehold – over 50 years	2.9	0.9
Leasehold – under 50 years	3.1	2.5
	1,847.5	1,735.3

Depreciation has not been charged on freehold land stated in the financial statements at cost of £34.4m (2008: £30.4m).

Tangible fixed assets at 31 March 2009 include assets in the course of construction of £1,654.3m (2008: £1,503.6m).

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

9 Tangible fixed assets (continued)

Details of the Company's tangible fixed assets, which are held under finance leases, are:

	Total £m
Cost	
At 1 April 2008	272.5
Additions	-
At 31 March 2009	272.5
Depreciation	
At 1 April 2008	117.3
Provided during the year	9.6
At 31 March 2009	126.9
Net Book Value	
At 31 March 2009	145.6
At 31 March 2008	155.2

10 Fixed asset investments

	31 March 2009 £m	31 March 2008 £m
Cost of shares in subsidiaries	0.1	0.1

At 31 March 2009 the Company held the allotted share capital of the following undertakings

Name of undertaking	Nominal value and class of shares held	Proportion of nominal value of issued shares held	Activity
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Finance Company
Thames Water Utilities Cayman Finance Holdings Limited	\$1 Ordinary	100%	Finance Company

Thames Water Utilities Finance Limited was incorporated and registered in Great Britain. Thames Water Utilities Cayman Finance Holdings Limited was incorporated and registered in the Cayman Islands.

At 31 March 2009 Thames Water Utilities Finance Limited had net assets of £96,000 (2008: £53,000) and incurred a profit for the year ended 31 March 2009 of £43,000 (2008: loss £18,000).

At 31 March 2009 Thames Water Utilities Cayman Finance Holdings Limited had net assets of £1 (2008: £1). No profit or loss had been made in the year (2008: £nil).

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

11 Stocks

	31 March 2009 £m	31 March 2008 £m
Raw materials and consumables	6.1	7.0

12 Debtors: amounts falling due within one year

	31 March 2009 £m	31 March 2008 £m
Trade debtors	208.4	192.3
Amounts owed by group undertakings		
- Interest	116.9	-
- Non interest	1.7	21.1
Amounts receivable in respect of corporation tax	11.9	-
Other debtors	49.3	36.8
Insurance claims receivable	53.7	42.8
Prepayments and accrued income	164.1	189.6
	606.0	482.6

Amounts owed by group undertakings are comprised of:

- Interest receivable of £116.9m (2008 £43.8m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking, on a loan of £1,180.0m, of which £116.9m (2008: £nil) is included within debtors: amounts falling due within one year and £nil (2008: £43.8m) within debtors: amounts falling due after more than one year.

Interest rate is charged at Libor + 0.35%. Repayment of the interest (£116.9m) was received on 24 April 2009.

- All other amounts are unsecured, interest free and payable on demand.

13 Debtors: amounts falling due after more than one year

	31 March 2009 £m	31 March 2008 £m
Amounts owed by group undertakings	1,180.0	1,223.8

Amounts owed by group undertakings, are comprised of:

- An unsecured loan of £1,180.0m (2008: £1,180.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking. The directors do not anticipate any repayment of principal within the next twelve months.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

14 Creditors: amounts falling due within one year

	31 March 2009	31 March 2008 (restated)
	£m	£m
Bank loans	133.1	30.0
Obligations under finance leases	5.8	-
Trade creditors:		
- Operating	179.6	182.7
- Capital	207.9	245.8
Amounts owed to group undertakings:		
- Loan amounts	220.1	336.3
- Interest	89.5	54.8
- Non interest	0.7	-
Amounts payable in respect of corporation tax	-	7.7
Amounts payable in respect of group relief	25.6	49.8
Other taxation and social security payable	4.3	4.4
Accruals and deferred income	244.1	238.4
	1,110.7	1,149.9

15 Creditors: amounts falling due after more than one year

	31 March 2009	31 March 2008
	£m	£m
Bank loans	423.8	458.8
Obligations under finance leases	203.3	204.5
Amounts owed to group undertakings (see below)	4,856.1	3,798.3
Accruals and deferred income	179.9	173.1
	5,663.1	4,634.7

Amounts owed to group undertakings are:

Inter-company loans		
- Within one year	220.1	336.3
- After more than one year	4,856.1	3,798.3
	5,076.2	4,134.6
Non-loan amounts due within one year		
- Interest	89.5	54.8
- Non interest	0.7	-
	5,166.4	4,189.4

Secured bank loans

Each Obligor (the companies within the securitisation group) has entered into the Security Trust and Inter-creditor Deed ("STID") with the Security Trustee pursuant to which Thames Water Utilities Holdings Limited will guarantee the obligations of each other Obligor under the finance documents and the Company and its wholly owned subsidiaries will guarantee the obligations of each other under the finance documents, in each case to the Security Trustee.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

15 Creditors: amounts falling due after more than one year (continued)

Amounts due to group undertakings in respect of non-interest amounts are unsecured, interest free and payable on demand.

Loan amounts owed to group undertakings include:

- £2,956.2m (2008: £2,899.5m) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £70.1m (2008: £nil) is included within creditors due within one year and £2,886.1m (2008: £2,899.5m) within creditors due after more than one year.
- £1,982.7m (2008: £1,160.9m) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking, of which £nil (2008: £250.0m) is included within creditors due within one year and £1,982.7m (2008: £910.9m) within creditors due after more than one year.

Details of maturity of loans falling due after more than one year are detailed in note 16.

Other loans and finance leases, disclosed in more detail in note 16, are:

	31 March 2009 £m	31 March 2008 £m
Inter-company loans (as above)	5,076.2	4,134.6
Finance leases: within one year	5.8	-
Finance leases: after more than one year	203.3	204.5
	5,285.3	4,339.1

16 Financial instruments

FRS 25 requires the disclosure of the funding and treasury policy together with further details on financial assets and liabilities.

Funding and treasury policy

The Company's treasury operations are managed centrally by a small specialist team within the Thames Water Group reporting directly to the CFO. The treasury team manages the financing (including debt, interest costs and foreign exchange) for the Group. Treasury policy is focussed on efficient and effective management of cash and financial resources within the Group.

The Company's funding policy is to maintain a broad portfolio of debt. The debt arranged via Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited is diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

Derivative financial instruments, including cross currency swaps, interest rate swaps and index-linked swaps, are employed to manage the interest rate, inflation and currency risks arising from the primary financial instruments used to finance the Company's activities.

Short-term debtors and creditors have been excluded from the financial instruments disclosures.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Interest rate risk profile of financial liabilities and assets

After taking into account the Company's interest rate and currency swaps, the interest rate risk profile of the Company's financial liabilities and assets is as follows:

Financial liabilities

	Total at floating rates		Total at fixed rates *		Total book value		Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 %	2008 %	2009 Years	2008 Years
Bank loans and overdraft										
- £ Sterling	467.8	264.2	89.1	224.6	556.9	488.8	6.9	7.4	37.4	4.2
Other loans and finance leases **										
- £ Sterling	252.5	101.5	5,032.8	4,237.6	5,285.3	4,339.1	4.3	6.1	24.2	26.5
	720.3	365.7	5,121.9	4,462.2	5,842.2	4,827.9	4.4	6.2	24.4	25.4

* Included in fixed rate liabilities are index linked loans at a fixed coupon rate and indexation using RPI.

** Includes inter-company debt.

The Company's interest rate and cross currency swaps convert £39.5m (2008: £44.1m) of floating rate borrowing to fixed rate and £261.9m (2008: £26.9m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £684.0m (2008: £62.4m) of foreign currency borrowing through conversion to Sterling. Index linked swaps of £894.1m (2008: £500.0m) swapped fixed rate debt to index linked debt. All swaps are included at carrying amount.

Short-term floating rate loans bear interest at rates linked to LIBOR. Base rate is the benchmark rate for all cash at bank.

	Total at floating rates		Total at book value	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Short term deposits	321.6	15.6	321.6	15.6
Cash in bank and in hand	204.2	65.8	204.2	65.8
	525.8	81.4	525.8	81.4

Currency risk

The Company is not exposed to any significant currency risk after taking the effects of its cross currency swaps into consideration.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Fair values

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 in a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Company's financial instruments.

	Book value		Fair value	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Primary financial instruments				
Financial assets:				
- Short term deposits	321.6	15.6	321.6	15.6
- Cash at bank and in hand	204.2	65.8	204.2	65.8
Financial liabilities:				
- Bank loans	(541.9)	(475.0)	(549.6)	(479.0)
- Other loans and finance leases *	(5,285.3)	(4,339.1)	(5,339.6)	(4,612.3)
Derivative financial instruments				
- Interest rate swaps	-	(9.0)	(7.2)	(13.9)
- Cross currency swaps	(2.0)	(4.8)	1.4	(5.5)
- Index linked swaps	(13.0)	-	(132.6)	-
Total	(5,316.4)	(4,746.5)	(5,501.8)	(5,029.3)

* Includes inter-company debt.

Thames Water Utilities Limited does not have bonds. Other loans include bonds issued by group undertakings and external providers, which are publicly traded. Fair values for these have been calculated using the 31 March 2009 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.

Book values of primary financial instruments include the effect of any hedging instrument. Therefore, the effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Maturities

	31 March 2009 £m	31 March 2008 £m
Bank loans and overdrafts		
- Within one year	133.1	30.0
- Between one and two years	145.0	153.3
- Between two and five years	5.6	146.5
- After more than five years	273.2	159.0
	556.9	488.8
Other loans inc. inter-company and finance leases:		
- Within one year	225.9	336.3
- Between one and two years	258.3	51.1
- Between two and five years	569.2	350.4
- After more than five years	4,231.9	3,601.3
	5,285.3	4,339.1
Total borrowing	5,842.2	4,827.9

Loans are repayable between 2009 and 2062.

Loans wholly repayable after more than five years, excluding finance leases are:

	31 March 2009 £m	31 March 2008 £m
Bank loans	273.2	159.0
Other loans including inter-company	4,132.6	3,490.8
	4,405.8	3,649.8

Other loans repayable to Group undertakings in order of maturity, include:

£250m 4.75% Guaranteed bond due 2010.	£600m 5.13% MTN Eurobond due 2037.
€500m 6.13% Guaranteed bond due 2013.	£50m 3.85% Index linked bond due 2040.
£200m 4.90% Guaranteed bond due 2015.	£50m 1.98% Index linked bond due 2042.
£400m 6.57% Guaranteed bond due 2018.	£100m 1.85% Index linked bond due 2047.
£200m 5.05% Guaranteed bond due 2020.	£200m 1.82% Index linked bond due 2049.
£225m 6.59% Guaranteed bond due 2021.	£300m 1.68% Index linked bond due 2053.
£175m 3.38% Index linked bond due 2021.	£300m 1.68% Index linked bond due 2055.
£330m 6.75% MTN Eurobond due 2028.	£200m 1.77% Index linked bond due 2057.
£200m 6.50% MTN Eurobond due 2032.	£350m 1.76% Index linked bond due 2062.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Loans repayable by instalments after more than five years hence are:

	31 March 2009 £m	31 March 2008 £m
Finance leases	99.3	110.5

The ranges of interest rates on outstanding loans are 1.56% to 8.35% (March 2008: 1.68% to 8.35%).

These interest rates are those contracted on the underlying borrowing before taking account of interest rate protection. There are no interest free loans.

Borrowing facilities

At 31 March 2009 the Company has access to committed facilities of £1,100.0m (2008: £1,100.0m) of which £nil (2008: £300.0m) had been drawn at the balance sheet date, through its subsidiary company Thames Water Utilities Cayman Finance Limited.

17 Provisions for liabilities and charges

	Deferred tax £m	Insurance liabilities £m	Restructurin g £m	Other £m	Total £m
At 1 April 2008 (restated)	841.4	42.8	3.3	32.6	920.1
Utilised during the year	-	-	(2.4)	(4.1)	(6.5)
Charge to profit and loss for the year	84.9	10.9	9.3	14.8	119.9
Unused amounts reversed during the year	-	-	(0.9)	(20.7)	(21.6)
At 31 March 2009	926.3	53.7	9.3	22.6	1,011.9

The insurance provision is in respect of insurance claims notified and for claims incurred but which have not yet been notified. A debtor in respect of these obligations is included in note 12 (see page 51) representing the reimbursement value from captive and third party insurance companies.

The restructuring provision principally relates to severance costs as a result of the Company's restructuring and reorganisation and represents management's best estimate. This provision is expected to be utilised over the next year.

Other provisions principally relate to a number of legal claims against the Company and represents management's best estimate of the value of settlement and costs. It is estimated that claims will be settled in more than one year.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

17 Provisions for liabilities and charges (continued)

The elements of deferred tax are as follows:

	Note	31 March 2009 £m	31 March 2008 £m
Accelerated capital allowances		932.0	852.5
Other timing differences		(5.7)	(11.1)
		926.3	841.4
Total deferred tax provision:			
Included above		926.3	841.4
Deferred tax (asset)/liability provided on pension (deficit)/surplus	25	(18.2)	10.1
		908.1	851.5

At 31 March 2009 there are no amounts of deferred tax unprovided for (2008: £nil).

The pension (liability)/asset per note 25 is shown net of deferred tax.

18 Called up share capital

	31 March 2009 £m	31 March 2008 £m
Authorised, allotted, called up and fully paid		
1,029,050,000 (2008: 1,029,050,000) ordinary shares of £1 each	1,029.0	1,029.0

19 Share premium account

	31 March 2009 £m	31 March 2008 £m
At 1 April and 31 March	100.0	100.0

Premium of 25p on issue of 400 million £1 ordinary shares.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

20 Profit and loss account

	Note	31 March 2009 £m	31 March 2008 £m
At 1 April		483.2	202.4
Profit for the year		314.8	380.0
Dividends	8	(222.0)	(102.0)
Retained profit		92.8	278.0
Actuarial (loss)/gain on pension scheme	25	(133.0)	3.9
Movement on deferred tax relating to pension scheme		37.2	(1.1)
At 31 March including total pension (liability)/asset		480.2	483.2

21 Reconciliation of movements in shareholder's funds

	Note	31 March 2009 £m	31 March 2008 £m
At 1 April		1,612.2	1,331.4
Profit for the year		314.8	380.0
Dividends	8	(222.0)	(102.0)
Retained profit		92.8	278.0
Actuarial (loss)/gain on pension scheme	25	(133.0)	3.9
Movement on deferred tax relating to pension scheme		37.2	(1.1)
		(3.0)	280.8
At 31 March including total pension (liability)/asset		1,609.2	1,612.2

22 Capital commitments

	31 March 2009 £m	31 March 2008 £m
Contracted for but not provided	296.3	497.5

In addition to these commitments, the Company has long-term capital investment plans to provide for future growth.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

23 Contingencies

Other than third party claims provided (see note 17), Thames Water Utilities Limited has no other contingent liabilities.

The Company has set aside amounts considered appropriate for all legal and similar claims.

24 Operating leases

At 31 March 2009 the Company was committed to making the following annual payments in respect of non-cancellable operating leases:

	2009		2008	
	Land and buildings	Other	Land and buildings	Other
	£m	£m	£m	£m
Leases which expire:				
- Within one year	1.8	1.1	0.2	1.1
- Between one and two years	0.2	0.8	1.8	0.7
- Between two and five years	0.2	-	1.1	0.5
- After more than five years	4.7	-	4.6	-
	6.9	1.9	7.7	2.3

25 Pension schemes

Pension arrangements for the majority of the Company's employees are of the defined benefit type, funded through two Group pension schemes; Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS") (see table below for details of each schemes' respective deficit or surplus), covering employees within the Thames Water Group, whose assets are held separately from those of the Group in independently administered funds.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension schemes' assets and liabilities are included with those of other companies in the Thames Water Group. The Company contributes the vast majority of the contributions into the schemes and any consequence of there being a surplus or a deficit in the schemes is felt by the Company. Accordingly, the directors have decided it is appropriate to recognise the net deficit of the two Group pension schemes within these financial statements.

The service cost of the Company, as included in the profit and loss account, represents the net of the total service cost of the Group schemes and the pension contributions made by the other group companies into the schemes in the financial period.

In addition to the ongoing cost of the UK Pension arrangements, the Company operates arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the year ended 31 March 2009 payments amounted to £2.1m (2008: £3.0m).

The latest full actuarial valuation was undertaken as at December 2007. This valuation has been updated at 31 March 2009 by Hewitt Associates Limited (Hewitt) (independent and professionally qualified consulting actuaries) using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts.

The recent exceptional volatility on the credit markets has impacted the pension valuation as calculated under the requirements of FRS17.

Thames Water Group has taken advice from Hewitt in respect of the funding position of the Group pension schemes.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Net (liability)/asset by pension schemes before deferred tax

	31 March 2009 £m	31 March 2008 £m
Thames Water Pension Scheme:		
Deficit in scheme	(91.9)	(1.5)
Thames Water Mirror Image Scheme:		
(Deficit)/surplus in scheme	26.8	117.4
Impact of irrecoverable surplus	-	(79.7)
	26.8	37.7
(Liability)/asset before deferred tax asset/(liability)	(65.1)	36.2

There is a smaller surplus within the Thames Water Mirror Image Scheme compared to 2008 due to the reduction in asset values, which has reduced the irrecoverable surplus to a level below which it can be recognised. Consequently, the 2008 amount of £79.7m has been written off to reserves through the Statement of total recognised gains and losses in the year (see page 63).

The assumptions used in the valuation of assets and liabilities of the schemes are the same for both schemes, therefore the following tables are for the combined values for both schemes.

Reconciliation of funded status to balance sheet:

	31 March 2009 £m	31 March 2008 £m
Fair value of scheme assets	1,040.3	1,214.8
Present value of scheme liabilities	(1,105.4)	(1,098.9)
(Deficit)/surplus in scheme	(65.1)	115.9
Impact of irrecoverable surplus	-	(79.7)
(Liability)/asset recognised on the balance sheet	(65.1)	36.2
Deferred tax asset/(liability)	18.2	(10.1)
Net pension (liability)/asset	(46.9)	26.1

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Movement in the present value of scheme liabilities:

	31 March 2009 £m	31 March 2008 £m
Opening present value of scheme liabilities	1,098.9	1,205.9
Current service cost: Thames Water Utilities Limited	15.3	21.1
Current service cost: Other Thames Water Group participating companies	0.6	4.5
Interest cost	74.5	64.7
Contribution by scheme participants	5.4	5.6
Actuarial gains on scheme liabilities	(37.7)	(157.9)
Net benefit paid out	(53.7)	(45.0)
Termination pension cost	2.1	3.0
Gains on curtailments	-	(6.7)
Loss on settlements	-	3.7
Closing present value of scheme liabilities	1,105.4	1,098.9

Movement in fair value of scheme assets:

	31 March 2009 £m	31 March 2008 £m
Opening fair value of scheme assets	1,214.8	1,246.4
Expected return on scheme assets	71.6	80.8
Actuarial losses on scheme assets	(250.4)	(102.7)
Contributions by the employer	49.9	22.2
Contributions by Other Thames Water Group participating companies	0.6	4.5
Contributions by scheme participants	5.4	5.6
Termination pension costs	2.1	3.0
Net benefits paid out	(53.7)	(45.0)
Closing fair value of scheme assets	1,040.3	1,214.8

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Expense recognised in the profit and loss account:

	31 March 2009 £m	31 March 2008 £m
Current service cost	15.3	21.1
Curtailement gain	-	(6.7)
Settlement cost	-	3.7
Interest cost	74.5	64.7
Expected return on scheme assets	(71.6)	(80.8)
Impact of restriction on expected return on assets due to irrecoverable surplus	-	3.8
Total expense recognised in the profit and loss account	18.2	5.8

The expense is recognised in the following line items in the profit and loss account:

	31 March 2009 £m	31 March 2008 £m
Operating costs: staff costs	15.3	18.1
Other finance expense/(income)	2.9	(12.3)
Total expense charged in the profit and loss account	18.2	5.8

Analysis of amount recognised in the Statement of total recognised gains and losses:

	31 March 2009 £m	31 March 2008 £m
Actual return less expected return on pension scheme assets	(250.4)	(102.7)
Experience losses arising on the scheme liabilities	(44.3)	(5.4)
Changes in assumptions underlying the present value of scheme liabilities	82.0	163.3
Adjustment relating to irrecoverable surplus	79.7	(51.3)
Actuarial (loss)/gain recognised in the Statement of total recognised gains and losses	(133.0)	3.9
Cumulative amount of losses recognised in the Statement of total recognised gains and losses	(203.9)	(70.9)

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Fair value of scheme assets and return on these assets:

The fair value of the assets held by the pension schemes, the long-term expected rate of return on each class of assets and the average expected long-term rate of return obtained by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio are shown in the following table:

	31 March 2009		31 March 2008	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	8.0%	360.3	8.5%	519.9
Bonds	5.5%	219.3	5.5%	70.9
Gilts	3.75-4.0%	398.0	4.3-4.5%	532.3
Property	7.0%	59.5	7.5%	82.9
Other assets	4.0%	3.2	6.0%	8.8
Weighted average expected long-term rate of return/total fair value of assets	5.7%	1,040.3	6.4%	1,214.8

Thames Water employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the schemes.

The main financial assumptions used for FRS 17 purposes are as follows:

	31 March 2009	31 March 2008
Price inflation	3.0%	3.7%
Salary increases	4.0%	4.7%
Pension increases	3.0%	3.7%
Discount rate for scheme liabilities	6.7%	6.9%

In valuing the liabilities of the pension schemes at 31 March 2009, mortality assumptions have been made as indicated below. These mortality assumptions are based on the recent actual mortality experience of members within the schemes and the assumptions also allow for future mortality improvements.

The assumptions are that TWMIPS members and TWPS members who joined the Scheme before 1 January 1995 who retire in 2028 at age 60 will live on average for a further 26 years after retirement if they are male and for a further 28 years after retirement if they are female. TWPS members who joined the Scheme after 1 January 1995 who retire in 2028 at age 60 are assumed to live on average for a further 28 years after retirement if they are male and for a further 29 years after retirement if they are female.

In addition, it is assumed that TWMIPS pensioners and TWPS pensioners who joined the Scheme before 1 January 1995 and are currently aged 60 will live on average for a further 24 years if they are male and a further 26 years if they are female. TWPS pensioners who joined the Scheme after 1 January 1995 and are currently aged 60 are assumed to live on average for a further 26 years if they are male and for a further 28 years they are female.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

History of fair value of assets, present value of liabilities, (deficit)/surplus in scheme and experience gains and losses:

	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	Year end 31 December	
				2005 £m	2004 £m
Fair value of scheme assets	1,040.3	1,214.8	1,246.4	1,154.9	1,009.0
Present value of scheme liabilities	(1,105.4)	(1,098.9)	(1,205.9)	(1,229.1)	(1,113.9)
(Deficit)/surplus in scheme	(65.1)	115.9	40.5	(74.2)	(104.9)

Experience adjustments:

	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	Year end 31 December	
				2005 £m	2004 £m
Experience (losses)/gains on scheme assets:					
Amounts	(250.4)	(102.7)	7.1	98.4	37.0
Percentage of scheme assets	24.1%	8.5%	0.6%	8.5%	3.7%
Experience (losses)/gains on scheme liabilities:					
Amounts	(44.3)	(5.4)	11.9	24.7	(39.1)
Percentage of scheme liabilities	4.0%	0.5%	1.0%	2.0%	3.5%
Total amount recognised in the Statement of total gains and losses:					
Amounts	(133.0)	3.9	81.2	34.9	(80.2)
Percentage of present value of scheme liabilities	12.0%	0.4%	6.7%	2.8%	7.2%

The Kemble Water Holdings Limited group expects to contribute approximately £50.6m to the defined benefit schemes in the next financial year.

26 Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom is the immediate parent company.

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

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.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

26 Intermediate and ultimate parent company and controlling party (continued)

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 aim to 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.

Its directors 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.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Explanatory note

The regulatory accounts and required regulatory information on pages 68 to 91 are provided to comply with Condition F of the Instrument of Appointment of Thames Water Utilities Limited as a water and sewerage undertaker under the Water Industry Act 1991.

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines (“RAG’s”) issued by Ofwat.

There are differences between UK Generally Accepted Accounting Practice and the RAG’s. Where different treatments are specified under each, the RAGs take precedence.

The regulatory financial statements should be read in conjunction with the statutory Annual report and financial statements (“AR&A’). The AR&A include the Chief Executive Officer’s business review (pages 3 to 21). In addition the Directors’ report (pages 22 to 25) includes a statement as to the disclosure of information to auditors (page 26), the dividend policy of the Company which also applies to the appointed business (page 22) and information in respect of the Company’s charitable donations (page 24), which details amounts given to charitable trusts for customers who were unable to settle their outstanding water bills.

Statement of directors’ responsibilities for regulatory information

Further to the requirements of Company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This additionally requires the directors to:

- Confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months.
- Confirm that, in their opinion, the Company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the Company.
- Confirm that, in their opinion, the Company has contracts with any associate Company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company’s obligations as a water and sewerage undertaker.
- Report to Ofwat changes in the Company’s activities, which may be material in relation to the Company’s ability to finance its regulated activities.
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm’s length.
- Keep proper accounting records, which comply with Condition F.

These responsibilities are additional to those already set out in the statutory financial statements.

Ring fencing

In the opinion of the directors, the Company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory historical cost profit and loss account for the year ended 31 March

	2009			2008 (restated *)		
	Appointed business £m	Non-Appointed business £m	Total £m	Appointed business £m	Non-Appointed business £m	Total £m
Turnover (Note 2)	1,537.0	21.2	1,558.2	1,454.4	33.2	1,487.6
Operating costs	(716.7)	(11.8)	(728.5)	(696.0)	(26.9)	(722.9)
Historical cost depreciation ¹	(224.1)	(0.3)	(224.4)	(219.4)	(0.3)	(219.7)
Operating income	8.2	-	8.2	45.1	-	45.1
Operating profit	604.4	9.1	613.5	584.1	6.0	590.1
Other (expense)/income	(2.9)	-	(2.9)	12.3	-	12.3
Net interest payable	(176.0)	0.5	(175.5)	(183.8)	0.6	(183.2)
Profit on ordinary activities before taxation	425.5	9.6	435.1	412.6	6.6	419.2
Taxation:						
- Current tax	(23.8)	(2.7)	(26.5)	(108.2)	(2.0)	(110.2)
- Deferred tax	(93.8)	-	(93.8)	71.0	-	71.0
	(117.6)	(2.7)	(120.3)	(37.2)	(2.0)	(39.2)
Profit for the year	307.9	6.9	314.8	375.4	4.6	380.0
Dividend	(215.1)	(6.9)	(222.0)	(97.4)	(4.6)	(102.0)
Retained profit for the year	92.8	-	92.8	278.0	-	278.0

¹ The historical cost depreciation has been analysed out separately in order to comply with the presentational requirements of RAG 3.06

* The Company has restated turnover and operating costs for the year ended 31 March 2008 (£6.6m) to reflect the change in accounting treatment of income from energy generation and the national grid reserve service, which is now treated as other operating income within operating costs of the appointed business, in accordance with direction from Ofwat. Previously this income was included within turnover of the non-appointed business. Power costs (£1.3m) associated with this income stream have also been reclassified from non-appointed to the appointed business. This reclassification does not affect total operating profit.

Statement of total recognised gains and losses (historical cost accounting) for the appointed business for the year ended 31 March

	31 March 2009 £m	31 March 2008 (restated) £m
Profit for the year	307.9	375.4
Actuarial (loss)/gain on pension schemes	(133.0)	3.9
Deferred tax relating to actuarial (loss)/gain	37.2	(1.1)
Total recognised gains in the year	212.1	378.2

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory historical cost balance sheet at 31 March

	2009			2008 (restated *)		
	Appointed business £m	Non-Appointed business £m	Total £m	Appointed business £m	Non-Appointed business £m	Total £m
Fixed assets						
Tangible assets	7,086.2	3.9	7,090.1	6,455.3	3.9	6,459.2
Investments - other	0.1	-	0.1	0.1	-	0.1
Total fixed assets	7,086.3	3.9	7,090.2	6,455.4	3.9	6,459.3
Current assets						
Stocks	6.1	-	6.1	7.0	-	7.0
Debtors: amounts falling due within one year	597.1	8.9	606.0	473.7	8.9	482.6
Debtors: amounts falling due after more than one year	1,180.0	-	1,180.0	1,223.8	-	1,223.8
	1,777.1	8.9	1,786.0	1,697.5	8.9	1,706.4
Cash at bank and in hand	204.2	-	204.2	65.8	-	65.8
Short term deposits	321.6	-	321.6	15.6	-	15.6
Infrastructure renewals prepayment	33.7	-	33.7	36.7	-	36.7
Total current assets	2,342.7	8.9	2,351.6	1,822.6	8.9	1,831.5
Creditors: amounts falling due within one year:						
Creditors	(751.7)	-	(751.7)	(775.9)	-	(775.9)
Borrowings	(359.0)	-	(359.0)	(366.3)	-	(366.3)
Corporation tax payable	-	-	-	(7.7)	-	(7.7)
Total creditors	(1,110.7)	-	(1,110.7)	(1,149.9)	-	(1,149.9)
Net current assets	1,232.0	8.9	1,240.9	672.7	8.9	681.6
Total assets less current liabilities	8,318.3	12.8	8,331.1	7,128.1	12.8	7,140.9
Creditors: amounts falling due after more than one year:						
Borrowings	(5,483.2)	-	(5,483.2)	(4,461.6)	-	(4,461.6)
Provisions for liabilities and charges:						
Deferred tax provision	(926.3)	-	(926.3)	(841.4)	-	(841.4)
Deferred income – grants and contributions	(179.9)	-	(179.9)	(173.1)	-	(173.1)
Other provisions	(85.6)	-	(85.6)	(78.7)	-	(78.7)
Post employment (liabilities)/assets	(46.9)	-	(46.9)	26.1	-	26.1
Net assets employed	1,596.4	12.8	1,609.2	1,599.4	12.8	1,612.2
Capital and reserves						
Called-up share capital	1,029.0	-	1,029.0	1,029.0	-	1,029.0
Share premium	100.0	-	100.0	100.0	-	100.0
Profit and loss account	467.4	12.8	480.2	470.4	12.8	483.2
Capital and reserves	1,596.4	12.8	1,609.2	1,599.4	12.8	1,612.2

* The Company has reclassified Creditors and Other provisions at 31 March 2008 (£42.8m) to Other provisions to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 'Provisions: contingent liabilities and contingent assets'.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Historical cost reconciliation between statutory and regulatory accounts at 31 March

	2009		
	Statutory UK GAAP £m	Regulatory RAG 3 £m	Explanation
Profit and loss account			
Operating profit	605.3	613.5	The difference of £8.2m is due to the statutory accounts profit on sale of assets is shown below operating result. Ofwat accounting guidelines state that this should be classified within operating costs as 'operating income' for regulatory accounts.
Profit before taxation	435.1	435.1	Profit before taxation is unaffected by this re-classification.
Balance sheet			
<u>Fixed assets</u>			
Tangible fixed assets (net book value)	7,123.8	7,090.1	The difference of £33.7m (2008: £36.7m) is attributable to the infrastructure renewals prepayment as this is excluded from the fixed assets net book value in the regulatory accounts. This is in line with RAG 3.06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes. For more detail see page 77.
<u>Current assets</u>			
Infrastructure renewals prepayment	-	33.7	The difference of £33.7m reflects the reclassification of infrastructure renewals prepayment as described above.
<u>Short-term and long-term creditors</u>			
Deferred income – grants and contributions:	179.9	-	Deferred grants and contributions of £179.9m (2008: £173.1m) within the statutory accounts are analysed between creditors: amounts falling due within one year (£nil) and creditors: amounts falling due after more than one year (£179.9m). This is in contrast with the regulatory accounts, which shows total deferred grants and contributions within provisions for liabilities and charges.
Provision for liabilities and charges	-	179.9	

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Additional information required by the licence

Basis of preparation

In accordance with Condition F of the Instrument of Appointment, these regulatory financial statements have been prepared to show separately in respect of the appointed business, non-appointed business and total business, a profit and loss account and balance sheet prepared on a historical cost basis.

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 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 as explained in note (a) below, the treatment of infrastructure renewals expenditure as explained in note (b) below and the treatment of certain capital contributions as explained in note (c) 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").

Changes to accounting policies

The same accounting policies used for the period ended 31 March 2008 have been applied in these financial statements excepted as noted below.

The Company has restated turnover and operating costs (page 68) for the year ended 31 March 2008 (£6.6m) to reflect the change in treatment of income from energy generation and the national grid reserve service (as directed by Ofwat), which is now treated as other operating income within operating costs. Previously this income was included within turnover of the non-appointed business. Power costs (£1.3m) associated with this income stream have also been reclassified from non-appointed to the appointed business. This reclassification does not affect operating profit.

The directors have reviewed certain assets previously shown within plant and equipment (£2.1m) and, after due consideration of the nature of these assets, consider that it is appropriate to reclassify these into infrastructure assets. These assets transferred to infrastructure assets are non-depreciable assets, therefore depreciation is unaffected by this reclassification (page 77).

The Company has reclassified Creditors and Other provisions at 31 March 2008 (£42.8m) to Other provisions to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 'Provisions: contingent liabilities and contingent assets (page 69).

Infrastructure renewals charge

Principles underpinning infrastructure renewals charge:

For the first three years of the AMP4 period, the infrastructure renewals charge in the Company's statutory and regulatory accounts was based upon the medium term view of infrastructure maintenance required to achieve stable serviceability by March 2010. In the Company's June Return 2008 it was stated that the directors' view would be revised following completion of their detailed long-term assessment of maintenance requirements undertaken as part of the Business Plan submission for the 2009 Price Review.

Following the completion of the Company's assessment of the infrastructure renewals expenditure requirement to the end of AMP7 for the Final Business Plan, the Company now considers that it would be appropriate to reflect in the Company's regulatory and statutory accounts for 2008/09 and 2009/10 an infrastructure renewals charge consistent with its expenditure plans for the AMP5 to AMP7 (2010-2025) periods. On this basis, a charge of £114.0m is included in the Company's statutory and regulatory accounts for 2008/09.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Basis of preparation (continued)

(a) 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 2009 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit.

(b) 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 historical 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 historical cost financial statements for the year ended 31 March 2009 represents a departure from the accounting policy adopted in the Company's 31 March 2009 statutory financial statements for infrastructure renewals expenditure and renewals accounting per FRS 15, which requires this amount to be included within fixed assets.

A reconciliation to the tangible fixed assets shown in the statutory financial statements with the regulatory historical cost financial statements is shown on page 77.

(c) 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.

(d) Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to non-appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance

Compensation & HR committee

The Company operates a Compensation & HR Committee ("Committee"), which broadly functions as both a remuneration and a nomination committee. It comprises four Non-Executive Directors, one of whom is independent, and is chaired by Martin Stanley. The other members are Willem Smit (independent Non-Executive Director), Sir Peter Mason and Christopher Deacon.

The Committee's responsibilities include, but are not limited to, making recommendations to the Board on the Company's executive remuneration policy and directors' terms of appointment. During the year, the Committee advised the Board of Directors and received advice and input from various directors and specialist staff within the Company, including the CEO and the Director of Human Resources (both of whom are invited to attend from time to time). No individuals are involved in the determination of their own remuneration.

To ensure that the Company's remuneration practices are competitive, the Committee has access to detailed external research on market data and trends from experienced specialist remuneration consultants. The Committee has received advice from Hay Management Consultants and PricewaterhouseCoopers during the year.

The Committee considers carefully the blend of remuneration linked to regulatory performance and remuneration linked to other performance measures in order to produce a well balanced incentive plan leading to value creation and a high quality service to customers.

Remuneration policy

The Committee bases its decision-making with respect to remuneration policy on a number of underlying principles, which can be summarised as follows:

- Arrangements should attract, retain, motivate and reward high calibre directors and executives.
- Packages should be aligned with the interests of the Company's stakeholders, in particular its shareholders and its customers.
- Packages should be commensurate with those provided by other companies of similar size and complexity, taking into account individual contribution and experience.
- Policy should establish firm links between an executive's performance and remuneration and between the Company's performance and the executive's total remuneration.
- Packages should include a mix of basic salary plus performance related incentives. Further detail is included within the bonus section on page 74 where directors' pay is linked to standards of performance.

The Committee will continue to review arrangements regularly to ensure that they remain effective and appropriate to the Company's circumstances and prospects, and to monitor the level of potential awards.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

Remuneration of executive directors

The remuneration arrangements for executive directors comprise the following elements:

- Base salary and benefits.
- Bonuses.
- Long Term Incentive Schemes (LTIS's).
- Post retirement benefits.

Details of each of the above elements are set out on the following pages.

Base salaries and benefits

Base salaries are normally reviewed annually with any changes taking effect from the commencement of the financial year. Base salaries are a fixed sum payable monthly.

In the light of current economic circumstances, the executive directors have agreed to no pay rise for the 15 months to 30 June 2010.

In addition to salary, the executive directors receive a car or cash allowance, private medical insurance, a defined benefit pension scheme, life assurance and 25 days' holiday. These benefits are reviewed periodically to ensure that the overall remuneration package is competitive against companies of a similar size and complexity.

None of the base salaries or benefits are linked to business or individual performance.

Bonuses

executive directors are eligible to participate in bonus schemes, which are designed to motivate them to achieve the Company's key operational and strategic objectives.

The amount of any annual incentive award is determined by, and at the discretion of, the Committee taking account of, and making a judgement in the context of, the balance of all matters relevant to overall performance. The Kemble Water Holdings Group ("Group") Board believes that this is the most appropriate means of aligning directors' remuneration to performance.

Executive directors' annual bonus plan measures 2008/09

The 2008/09 annual bonus plan aimed to reward significant improvement in the Company's financial performance and an Executive's personal contribution to that performance is due to be paid in June 2009. The financial measures used in the bonus plan are operational expenditure, Group capital expenditure, Group cash flow and Group Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) targets. These targets were selected as being the most critical for the organisation during 2008/09.

In addition, there will be a regulatory underpin on the personal element of the 2008/09 bonus, which is based on no deterioration on the 2007/08 Overall Performance Assessment (OPA) score. OPA is the key measure by which Ofwat judge the Company's overall performance against regulatory targets, and was selected as it is critical that the Company meets its regulatory targets and delivers a high quality service to its customers.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

The level of bonus potential which was dependent on regulatory measures was as follows:

	Operating expenditure of regulated business	Achievement of personal objectives (with regulatory gateway)
David Owens	-	£100,000
Mark Braithwaite	-	£62,500
Stephen Shine	£61,875	£61,875

The directors were awarded 100% of the potential bonus.

Neither David Owens nor Mark Braithwaite had a bonus measure linked to the operating expenditure of the regulated business.

Executive directors' annual bonus plan measures 2009/10

The 2009/10 annual bonus plan will mirror the 2008/09 plan. Maintaining the OPA score will form a part of the personal objectives. However, the gateway on the personal element of the bonus will be a Group cashflow before funding target.

Long Term Incentive Schemes ("LTIS's")

As an element of the retention strategy, the Company's executive directors' and senior management team are from time to time invited to participate in an LTIS. There is no automatic right to participate and each year executives and managers are selected at the discretion of the Board.

LTIS 2007

As a result of new ownership, an LTIS was introduced in May 2007. Under this scheme, a conditional award of cash units representing 25% of the executive directors 2007/08 annual bonus could be made to participants. The awards will be deferred for a two-year period which ends on 31 March 2010, after which they will vest and payments will be made, depending on an assessment of performance against regulatory targets. Participants must remain employed on the vesting date, or have left employment due to a 'good-leaver' reason to receive the award at vesting, otherwise the award is forfeited. Between 100% and 400% of the deferred cash award will vest based on performance against the OPA score, independently assessed by Ofwat.

The following table provides a breakdown of the scheme interests under the LTIS 2007 in respect of executive directors who served during the year ending 31 March 2009:

Director	Number of £1 cash units at 1 April 2008	Accrued during year	Awarded during year	Awards vesting during year	Number of £1 cash units at 31 March 2009
	£'000	£'000	£'000	£'000	£'000
David Owens	-	-	-	-	-
Mark Braithwaite	36.4	54.8	-	-	91.2
Stephen Shine	64.2	79.0	-	-	143.2

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

Nothing was paid in relation to this scheme in the 2008/09 year since a 2 year vesting period applies but an assessment has been made and the executive directors are on course to receive the maximum award under the scheme.

LTIS 2008

A new, stand-alone LTIS was operated in 2008, in which the executive directors will participate. The plan period will run from 1 April 2008 to 31 March 2011 and payment will be made in July 2011 following Board approval of the audited accounts. The plan will be based on four cumulative financial measures, being Group EBITDA, Group Cash Flow Before Funding, Distributions and Group Capital Expenditure. These measures were selected as being critical for the Group's value creation.

The measures will be reviewed annually to make any required amendments, taking into account business acquisitions, capital restructuring, long-term debt draw-downs and any refinancing of the Company (including fees paid for any refinancing).

Payment will be made in full if all four measures have been achieved over each of the three financial years which form the performance period. No payment will be made under the plan if one or more measures have not been achieved. None of this is linked specifically to regulatory performance.

Service contracts

Reflecting current market practice, the executive directors do not hold service contracts that provide for a notice period longer than one year. It is not the Committee's intention to recommend the appointment of any new executive directors with contracts that provide for a longer notice period.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and generally seeks to achieve that objective where possible and appropriate. In the event that the Company wished to terminate an Executive Director's contract other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it would need to give either 12 months' notice or make a payment in lieu of salary and benefits.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Reconciliation of tangible fixed assets shown in the statutory financial statements and their regulatory financial equivalents:

	Other assets £m	Infra- structure assets £m	Total £m
Cost			
At 31 March 2009 as per statutory accounts (FRS 15)	6,445.2	4,502.4	10,947.6
Infrastructure renewals expenditure capitalised in previous years (restated see below)	-	(752.4)	(752.4)
Infrastructure renewals expenditure capitalised in the year	-	(108.9)	(108.9)
Disposals in prior years	-	0.9	0.9
Cost at 31 March 2009 per regulatory accounts (RAG 3)	6,445.2	3,642.0	10,087.2
Capital contributions			
Contributions at 31 March 2009 as per statutory accounts (FRS 15)	-	560.7	560.7
Contributions at 31 March 2009 as per regulatory accounts (RAG 3)	-	560.7	560.7
Depreciation			
At 31 March 2009 as per statutory accounts (FRS 15)	2,436.4	826.7	3,263.1
Infrastructure renewals charge in previous years	-	(713.6)	(713.6)
Infrastructure renewals charge in the year	-	(114.0)	(114.0)
Disposals in prior years	-	0.9	0.9
Depreciation at 31 March 2009 per regulatory accounts (RAG 3)	2,436.4	-	2,436.4
Net book value			
At 31 March 2009 as per statutory accounts (FRS 15)	4,008.8	3,115.0	7,123.8
Adjustment for infrastructure renewals accounting (see below)	-	(33.7)	(33.7)
At 31 March 2009 per regulatory accounts (RAG 3)	4,008.8	3,081.3	7,090.1
Adjustment for infrastructure renewals accounting:			
		Infra-structure assets £m	
RAG 3 net infrastructure renewals reclassification:			
Infrastructure renewals prepayment at 31 March 2008			36.7
Reclassification of brought forward balance (see basis of preparation on page 71) *			2.1
Revised infrastructure renewals prepayment at 31 March 2008			38.8
Infrastructure renewals expenditure capitalised in the year			108.9
Infrastructure renewals charge in the year			(114.0)
Infrastructure renewals prepayment at 31 March 2009			33.7

* The directors' have reviewed certain assets previously shown within plant and equipment (£2.1m) and, after due consideration of the nature of these assets, consider that it is appropriate to reclassify these into infrastructure assets. These assets transferred to infrastructure assets are non-depreciable assets, therefore depreciation is unaffected by this reclassification.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost profit and loss account for the Appointed business for the year ended 31 March

	Note	31 March 2009 £m	31 March 2008 (restated *) £m
Turnover	2	1,537.0	1,454.4
Current cost operating costs	3	(1,039.6)	(1,021.9)
Operating income	2	7.8	24.9
Working capital adjustment	2	8.4	7.8
Current cost operating profit		513.6	465.2
Net interest		(178.9)	(171.5)
Financing adjustment		53.5	95.9
Current cost profit on ordinary activities before taxation		388.2	389.6
Taxation:			
- Current tax		(23.8)	(108.2)
- Deferred tax		(93.8)	71.0
Current cost profit attributable to shareholders		270.6	352.4
Dividends		(215.1)	(97.4)
Current cost profit retained		55.5	255.0

* The Company has restated turnover and operating costs for the year ended 31 March 2008 (£6.6m) to reflect the change in accounting treatment of income from energy generation and the national grid reserve service, which is now treated as other operating income within operating costs of the appointed business in accordance with direction from Ofwat. Previously this income was included within turnover of the non-appointed business. Power costs (£1.3m) associated with this income stream have also been reclassified from non-appointed to the appointed business.

This reclassification increases the appointed business current cost operating profit and current cost profit on ordinary activities by £5.3m, Current taxation has increased by £1.6m and dividend has increased by £3.7m. Current cost profit retained is unaffected by this reclassification.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost balance sheet for the Appointed business at 31 March

	Note	31 March 2009 £m	31 March 2008 (restated *) £m
Fixed assets			
Tangible assets	4c	48,808.9	48,645.2
Third party contributions since 31 March 1990		(872.3)	(857.9)
		47,936.6	47,787.3
Working capital			
Cash	5	(257.4)	(282.4)
Short term deposits		204.2	65.8
Infrastructure renewals prepayment		321.6	15.6
		33.7	36.7
Net operating assets		48,238.7	47,623.0
Non operating assets and liabilities			
Borrowings		(359.0)	(366.3)
Non-trade debtors		212.8	91.8
Non-trade creditors due within one year		(115.8)	(104.6)
Investment – loan to group company		1,180.0	1,223.8
Investments – other		0.1	0.1
Corporation tax receivable/(payable)		11.9	(7.7)
Total non operating assets and liabilities		930.0	837.1
Creditors: amounts falling due after more than one year			
Borrowings		(5,483.2)	(4,461.6)
Other creditors		(36.5)	(24.8)
Total creditors falling due after more than one year		(5,519.7)	(4,486.4)
Provisions for liabilities and charges			
Deferred tax provision		(926.3)	(841.4)
Post employment (liability)/asset		(46.9)	26.1
Other provisions		(85.6)	(78.7)
Total provisions		(1,058.8)	(894.0)
Net assets		42,590.2	43,079.7
Capital and reserves			
Called up share capital		1,029.0	1,029.0
Share premium		100.0	100.0
Profit and loss account		(634.3)	(594.0)
Current cost reserve	6	42,095.5	42,544.7
Total capital and reserves		42,590.2	43,079.7

* The Company has reclassified Non-trade creditors due within one year to Other provisions at 31 March 2008 (£42.8m) to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 'Provisions: contingent liabilities and contingent assets'.

The notes on pages 81 to 91 form part of these regulatory current cost financial statements.

The regulatory current cost financial statements were approved by the Board of Directors on 17 June 2009.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost statement of cash flows for the year ended 31 March

	Notes	Appointed business £m	2009 Non- Appointed business £m	Total £m	Appointed business £m	2008 Non- Appointed business £m	Total £m
Net cash inflow from operating activities	(a)	905.8	9.4	915.2	908.3	11.7	920.0
Returns on investments and servicing of finance							
Interest received		63.3	0.5	63.8	12.1	0.6	12.7
Interest paid		(208.8)	-	(208.8)	(184.4)	-	(184.4)
Interest element of finance lease payments		(12.7)	-	(12.7)	(16.5)	-	(16.5)
Net cash outflow from returns on investments and servicing of finance		(158.2)	0.5	(157.7)	(188.8)	0.6	(188.2)
Taxation paid		(67.5)	(2.7)	(70.2)	(72.6)	(3.6)	(76.2)
Capital expenditure and financial investment							
Gross cost of purchased fixed assets		(915.2)	(0.3)	(915.5)	(799.6)	(0.4)	(800.0)
Infrastructure renewals expenditure		(104.8)	-	(104.8)	(160.4)	-	(160.4)
Receipt of grants and contributions		32.1	-	32.1	56.6	-	56.6
Movement on long term group loans		-	-	-	(1,180.0)	-	(1,180.0)
Disposal of fixed assets		8.7	-	8.7	75.6	-	75.6
Net cash outflow from investing activities		(979.2)	(0.3)	(979.5)	(2,007.8)	(0.4)	(2,008.2)
Equity dividends paid		(215.1)	(6.9)	(222.0)	(93.7)	(8.3)	(102.0)
Management of liquid resources							
Net cash (inflow)/outflow from management of liquid resources		(306.0)	-	(306.0)	96.9	-	96.9
Net cash outflow before financing		(820.2)	-	(820.2)	(1,357.7)	-	(1,357.7)
Financing							
Capital element in finance lease rebate/(payment)		4.6	-	4.6	(11.1)	-	(11.1)
New loans		1,320.3	-	1,320.3	1,369.6	-	1,369.6
Repayment of loans		(366.3)	-	(366.3)	(24.4)	-	(24.4)
Net cash inflow from financing	(b)	958.6	-	958.6	1,334.1	-	1,334.1
Increase/(decrease)/increase in cash	(b)	138.4	-	138.4	(23.6)	-	(23.6)

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to regulatory current cost statement of cash flows for the year ended 31 March

(a) Reconciliation of current cost operating profit to net cash flow from operating activities for the Appointed business

	31 March 2009 £m	31 March 2008 £m
Current cost operating profit	513.6	459.9
Working capital adjustment	(8.4)	(7.8)
Decrease in working capital (excluding short term capital creditors)	12.9	41.0
Current cost depreciation	324.0	327.1
Current cost profit on sale of fixed assets	(7.8)	(24.9)
Infrastructure renewals charge	114.0	106.9
Other non-cash profit and loss items (including provisions)	(42.5)	6.1
Net cash flow from operating activities	905.8	908.3

(b) Reconciliation of net cash flow to movement in net debt for the Appointed business

	Note	31 March 2009 £m	31 March 2008 £m
Increase/(decrease) in cash in the period		138.4	(23.6)
Cash inflow/(outflow) from increase/(decrease) in liquid resources		306.0	(96.9)
Cash inflow from movement in net debt and financing		(958.6)	(1,334.1)
Increase in net debt resulting from cashflows		(514.2)	(1,454.6)
Non-cash increase in net debt		(55.7)	(55.8)
Total increase in net debt		(569.9)	(1,510.4)
Opening net debt		(4,746.5)	(3,236.1)
Closing net debt	7	(5,316.4)	(4,746.5)

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

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March

1 Current cost accounting policies

These financial statements have been prepared in accordance with guidance issued by the Water Services Regulation Authority for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of which assets are valued at their current cost value to the business.

These financial statements have been prepared in accordance with applicable Regulatory Accounting Guidelines (RAG). In respect of cost allocations, the Company has continued to allocate costs by cost centre as in previous years rather than on an activity based method, which is the preferred system under RAG 3.

The principal current cost accounting policies used are the same as those adopted in the regulatory historical cost financial statements, except as set out below.

Changes to accounting policies

The same accounting policies used for the year ended 31 March 2008 have been applied in these financial statements except as noted below.

The Company has restated turnover and operating costs (page 78) for the year ended 31 March 2008 (£6.6m) to reflect the change in treatment of income from energy generation and the national grid reserve service (as directed by Ofwat), which is now treated as other operating income within operating costs. Previously this income was included within turnover of the non-appointed business. Power costs (£1.3m) associated with this income stream have also been reclassified from non-appointed to the appointed business. This reclassification does not affect operating profit.

The directors have reviewed certain assets previously shown within plant and equipment (£2.1m) and, after due consideration of the nature of these assets, consider that it is appropriate to reclassify these into infrastructure assets. These assets transferred to infrastructure assets are non-depreciable assets, therefore depreciation is unaffected by this reclassification (page 77).

The Company has reclassified Creditors and Other provisions at 31 March 2008 (£42.8m) to Other provisions to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 'Provisions: contingent liabilities and contingent assets (page 79).

(a) Valuation bases for determining the current cost of fixed assets

(i) Review of asset valuations

The Company undertook a review of the "modern equivalent asset" (MEA) values at 31 March 1998 as one aspect of the 1999 Periodic Review. This involved a comprehensive review of the asset stock at the time, as well as the unit costs underpinning the valuations. The Company has, on an ongoing basis, recognised improved information regarding the physical asset stock. All such changes are on a basis consistent with the valuations established in the 1999 review.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March

(a) Valuation bases for determining the current cost of fixed assets (continued)

(ii) Tangible fixed assets

The assets have been valued in accordance with RAG 1.04, on an MEA basis. Depreciation is charged over the estimated remaining economic life of the asset. Infrastructure assets are not depreciated.

Additions during the year are taken at their historical cost values. Disposals are stated at the value of the replacement assets.

• Land and buildings

Non-specialised operational properties are valued on the basis of estimated open market value for existing use at 31 March 1991, indexed since that date by the movement in the RPI, except for certain properties which have been valued at 31 March 1995 by professionally qualified employees of the Company.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually, between periodic reviews of replacement costs, by adjusting for inflation as measured by changes in the RPI.

• Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, and sludge pipelines are stated at their MEA (see page 100) value, in a manner as described above. Due to the nature of these assets, the MEA value is calculated based on the length of sewer or pipe, or the capacity of the asset.

Following the repeal of Section 24 of the Public Health Act 1936 by the Water Act 1989, the Company assumed responsibility for the maintenance and operation of a significant length of additional sewers. The Company has estimated the length of these pipes in order to include their asset values in these accounts. The value is £5,640m (2008: £5,661m) based upon a pipe length of 19,000km (2008: 19,000km). Adjustments may be required to those estimates in future years as more accurate information becomes available.

• Specialised/non-specialised assets

Specialised operational assets include those assets, used routinely in operating the business, which are directly attributable to water supply or sewerage services.

Non-specialised assets are those assets used routinely within the business, which cannot be directly attributed to either part of the business.

• Surplus land

Surplus land is valued at recoverable amounts less, where appropriate, that part of any proceeds to be passed on to customers under Condition B of the Licence.

(iii) Capital contributions

All third party capital contributions received since 31 March 1990 are carried forward as deferred income to the extent that any balance has not been credited to revenue, or deducted from net operating assets in the case of infrastructure assets. The balance carried forward is restated for the change in the RPI for the year.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

(b) Real finance capital maintenance adjustments

The following adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

- (i) **Depreciation adjustment** - this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.
- (ii) **Working capital adjustment** - this is calculated by applying the change in the RPI over the year to the working capital of the Company at the beginning of the year.
- (iii) **Disposal of fixed assets adjustment** - this is the difference between the book values of realised assets in the current cost financial statements and in the historical cost financial statements.
- (iv) **Financing adjustment** - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital, but excluding index rate linked debt and the deferred tax provision.

(c) Operating costs

In note 3, direct costs incurred with associated companies are less than 20% of the total operating costs of the business before interest and tax. Therefore the costs have been allocated across the appropriate headings in accordance with RAG 3.

2 Analysis of turnover, operating income and working capital adjustment for the appointed business

	Water supply £m	2009 Sewerage services £m	Appointed business £m	Water supply £m	2008 Sewerage services £m	Appointed business £m
Turnover						
Unmeasured	442.6	433.6	876.2	429.8	420.8	850.6
Measured	292.6	272.4	565.0	269.4	244.5	513.9
Trade effluent	-	5.7	5.7	-	6.6	6.6
Large user and special agreement	35.9	26.4	62.3	32.7	25.5	58.2
Rechargeable works	1.3	8.3	9.6	0.7	7.1	7.8
Bulk supplies/inter-company payments	2.8	-	2.8	2.7	-	2.7
Other appointed business (third party)	-	-	-	-	-	-
Third party services (excl. non-potable water)	4.1	8.3	12.4	3.4	7.1	10.5
Other sources	8.4	7.0	15.4	8.6	6.0	14.6
Total turnover	783.6	753.4	1,537.0	743.9	710.5	1,454.4
Operating income						
Current cost profit on disposal fixed assets	6.7	1.1	7.8	27.2	(2.3)	24.9
Working capital adjustment						
Working capital adjustment	4.3	4.1	8.4	4.0	3.8	7.8

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

3(a) Operating costs and associated fixed asset book values (year ended 31 March 2009)

	Water supply			Sewerage services			
	Resource & treatment £m	Distribution £m	Water supply total £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service total £m
Direct costs							
Employment costs	13.0	19.7	32.7	6.3	13.7	6.7	26.7
Power	12.0	28.8	40.8	8.6	23.8	5.3	37.7
Hired and contracted services	3.2	69.1	72.3	29.5	21.3	31.9	82.7
Materials and consumables	8.1	1.3	9.4	0.4	6.1	5.6	12.1
Service charges	3.2	-	3.2	1.2	3.5	-	4.7
Bulk supply imports	0.1	-	0.1	-	-	-	-
Other direct costs	-	0.9	0.9	1.1	-	0.4	1.5
Total direct costs	39.6	119.8	159.4	47.1	68.4	49.9	165.4
General & support expenditure	13.9	52.4	66.3	11.3	8.6	6.5	26.4
Total functional expenditure	53.5	172.2	225.7	58.4	77.0	56.4	191.8
Business activities							
Customer services			29.9				31.1
Scientific services			4.1				1.1
Other business activities			4.1				4.1
Business activities sub-total			38.1				36.3
Local authority rates			23.8				28.5
Doubtful debts			18.2				17.5
Exceptional items			4.8				18.2
Total opex less third party services			310.6				292.3
Third party services - opex			3.2				3.1
Total operating expenditure			313.8				295.4
Capital maintenance							
Infrastructure renewals charges	5.8	66.2	72.0	42.0	-	-	42.0
Current cost depreciation							
- service activities	84.0	57.0	141.0	26.3	108.5	43.4	178.2
- business activities			2.2				2.7
Amortisation of grants			(2.8)				(4.9)
Total capital maintenance			212.4				218.0
Total operating costs			526.2				513.4
CCA (MEA) values							
Services activities	2,459.7	8,982.9	11,442.6	34,229.9	2,465.3	642.5	37,337.7
Business activities			13.7				14.9
Service totals			11,456.3				37,352.6

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

3(b) Operating costs and associated fixed asset book values (year ended 31 March 2008) (restated *)

	Water supply			Sewerage services			
	Resource & treatment £m	Distribution £m	Water supply total £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service total £m
Direct costs							
Employment costs	15.5	12.4	27.9	4.2	17.0	7.0	28.2
Power	8.2	20.5	28.7	8.1	17.0	6.7	31.8
Hired and contracted services	6.5	57.8	64.3	31.2	13.0	25.2	69.4
Materials and consumables	6.0	0.9	6.9	0.8	6.1	6.3	13.2
Service charges	13.0	-	13.0	1.3	3.3	-	4.6
Bulk supply imports	0.1	-	0.1	-	-	-	-
Other direct costs	10.1	2.3	12.4	0.4	0.4	3.2	4.0
Total direct costs	59.4	93.9	153.3	46.0	56.8	48.4	151.2
General & support expenditure	13.9	65.0	78.9	11.3	10.3	6.9	28.5
Total functional expenditure	73.3	158.9	232.2	57.3	67.1	55.3	179.7
Business activities							
Customer services			29.6				35.1
Scientific services			6.8				3.2
Other business activities			3.1				3.1
Business activities sub-total			39.5				41.4
Local authority rates			24.0				24.8
Doubtful debts			6.6				8.1
Exceptional items			13.6				17.4
Total opex less third party services			315.9				271.4
Third party services - opex			3.9				4.2
Total operating expenditure			319.8				275.6
Capital maintenance							
Infrastructure renewals charges	4.9	56.4	61.3	45.6	-	-	45.6
Current cost depreciation							
- service activities	76.5	60.5	137.0	27.2	111.3	45.2	183.7
- business activities			2.9				3.5
Amortisation of grants			(3.0)				(4.5)
Total capital maintenance			198.2				228.3
Total operating costs			518.0				503.9
CCA (MEA) values							
Services activities	2,451.7	8,829.5	11,281.2	34,222.5	2,464.7	651.0	37,338.2
Business activities			12.8				13.0
Service totals			11,294.0				37,351.2

* For explanation of the 2007/08 restatement, see page 78.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

4 (a) Current Cost Analysis of Fixed Assets by Asset Type as at 31 March 2009

Water Services

	Specialised operational assets	Non- specialised operational properties	Infrastructur e assets	Other tangibl e assets	Total
	£m	£m	£m	£m	£m
Gross replacement cost					
At 1 April 2008	3,863.0	50.7	9,170.9	175.3	13,259.9
Revision *	(2.1)	-	(2.2)	(0.2)	(4.5)
At 1 April 2008 revised	3,860.9	50.7	9,168.7	175.1	13,255.4
RPI adjustment	(14.6)	(0.2)	(34.6)	(0.6)	(50.0)
Disposals	(68.0)	(0.9)	** (188.2)	(26.5)	(283.6)
Additions	254.0	3.4	262.3	21.2	540.9
At 31 March 2009	4,032.3	53.0	9,208.2	169.2	13,462.7
Depreciation					
At 1 April 2008	1,782.9	23.5	-	159.5	1,965.9
RPI adjustment	(6.7)	(0.1)	-	(0.6)	(7.4)
Disposals	(68.1)	(0.9)	-	(26.5)	(95.5)
Charge for year	131.4	1.7	-	10.3	143.4
At 31 March 2009	1,839.5	24.2	-	142.7	2,006.4
Net book value					
At 31 March 2009	2,192.8	28.8	9,208.2	26.5	11,456.3
At 31 March 2008 (revised)	2,078.0	27.2	9,168.7	15.6	11,289.5

* The revision relates to an adjustment to prior year additions where the current cost values have been brought in line with their historic cost equivalents.

** Note: The disposal of £188.2m of infrastructure assets, shown above, relates to the MEA value of the length of main abandoned in 2008/09 as a result of the Victorian mains replacement programme. The corresponding entry, shown in note 6 is against the current cost reserve.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

4 (b) Current Cost Analysis of Fixed Assets by Asset Type as at 31 March 2009

Sewerage Services

	Specialised operational assets	Non- specialised operational properties	Infrastructure assets	Other tangibl e assets	Total
	£m	£m	£m	£m	£m
Gross replacement cost					
At 1 April 2008	6,745.1	42.9	33,424.7	267.3	40,480.0
Revision *	(3.9)	-	(2.4)	(0.5)	(6.8)
At 1 April 2008 revised	6,741.2	42.9	33,422.3	266.8	40,473.2
RPI adjustment	(25.4)	(0.2)	(126.0)	(1.0)	(152.6)
Disposals	(128.3)	(0.8)	-	(32.0)	(161.1)
Additions	186.8	1.2	118.8	23.8	330.6
At 31 March 2009	6,774.3	43.1	33,415.1	257.6	40,490.1
Depreciation					
At 1 April 2008	2,851.8	27.5	-	249.5	3,128.8
RPI adjustment	(10.8)	(0.1)	-	(0.9)	(11.8)
Disposals	(127.0)	(1.2)	-	(32.0)	(160.2)
Charge for year	167.3	1.6	-	11.8	180.7
At 31 March 2009	2,881.3	27.8	-	228.4	3,137.5
Net book value					
At 31 March 2009	3,893.0	15.3	33,415.1	29.2	37,352.6
At 31 March 2008 (revised)	3,889.4	15.4	33,422.3	17.3	37,344.4

* The revision relates to an adjustment to prior year additions where the current cost values have been brought in line with their historic cost equivalents.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

4 (c) Current Cost Analysis of Fixed Assets by Asset Type at 31 March 2009

Total	Specialised operational assets	Non- specialised operational properties	Infrastructur e assets	Other tangibl e assets	Total
	£m	£m	£m	£m	£m
Gross replacement cost					
At 1 April 2008	10,608.1	93.6	42,595.6	442.6	53,739.9
Revision *	(6.0)	-	(4.6)	(0.7)	(11.3)
At 1 April 2008 revised	10,602.1	93.6	42,591.0	441.9	53,728.6
RPI adjustment	(40.0)	(0.4)	(160.6)	(1.6)	(202.6)
Disposals	(196.3)	(1.7)	** (188.2)	(58.5)	(444.7)
Additions	440.8	4.6	381.1	45.0	871.5
At 31 March 2009	10,806.6	96.1	42,623.3	426.8	53,952.8
Depreciation					
At 1 April 2008	4,634.7	51.0	-	409.0	5,094.7
RPI adjustment	(17.5)	(0.2)	-	(1.5)	(19.2)
Disposals	(195.1)	(2.1)	-	(58.5)	(255.7)
Charge for year	298.7	3.3	-	22.1	324.1
At 31 March 2009	4,720.8	52.0	-	371.1	5,143.9
Net book value					
At 31 March 2009	6,085.8	44.1	42,623.3	55.7	48,808.9
At 31 March 2008 (revised)	5,967.4	42.6	42,591.0	32.9	48,633.9

* For details of the revision please see tables 4a and 4b.

** Please see the note to table 4a in respect of the infrastructure assets disposal value.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

5 Current cost working capital

	Year end 31 March 2009 £m	Year end 31 March 2008 (restated *) £m
Stocks	6.1	7.0
Trade debtors:		
- Measured household	56.6	50.5
- Unmeasured household	97.4	85.9
- Measured non-household	42.1	38.7
- Unmeasured non-household	2.0	0.8
- Other	10.3	16.4
Measured income accrual	129.7	120.9
Prepayments and other debtors	34.4	68.7
Trade creditors	(179.6)	(182.7)
Deferred income – customer advance receipts	(98.8)	(93.7)
Capital creditors	(207.9)	(245.8)
Accruals and other creditors	(149.7)	(149.1)
Total working capital	(257.4)	(282.4)

* The prior year comparatives for each category for Trade debtors have been restated to show the net debtor position, including receivables and bad debt provisioning. Previously these categories had been shown as gross debt with Trade debtors – Other being shown net of receivables and bad debt provisioning. Total debtors remain unchanged as a result of this reclassification.

6 Movement on current cost reserve

	2009 £m	2008 £m
Balance at 1 April	42,544.7	41,117.0
Revision to opening balance (as explained below)	(11.3)	-
Balance at 1 April (restated)	42,533.4	41,117.0
RPI adjustments:		
- Fixed assets	(183.4)	1,757.3
- Working capital	(8.4)	(7.8)
- Financing	(53.5)	(95.9)
- Grant and third party contributions	(5.0)	(30.1)
- Mains replacement adjustment (see note 4a)	(188.2)	(195.8)
- Other	0.6	-
Balance at 31 March	42,095.5	42,544.7

The revision to opening balance relates to a correction to prior year additions where the current cost values have now been brought in line with their previously reported historical cost equivalents. This revision does not impact the historical regulatory accounts.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March (continued)

7 Net debt analysis

March 2009:

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Maturity profile				
Less than one year	(275.8)	(83.2)	-	(359.0)
Between one and two years	(345.9)	(57.4)	-	(403.3)
Between two and five years	(339.8)	(235.0)	-	(574.8)
Between five and twenty years	(1,406.2)	(194.7)	(214.8)	(1,815.7)
In more than twenty years	(1,044.0)	-	(1,645.4)	(2,689.4)
Total borrowings	(3,411.7)	(570.3)	(1,860.2)	(5,842.2)
Cash	204.2	-	-	204.2
Short term deposits	321.6	-	-	321.6
Net debt	(2,885.9)	(570.3)	(1,860.2)	(5,316.4)

March 2008:

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Maturity profile				
Less than one year	-	(366.3)	-	(366.3)
Between one and two years	(125.8)	(78.6)	-	(204.4)
Between two and five years	(449.5)	(47.4)	-	(496.9)
Between five and twenty years	(680.7)	(206.3)	(206.6)	(1,093.6)
In more than twenty years	(620.9)	-	(2,045.8)	(2,666.7)
Total borrowings	(1,876.9)	(698.6)	(2,252.4)	(4,827.9)
Cash	65.8	-	-	65.8
Short term deposits	15.6	-	-	15.6
Net debt	(1,795.5)	(698.6)	(2,252.4)	(4,746.5)

All values in the above tables are post interest and cross currency rate swaps.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009

Rolling five-year summary

Regulatory current cost profit and loss account for the Appointed business for the year ended 31 March 2009 with corresponding amounts for prior periods (at 2009 prices)

	2009 £m	2008 * £m	2007 * £m	2006 * £m	2005 * £m
Turnover	1,537.0	1,497.6	1,486.1	1,503.2	1,303.6
Current cost operating costs	(1,039.6)	(1,052.3)	(1,148.5)	(1,089.0)	(976.7)
Operating income	7.8	25.6	8.0	10.3	7.8
Working capital adjustment	8.4	8.0	6.8	5.0	4.1
Current cost operating profit	513.6	478.9	352.4	429.5	338.8
Net interest	(178.9)	(176.6)	(181.7)	(160.5)	(155.5)
Financing adjustment	53.5	98.8	132.3	101.0	129.3
Current cost profit on ordinary activities before taxation	388.2	401.1	303.0	370.0	312.6
Taxation:					
- Current tax	(23.8)	(111.4)	(56.1)	(79.9)	(13.0)
- Deferred tax	(93.8)	73.1	(24.9)	(29.2)	(72.3)
Current cost profit on ordinary activities after taxation	270.6	362.8	222.0	260.9	227.3
Dividends	(215.1)	(100.3)	(563.7)	(300.6)	(47.7)
Current cost profit/(loss) retained	55.5	262.5	(341.7)	(39.7)	179.6

Corresponding amounts have been stated at current year prices using movements in the average RPI.

* Current cost operating costs in 2008, 2007, 2006 and 2005 (restated) include the reclassification of active leakage costs from capital to operating costs and in 2008 and 2007 the treatment of income from energy generation and the national grid reserve, which is now included in current cost operating cost for the appointed business.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Rolling five-year summary

Regulatory current cost balance sheet for the appointed business at 31 March 2009 with corresponding amounts for prior periods (at 2009 prices)

	2009 £m	2008 * £m	2007 * £m	2006 * £m	2005 * £m
Fixed assets					
Tangible assets	48,808.9	48,461.7	48,222.6	47,960.6	47,818.6
Third party contributions since 31 March 1990	(872.3)	(854.7)	(817.5)	(776.1)	(726.1)
	47,936.6	47,607.0	47,405.1	47,184.5	47,092.5
Working capital	(257.4)	(281.4)	(211.7)	(143.0)	(205.6)
Cash	204.2	65.6	92.4	13.1	-
Short term deposits	321.6	15.5	116.3	-	-
Infrastructure renewals prepayment /(accrual)	33.7	36.6	(33.7)	(42.8)	-
Net operating assets	48,238.7	47,443.3	47,368.4	47,011.8	46,886.9
Non operating assets and liabilities					
Borrowings	(359.0)	(364.9)	(21.9)	(430.0)	(29.8)
Non-trade debtors	212.8	91.5	76.1	110.6	67.0
Non-trade creditors due within one year	(115.8)	(104.2)	(90.0)	(82.0)	(793.8)
Investment – loan to group company	1,180.0	1,219.2	-	-	-
Investments – other	0.1	0.1	0.1	0.1	0.1
Corporation tax payable	11.9	(7.7)	-	(34.8)	(12.7)
Total non operating assets and liabilities	930.0	834.0	(35.7)	(436.1)	(769.2)
Creditors: amounts falling due after more than one year					
Borrowings	(5,483.2)	(4,444.8)	(3,532.1)	(2,414.5)	(1,858.6)
Other creditors	(36.5)	(24.7)	-	-	-
Total creditors falling due after more than one year	(5,519.7)	(4,469.5)	(3,532.1)	(2,414.5)	(1,858.6)
Provisions for liabilities and charges					
Deferred tax provision	(926.3)	(838.2)	(947.5)	(969.1)	(963.8)
Post employment asset	(46.9)	26.0	11.5	(28.5)	(42.0)
Other provisions	(85.6)	(78.4)	(73.0)	(66.3)	(51.8)
Total provisions	(1,058.8)	(890.6)	(1,009.0)	(1,063.9)	(1,057.6)
Net assets	42,590.2	42,917.2	42,791.6	43,097.3	43,201.5
Capital and reserves					
Called up share capital	1,029.0	1,025.1	1,063.8	1,115.1	1,141.3
Share premium	100.0	99.6	103.4	108.3	110.9
Profit and loss account	(634.3)	(591.8)	(880.6)	(611.8)	(597.8)
Current cost reserve	42,095.5	42,384.3	42,505.0	42,485.7	42,547.1
Total capital and reserves	42,590.2	42,917.2	42,791.6	43,097.3	43,201.5

Corresponding amounts have been stated at current year prices using movements in the year-end RPI.

* Current cost operating costs in 2008, 2007, 2006 and 2005 (restated) include the reclassification of insurance liabilities from non-trade creditors to other provisions.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Regulatory Capital Value (RCV)

	2009 £m
Opening RCV (March 2008 prices)	6,990
Indexation to year end (March 2009 prices)	(26)
Opening RCV at year end prices	6,964
Capital expenditure (excluding infrastructure renewals expenditure)	646
Infrastructure renewals expenditure	115
Grants and contributions	(41)
Depreciation	(356)
Infrastructure renewals charge	(103)
Out performance of past regulatory assumptions	(45)
Closing RCV (March 2009)	7,180
Average RCV (2008/2009 year average prices)	7,189

The figures quoted reflect those used by Ofwat at the 2004 Periodic Review to set prices for 2008/2009, as published by Ofwat in RD 08/09. All costs have been indexed to March 2009 prices (RPI index) except for the average RCV, which is shown at year average prices (RPI index) in accordance with Ofwat's convention.

Differences between the figures shown above and actual costs/income will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next price review.

RAG 5 Intra-group trade

During the year there were no contracts in excess of 0.5% (£7.8m) of the Company's turnover with any subsidiary of the Thames Water group of companies.

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

RAG 5 directors' interests information

Listed below are details of directorships held by Thames Water Utilities Limited directors at 31 March 2009 in associated companies that have traded with the regulated business during the year.

Directorships held in Associated Companies

The following directors held directorships in Thames Water Limited and Thames Water Utilities Holdings Limited:

Sir Peter Mason KBE – Chairman
L F Abraira (resigned 1 January 2009)
M W Baggs
E Beckley (appointed 19 January 2009)
R Blomfield-Smith
C R Deacon
S Kolenc (appointed 9 February 2009)
G I W Parsons (resigned 19 January 2009)
A F C DeP Santos (appointed 1 January 2009)
D J Shah
M S W Stanley
L Webb (resigned 9 February 2009)

The following directors have formally appointed alternate directors to represent them when they are unavailable. These alternate directors also held alternate directorships in Thames Water Limited and Thames Water Utilities Holdings Limited:

Director	Alternate Director
L F Abraira (resigned 1 January 2009)	P Gomez (resigned 1 January 2009)
R Blomfield-Smith	K Boesenberg (appointed 1 April 2009)
S Kolenc	L Webb (appointed 9 February 2009)
C R Deacon	P DeSouza (resigned 10 September 2008)
	R D Israel (appointed 10 September 2008)
G I W Parsons (resigned 19 January 2009)	E Beckley (resigned 19 January 2009)
A F C DeP Santos	S Batey (appointed 9 January 2009)
D J Shah	WR McKenzie (resigned 9 February 2009)
	C van Heijningen (appointed 9 February 2009)
L Webb (resigned 9 February 2009)	S Kolenc (resigned 9 February 2009)

Thames Water Utilities Limited conducts its Appointed business so as to ensure arm's length trading and avoidance of cross-subsidy in the spirit of Condition F of the Instrument of Appointment.

No directorships are held by Thames Water Utilities Limited directors in circumstances, which, might, in practice, result in conflicts of interest in intra-group trading relationships.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Directors' Certificate under Condition F6A of the Company's Appointment

This is to certify that at their meeting on 17 June 2009 the directors of Thames Water Utilities Limited ("the Appointee") resolved as follows:

- ? That, in the opinion of the directors', the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment(s)).
- ? That, in the opinion of the directors', the Appointee will, for at least the next 12 months, have available to it :
 - (a) Management resources.
 - (b) Systems of planning and internal control.

Which are sufficient to enable it to carry out those functions as required by sub-paragraph 6A.1(1).

- ? That, in the opinion of the directors', all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and a sewerage undertaker.

The main factors the director's have taken into account in compliance with the Directors' Certificate under condition F6A of the Company's appointment are:

- ? That the processes and systems of internal control operated as expected.
- ? That the Appointee operated as if it were substantially the Appointee's sole business and that the Appointee were a separate public limited Company.
- ? That financial resources and facilities are adequate to enable the Appointee to meet its regulatory obligations.
- ? The net worth of the Company and the strength of the Company's key performance indicators as shown on pages 5 and 8 of the Chief Executive Officer's Business review.
- ? The strong investment grade ratings as shown on page 6 of the Chief Executive Officer's Business review.
- ? Borrowing facilities, which include significant, undrawn bank facilities.
- ? Parental support provided by the ultimate holding company, which will provide financial support.



M Braithwaite
Chief Financial Officer
17 June 2009

Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited

We have audited the Regulatory Accounts of Thames Water Utilities Limited ("the Company") on pages 68 to 96 which comprise:

- The regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts.
- The regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies.

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ("the WSRA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 and the WSRA, for our audit work, for this report or for the opinions we have formed.

Basis of preparation

The Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between United Kingdom Generally Accepted Accounting Principles ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts as the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared wholly on the basis of UK GAAP may not necessarily represent a true and fair view of the financial performance or financial position of a Company as shown in financial statements prepared in accordance with the Companies Act 1985.

Respective responsibilities of the WSRA, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no assessment.

The directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 67.

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing issued by the Auditing Practices Board, except as stated in the "Basis of audit opinion", below and having regard to the guidance contained in Audit 05/03 *"Reporting to Regulators of Regulated Entities"*.

Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited (continued)

We report to you our opinion as to whether the regulatory historical cost accounting statements present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03 (Guideline for classification of expenditure), Regulatory Accounting Guideline 3.06 (Guideline for the contents of regulatory accounts) and Regulatory Accounting Guideline 4.03 (Guideline for the analysis of operating costs and assets); and whether the regulatory current cost accounting statements on pages 78 to 91 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04 (Guideline for accounting for current costs and regulatory capital values), Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03. We also report to you if, in our opinion, the Company has not kept proper accounting records as required by paragraph 3 of Condition F and whether the information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03.

We read the other information contained in the Regulatory Accounts, including any supplementary schedules on which we do not express an audit opinion, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Regulatory Accounts. The other information comprises the performance review, the notes on regulatory information, and the additional information required by the Company's Regulatory Licence.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board except as noted below. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Regulatory Accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the Regulatory Accounts, 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 Regulatory Accounts are free from material misstatement, whether caused by fraud or other irregularity or error. However, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 68 to 77 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from Generally Accepted Accounting Principles, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 1985 is given on page 77.

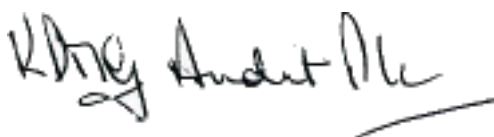
Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited (continued)

Opinion

In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2009 fairly present in accordance 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, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 38 to 44, 71 to 72 and 82 to 84, the state of the Company's affairs at 31 March 2009 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information we report that in our opinion:

- a) Proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument.
- b) The information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.
- c) The regulatory historical cost accounting statements on pages 68 to 77 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2.03, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.
- d) The regulatory current cost accounting statements on pages 78 to 91 have been properly prepared in accordance with Regulatory Accounting Guideline 1.04, Regulatory Accounting Guideline 3.06 and Regulatory Accounting Guideline 4.03 issued by the WSRA.



KPMG Audit Plc
Chartered Accountants

17 June 2009

1. The maintenance and integrity of the Company web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Water Services Regulation Authority ("WSRA"), the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.

2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdiction

Glossary of regulatory terms (continued)

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information notably in the five-year Asset Management Plan process.

Appointed Business – The appointed business comprises the regulated activities of the Company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's-length trading – Arm's-length trading is where the Company treats the associate companies on the same basis as external third parties.

Asset Management Plan (AMP) – A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP3 covered the investment period April 2000 to March 2005. AMP4 covers the investment period April 2005 to March 2010.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

Capital Incentive Scheme ("CIS") – This will be the new capital expenditure incentive mechanism introduced by Ofwat to take effect in AMP5. Under this mechanism Ofwat sets a baseline capital expenditure plan, which they believe companies should be able to deliver. Companies are rewarded or penalised during the AMP5 for submitting a business plan, which is lower or higher than the baseline respectively. Companies will then be further rewarded or penalised at the start of AMP6 for underspending or overspending against that business plan.

CIS will apply to capital expenditure only, not to operational expenditure and will not apply to large projects such as the Lee Tunnel.

Final determination – This is the conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year period. It is accompanied by a determination of the allowable 'K' factor for the forthcoming five-year period.

Financing adjustment – The impact of general inflation (RPI) on the real value of net finance for the business.

K factor – The annual increase, set by Ofwat, in charges that companies in the water industry can make. The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula $RPI + \text{or} - 'K' + 'U'$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and 'U' is the amount of 'K' not taken up by a company in previous years.

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Thames Water Utilities Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Modern Equivalent Asset (MEA) – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing, or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

Glossary of regulatory terms (continued)

Monitoring plan – The document required by Ofwat after the outcome of a price review that sets out annual targets for delivery against the Final Determination. The June Return is the annual submission to Ofwat that allows the regulator to track progress against the Monitoring Plan.

Non-appointed business – The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

Periodic Review (PR) – The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the K factor – see above).

Price limit – This is the name given to the combination of the Retail Price Index (RPI), 'K' and 'U'.

Regulatory Accounting Guidelines (RAG) – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Retail Price Index (RPI) – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.

Regulatory Capital Value (RCV) – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Third-party contributions since 1989/90 – Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material.

Working capital adjustment – The impact of general inflation (RPI) on the real value of working capital to the business.

www.thameswater.co.uk



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