

Registered no: 02366661 (England and Wales)

## **Thames Water Utilities Limited**

Interim report and financial statements

For the six month period ended 30 September 2009

# Thames Water Utilities Limited

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# Thames Water Utilities Limited

## Report of the Chief Executive Officer for the six month period ended 30 September 2009

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

This report has been prepared in accordance with pronouncements on interim reporting issued by the Accounting Standards Board and the voluntarily applied Disclosure and Transparency Rules as stated in the responsibility statement of the directors (see page 8).

### Business Review

The business continued to deliver strong financial performance in the six months to 30 September 2009 with operating profit increasing by 2.7% to £331.8m, compared to £323.2m for the six months to 30 September 2008 (“the prior period”). This resulted from continued focus on delivering operating cost efficiency and an annual increase in turnover in line with the limits set by the Water Services Regulation Authority (“Ofwat”). The capital expenditure programme was expected to fall in the last year of the Asset Management Period (AMP) after approaching £1 billion for each of the last two financial years. At £379.2m for the six month period to 30 September 2009 it is on target for the year.

The six month period to 30 September 2009 was also characterised by further improvement in operational performance, with leakage levels continuing to reduce as a result of further investment in replacing Victorian mains in London. This, along with other service improvements, means that the Company is targeting a further improvement in Operational Performance Assessment (OPA) in the current financial year.

The continuing recession presents significant challenges and shows that we are not operating in a risk-free environment. As highlighted in the annual report and financial statements, the regulatory model in the economic downturn means our revenues are lower than expected when Ofwat set the plan at Final Determination 2004 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 the essential investment in the network that is required to meet our customers’ needs.

### PR09

Thames Water received Ofwat’s Draft Determination of price limits on 23 July 2009. The Draft Determination represented Ofwat’s initial views of the Company’s final business plan. The Final Determination was received from Ofwat on 26 November and our decision as to whether to accept, or request a reference to the Competition Commission, is required to be with Ofwat within two calendar months of this date.

### Transforming Thames

The Company has undertaken a number of business led initiatives, the cornerstone of which is to organise Thames Water 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. This is a back-office system comprising finance, supply chain and projects.

# Thames Water Utilities Limited

## Report of the Chief Executive Officer for the six month period ended 30 September 2009 (continued)

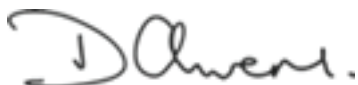
### Business Review (continued)

#### Transforming Thames (continued)

As an infrastructure business with a requirement for investment estimated to be £5.2 billion (as per the Draft Determination) within the next AMP (Asset Management Period), the Company recognised that to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business, it would need to implement a new business model based on an Asset Owner and Service Provider organisation where the Asset Owner would agree the Plan (the Final Determination) and the Service Provider would attempt to beat that Plan by continuously driving efficiencies throughout the AMP.

In January 2009, a group-wide re-organisation 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 environment. This re-organisation is now substantially complete.

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. On 28 September 2009 the finance work package of SAP went live and early indications are that it has been a very successful implementation. The Human Resources work package is expected to go live in the second half of the year.



**David Owens**  
Chief Executive Officer

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2009

### Financial overview

#### Financial Key Performance Indicators (KPI's)

##### Methodology and calculation of financial KPI's

1. EBITDA: Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge (IRC).
2. Total capex spend: Total expenditure on tangible fixed assets excluding contributions received, see note 5.
3. Operating expenditure: Operating costs excluding amortisation, depreciation and IRC, see note 2.

Performance Measure	Half year to 30 September 2009 £m	Half year to 30 September 2008 £m (restated*)
Turnover	805.6	776.7
Operating expenditure	301.9	290.6
EBITDA	506.6	487.0
Total capex spend	379.2	526.7

#### Turnover

Turnover for the six month period ended 30 September 2009 was £805.6m (2008: £776.7m (restated\*)), an increase of 3.7% compared to the prior period. Real price increases as agreed with Ofwat, together with increases linked to the Retail Price Index (RPI), increased turnover by 4.6%, which has been offset by a reduction in demand.

#### Operating expenditure

Operating expenditure for the six month period ended 30 September 2009 has increased by 3.8% on the prior period. Increases in power costs and an increase in bad debt expenditure compared to the first half of the prior year have been mitigated by continued emphasis on driving operating efficiencies, whilst ensuring the delivery of the Company's regulatory outputs.

#### EBITDA

The increase in turnover has been partially offset by the increase in operating expenditure. This improvement has also been enhanced by a slight increase in activity in the property market which has generated more profit on disposals leading to an overall increase of 4.0% in EBITDA compared to the prior period.

#### Net interest payable and similar charges

Net interest payable and similar charges for the six month period ended 30 September 2009 was £98.1m (2008: £126.8m), a decrease of £28.7m (22.6%) compared to the prior period. The improvement is largely a result of the movement in RPI and the impact on the Company's interest on RPI linked debt and swaps. Excluding inter-company interest received the cash cost of interest has increased by 57%. Other finance expenses represent pension costs and have increased because of the reduction in the expected return on scheme assets.

\* Refer to note 1

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2009 (continued)

### Financial Overview (continued)

#### Net cash outflow before financing activities

Net cash inflow before financing activities of £41.2m has improved by £354.1m compared to the prior period, principally as a result of a reduction in capital investment in the period (£145.4m) and usage of amounts previously held on deposit (movement in liquid resources) of £187.5m.

#### Balance sheet

Net assets as at 30 September 2009 are £133.8m lower than 31 March 2009, reflecting profit for the period, dividend payment and an increase in the net pension liability. The charge passed through the Statement of total recognised gains and losses in relation to the pension scheme was £119.2m (2008: credit of £5.5m).

#### Capital expenditure

Capital expenditure has decreased by 38.9% on the prior period from £526.7m to £379.2m. The capital expenditure programme is in line with internal plans which show a fall in the last year of the Asset Management Period (AMP) after approaching £1 billion for each of the last two financial years and at £379.2m for the six month period to 30 September 2009 it is on target for the year.

#### Other financial indicators

There has been a small increase in net debt to £5.4 billion from £5.3 billion at 31 March 2009, principally reflecting the lower requirements of the capital expenditure programme in the final year of the AMP as noted above.

During the period the Company paid two interim dividends totalling £176.9m in respect of the year ended 31 March 2009 (period ended 30 September 2008: one interim dividend of £131.0m). See note 4 on page 15 for details.

On 1 October 2009 the Board of Directors approved an interim dividend of £131.0m (12.7p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend was paid on 29 October 2009.

#### Financing

As at 30 September 2009, the Company had committed facilities in place with a syndicate of ten relationship banks to the value of £1.105 billion, all of which were un-drawn. These facilities will provide the Company with the necessary liquidity to fund the operation of the business for at least the next eighteen months and ongoing into the next Asset Management Period.

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2009 (continued)

### Principal risks and uncertainties

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 which are detailed fully in the Annual Report and itemised below. These include:

- PR09 Final Determination
- Employee pension scheme funding
- Failure to maintain adequate funding arrangements
- Failure to meet regulatory targets
- Impact of the economic downturn
- Future changes in laws or regulations
- Failure of a major asset
- The effects of climate change and long-term changes in weather patterns
- Shortage of skilled labour
- Managing increased competition in the water industry

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2009 (continued)

### Non Financial Performance Measures – Service Performance Overview

#### Summary

In 2008/09 the Company delivered an improvement in operational performance for the third consecutive year and achieved a record operational performance assessment score. The Company is targeting a further improvement in overall performance in the current financial year.

#### Overall performance assessment

The Company achieved an OPA score of 406 for the period 2008/09. This is a best ever performance, with an improvement of nine points from the 2007/08 score of 397.

#### Leakage

For the year to 31 March 2009 the Company outperformed the leakage target for the third year running, despite a severe winter which caused a major increase in burst pipes. Due to ongoing capital works including a continued programme of mains replacement and pressure management, the leakage level has continued to fall during 2009 and is currently at the lowest ever recorded level.

#### Security of Supply

Performance remains ahead of the regulatory target due to delivery of new resource schemes, reductions in customer demand and reductions in leakage.

#### Drinking water quality and sewage works compliance

The Company continues to achieve outstanding levels of performance for both water quality and sewage works compliance.



**Mark Braithwaite**  
Chief Financial Officer

# Thames Water Utilities Limited

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

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

The directors confirm that to the best of their knowledge:

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

The directors of the Company are listed in the Company's Annual Report and Financial Statements for the year ended 31 March 2009. There have been no changes to the directors subsequent to the publication of the Annual Report and Financial Statements for the year ended 31 March 2009.

The above statement of directors' responsibilities was approved on 27 November 2009.

By order of the Board



**Mark Braithwaite**  
Chief Financial Officer

# Thames Water Utilities Limited

## Independent review report to Thames Water Utilities Limited for the six month period ended 30 September 2009

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009, which comprises the condensed profit and loss account, the condensed balance sheet, the condensed cash flow statement, the condensed statement of total recognised gains and losses and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

### Directors' responsibilities

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

The annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the regulatory annual report and financial statements for the year ended 31 March 2009.

### Our responsibility

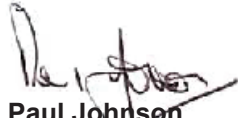
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly report based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 September 2009 is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the regulatory annual report and financial statements for the year ended 31 March 2009.



**Paul Johnson**  
For and on behalf of KPMG Audit Plc  
Chartered Accountants  
London  
27 November 2009

# Thames Water Utilities Limited

## Condensed Profit and loss account for the six month period ended 30 September 2009

		Six months to 30 September 2009 (unaudited)	Six months to 30 September 2008 (unaudited) (restated)*	Year to 31 March 2009 (audited)
	Note	£m	£m	£m
Turnover		805.6	776.7*	1,558.2
Operating costs	2	(476.7)	(454.4)*	(952.9)
Operating income		<u>2.9</u>	<u>0.9</u>	<u>8.2</u>
Operating profit		331.8	323.2	613.5
Net interest payable and similar charges		(98.1)	(126.8)	(175.5)
Other finance expense		<u>(8.2)</u>	<u>(0.7)</u>	<u>(2.9)</u>
Profit on ordinary activities before taxation		225.5	195.7	435.1
Taxation on profit on ordinary activities	3	<u>(63.2)</u>	<u>(53.2)</u>	<u>(120.3)</u>
Profit for the period		<u><b>162.3</b></u>	<u>142.5</u>	<u>314.8</u>

All amounts above relate to continuing operations.

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

## Condensed Statement of total recognised gains and losses for the six month period ended 30 September 2009

	Six months to 30 September 2009 (unaudited)	Six months to 30 September 2008 (unaudited)	Year to 31 March 2009 (audited)
	£m	£m	£m
Profit for the period	162.3	142.5	314.8
Actuarial loss on pension scheme	(165.7)	(7.6)	(133.0)
Deferred tax relating to actuarial loss	<u>46.5</u>	<u>2.1</u>	<u>37.2</u>
Total recognised gains for the period	<u><b>43.1</b></u>	<u>137.0</u>	<u>219.0</u>

\* Refer to note 1

# Thames Water Utilities Limited

## Condensed Balance Sheet at 30 September 2009

	Note	30 September 2009 (unaudited)	30 September 2008 (unaudited) (restated*)	31 March 2009 (audited)
		£m	£m	£m
<b>Fixed assets</b>				
Tangible assets	5	7,313.9	6,811.9	7,090.1
Investments		0.1	0.1	0.1
		<b>7,314.0</b>	<b>6,812.0</b>	<b>7,090.2</b>
<b>Current assets</b>				
Stocks		6.6	7.5	6.1
Debtors:				
Amounts falling due within one year		872.2	838.1	639.7
Amounts falling due after more than one year	6	1,194.1	1,259.4	1,180.0
Total debtors		2,066.3	2,097.5	1,819.7
Investments		170.4	51.9	321.6
Cash at bank and in hand		185.2	13.1	204.2
		<b>2,428.5</b>	<b>2,170.0</b>	<b>2,351.6</b>
<b>Creditors: amounts falling due within one year</b>	7	<b>(1,664.4)</b>	<b>(1,306.5)</b>	<b>(1,110.7)</b>
<b>Net current assets</b>		<b>764.1</b>	<b>863.5</b>	<b>1,240.9</b>
<b>Total assets less current liabilities</b>		<b>8,078.1</b>	<b>7,675.5</b>	<b>8,331.1</b>
<b>Creditors: amounts due after more than one year</b>	7	<b>(5,181.1)</b>	<b>(4,975.6)</b>	<b>(5,483.2)</b>
<b>Deferred income</b>		<b>(179.3)</b>	<b>(172.7)</b>	<b>(179.9)</b>
<b>Provisions for liabilities and charges</b>	8	<b>(1,073.9)</b>	<b>(931.2)</b>	<b>(1,011.9)</b>
<b>Net asset excluding pension assets</b>		<b>1,643.8</b>	<b>1,596.0</b>	<b>1,656.1</b>
<b>Net pension (liabilities)/assets</b>		<b>(168.4)</b>	<b>22.2</b>	<b>(46.9)</b>
<b>Net assets including pension assets</b>		<b>1,475.4</b>	<b>1,618.2</b>	<b>1,609.2</b>
<b>Capital and reserves</b>				
Called up share capital		1,029.0	1,029.0	1,029.0
Share premium account		100.0	100.0	100.0
Profit and loss account	9	346.4	489.2	480.2
<b>Total shareholder's funds</b>	10	<b>1,475.4</b>	<b>1,618.2</b>	<b>1,609.2</b>

\*Refer to note 1

The interim financial statements were approved by the Board of Directors on 27 November 2009 and signed on its behalf by:



**Mark Braithwaite**  
Chief Financial Officer

# Thames Water Utilities Limited

## Condensed Cash flow statement for the six month period ended 30 September 2009

	Note	Six months to 30 September 2009 (unaudited) £m	Six months to 30 September 2008 (unaudited) £m	Year to 31 March 2009 (audited) £m
Net cash inflow from operating activities	11	487.4	501.6	915.2
Net cash inflow/(outflow) from returns from investments and servicing of finance*		0.1	(74.3)	(157.7)
Taxation		(37.9)	(44.8)	(70.2)
Net cash outflow from capital investment and financial investment activities		(382.7)	(528.1)	(979.5)
Equity dividends paid		(176.9)	(131.0)	(222.0)
Management of liquid resources		151.2	(36.3)	(306.0)
Net cash inflow/(outflow) before financing		41.2	(312.9)	(820.2)
Financing	12	(60.2)	260.2	958.6
(Decrease)/increase in cash	12	(19.0)	(52.7)	138.4

\*As described in note 6, the first interim dividend of £116.9m was paid to Thames Water Utilities Holdings Limited and was used to settle intercompany interest owing to Thames Water Utilities Limited. This interest receivable is included within this caption.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009

### 1. Basis of preparation

These condensed interim financial statements (“the financial statements”) for the period ended 30 September 2009 have been prepared in accordance with UK Generally Accepted Accounting Practice and with the historical cost convention, except as noted below, and on the basis of the accounting policies consistent with those set out in the Regulatory disclosures of the Company’s Annual report and financial statements for the year ended 31 March 2009.

The Company has not prepared consolidated group financial statements and therefore these statements represent Company only results. The Company has only one segment as defined in the Companies Act 2006 and SSAP 25 ‘Segmental Reporting’ and has therefore not included segmental analysis within the financial report.

Prior period comparatives for turnover and operating costs (page 10) the six months ended 30 September 2008 have been restated to reflect the change in treatment of income from energy generation and the national grid reserve service (£3.8m), 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.

The Company has reduced Creditors: amounts falling due within one year and increased Provisions for liabilities and charges (page 11) for the period ended 30 September 2008 (£49.7m) to correctly classify the liability of future insurance obligations in accordance with the requirements of FRS 12 ‘Provisions: contingent liabilities and contingent assets’. This reclassification does not affect the net assets of the Company.

These restatements are consistent with the disclosures in both the Company’s Regulatory and Statutory Annual report and financial statements for the year ended 31 March 2009.

The financial statements are consistent with the regulatory historic cost financial statements for the year ended 31 March 2009, which the Company prepares in accordance with Condition F of the Instrument of Appointment by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Industry Act 1991.

The financial statements do not include all the information required for full annual financial statements, do not comprise statutory accounts within the meaning of Section 240 of the Companies Act 1985, and should be read in conjunction with the Annual report and financial statements for the year ended 31 March 2009. The financial statements have been prepared in accordance with the Accounting Standards Board’s “Half-Yearly Financial Reports” statement, and the requirements of the Disclosure and Transparency Rules issued by the Financial Services Authority. These financial statements have been reviewed by KPMG Audit Plc.

The classification of profit on the sale of fixed assets, the treatment of infrastructure renewals expenditure and the treatment of certain capital contributions as explained below, have been prepared in accordance with the Companies Act 1985. The departures from applicable UK Accounting Standards are necessary to comply with regulatory reporting requirements laid down by Ofwat.

#### Profit on sale of fixed assets

Profit 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.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 1. Basis of preparation (continued)

#### 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 2009. Accordingly IRE net of depreciation has been included within debtors.

This treatment of reporting IRE net of depreciation within debtors in the regulatory historic cost financial statements for the year ended 31 March 2009 and these financial statements 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. The effect of this reclassification on fixed assets is shown in note 5 of these financial statements.

#### Capital contributions

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

The statutory accounts for the year ended 31 March 2009 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 237(2) or (3) of the Companies Act 1985.

The regulatory accounts for the year ended 31 March 2009 have been delivered to Ofwat. The auditors' report on these accounts confirmed that they contained the information required to comply with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991.

### 2. Operating costs

	<b>Six months to 30 September 2009 (unaudited)</b>	Six months to 30 September 2008 (unaudited) (restated*)	Year to 31 March 2009 (audited)
	£m	£m	£m
Operating costs before depreciation	<b>301.9</b>	290.6	614.5
Infrastructure renewals charge	<b>57.7</b>	54.4	114.0
Depreciation – Non-infrastructure	<b>117.1</b>	109.4	224.4
	<b>476.7</b>	454.4	952.9

\*Refer to note 1

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 3. Taxation

The corporation tax charge is based upon UK corporation tax of 28% (half year to 30 September 2008 and full year to 31 March 2009 28%).

The interim corporation tax charge for the half year to 30 September 2009 is based upon the forecast effective tax rate for the full year to 31 March 2010 applied to the profits earned in the six months to 30 September 2009.

### 4. Dividends paid

	<b>Six months to 30 September 2009 (unaudited)</b>	Six months to 30 September 2008 (unaudited)	Year to 31 March 2009 (audited)
	<b>£m</b>	£m	£m
First interim paid 11.3p (March 2009: 12.7p) per ordinary share	<b>116.9</b>	131.0	131.0
Second interim paid 5.8p (March 2009 8.8p) per ordinary share	<b>60.0</b>	-	91.0
	<b>176.9</b>	131.0	222.0

The first interim dividend of £116.9m was paid to Thames Water Utilities Holdings Limited and was used to settle intercompany interest owing to Thames Water Utilities Limited.

On 1 October 2009, the directors approved an interim dividend of £131.0m (12.7p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend was subsequently paid to Thames Water Utilities Holdings Limited on 29 October 2009.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 5. Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
<b>UK GAAP (FRS 15) historic cost values</b>				
<b>Cost</b>				
At 1 April 2009	2,465.6	3,979.6	4,502.4	10,947.6
Additions	39.4	131.3	208.5	379.2
Disposals	(0.2)	(10.3)	(0.6)	(11.1)
<b>At 30 September 2009</b>	<b>2,504.8</b>	<b>4,100.6</b>	<b>4,710.3</b>	<b>11,315.7</b>
<b>Capital Contributions</b>				
At 1 April 2009	-	-	560.7	560.7
Additions	-	-	8.6	8.6
<b>At 30 September 2009</b>	<b>-</b>	<b>-</b>	<b>569.3</b>	<b>569.3</b>
<b>Depreciation</b>				
At 1 April 2009	618.1	1,818.3	826.7	3,263.1
Provided during the period	26.2	90.9	57.7	174.8
Disposals	-	(9.0)	-	(9.0)
<b>At 30 September 2009</b>	<b>644.3</b>	<b>1,900.2</b>	<b>884.4</b>	<b>3,428.9</b>
<b>UK GAAP Net Book Value</b>				
<b>At 30 September 2009</b>	<b>1,860.5</b>	<b>2,200.4</b>	<b>3,256.6</b>	<b>7,317.5</b>
At 1 April 2009	1,847.5	2,161.3	3,115.0	7,123.8
<b>RAG3 net infrastructure renewal reclassification</b>				
Accrued at 1 April 2009	-	-	33.7	33.7
Infrastructure renewal expenditure in the period	-	-	27.6	27.6
Infrastructure renewal depreciation charge	-	-	(57.7)	(57.7)
<b>Accrued at 30 September 2009</b>	<b>-</b>	<b>-</b>	<b>3.6</b>	<b>3.6</b>
<b>Regulatory historic cost net book value</b>				
<b>At 30 September 2009</b>	<b>1,860.5</b>	<b>2,200.4</b>	<b>3,253.0</b>	<b>7,313.9</b>
At 31 March 2009	1,847.5	2,161.3	3,081.3	7,090.1

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

This comprises the following two items:

- an unsecured loan of £1,180.0m (September 2008: £1,180.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking. The directors are not anticipating any repayment of the loan within the next 12 months.
- interest receivable of £14.1m (September 2008: £79.4m) owed by Thames Water Utilities Holdings Limited the immediate parent undertaking, on the loan of £1,180.0m. Interest is charged at Libor + 0.35%.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 7. Creditors

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

- £2,931.4m (September 2008: £2,974.5m) comprising principal and interest owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £296.6m (September 2008: £97.8m) is included within creditors due within one year and £2,634.8m (September 2008: £2,876.7m) within creditors due after more than one year.
- £1,995.4m (September 2008: £1,456.4m) comprising principal and interest owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking, of which £35.6m (September 2008: £16.9m) is included within creditors due within one year and £1,959.8m (September 2008: £1,439.5m) within creditors due after more than one year.
- Included within loans falling due within one year is £150.9m (September 2008: £100.0m) comprising principal and interest, on subordinated debt, owed to Thames Water Limited, the parent company.

### 8. Provisions for liabilities and charges

	Deferred tax	Insurance liabilities	Restructuring	Other	Total
	£m	£m	£m	£m	£m
At 1 April 2009 (audited)	926.3	53.7	9.3	22.6	1,011.9
Utilised during the period	-	-	(3.7)	-	(3.7)
Charge to profit and loss for the period	25.6	40.0	-	0.1	65.7
At 30 September 2009 (unaudited)	<b>951.9</b>	<b>93.7</b>	<b>5.6</b>	<b>22.7</b>	<b>1,073.9</b>

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 recognised representing the reimbursement value from captive and third party insurance companies.

### 9. Profit and loss account

	Six months to 30 September 2009 (unaudited)
	£m
Profit and loss account at the beginning of the year	480.2
Profit for the period	162.3
Dividends paid (note 4)	(176.9)
Retained profit	465.6
Actuarial loss on pension scheme	(165.7)
Deferred tax relating to actuarial loss on pension scheme	46.5
Profit and loss account at the end of the period including total pension asset	<b>346.4</b>

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 10. Reconciliation of movements in shareholder's funds

	Six months to 30 September 2009 (unaudited) £m	Six months to 30 September 2008 (unaudited) £m	Year to 31 March 2009 (audited) £m
Shareholder's funds at the beginning of the year	1,609.2	1,612.2	1,612.2
Profit for the period/year	162.3	142.5	314.8
Dividends paid	(176.9)	(131.0)	(222.0)
Retained (loss)/profit	(14.6)	11.5	92.8
Actuarial loss on pension scheme	(165.7)	(7.6)	(133.0)
Deferred tax relating to actuarial loss on pension scheme	46.5	2.1	37.2
Shareholder's funds at the end of the period including pension (liability)/asset	<u>1,475.4</u>	<u>1,618.2</u>	<u>1,609.2</u>

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

	Six months to 30 September 2009 (unaudited) £m	Six months to 30 September 2008 (unaudited) £m	Year to 31 March 2009 (audited) £m
Operating profit	331.8	323.2	613.5
Infrastructure renewals charge	57.7	54.4	114.0
Depreciation – Non-infrastructure	117.1	109.4	224.4
Difference between pension charge and cash contributions	(5.1)	(3.0)	(34.7)
Profit on sale of assets	(2.9)	(0.9)	(8.2)
(Increase)/decrease in stocks	(0.5)	(0.5)	0.9
Increase in debtors and prepaid expenses	(343.4)	(317.3)	24.5
Increase in creditors and accrued expenses	343.9	345.4	(0.2)
Decrease in provisions	(3.8)	(2.4)	(4.0)
Deferred income release	(7.4)	(6.7)	(15.0)
Net cash inflow from operating activities	<u>487.4</u>	<u>501.6</u>	<u>915.2</u>

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 12. Reconciliation of net debt

	Note	Six months to 30 September 2009 (unaudited) £m	Six months to 30 September 2008 (unaudited) £m	Year to 31 March 2009 (audited) £m
Opening net debt		(5,316.4)	(4,746.5)	(4,746.5)
(Decrease)/increase in cash		(19.0)	(52.7)	138.4
(Decrease)/increase in short term deposits		(151.2)	36.3	306.0
Movement on borrowings - Cash		60.2	(260.2)	(958.6)
- Non-cash		(0.8)	(70.6)	(55.7)
Total	13	<u>(5,427.2)</u>	<u>(5,093.7)</u>	<u>(5,316.4)</u>

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

### 13. Analysis of net debt

	Note	Six months to 30 September 2009 (unaudited) £m	Six months to 30 September 2008 (unaudited) £m	Year to 31 March 2009 (audited) £m
Cash at bank and in hand		185.2	13.1	204.2
Short term deposits		170.4	51.9	321.6
		<u>355.6</u>	<u>65.0</u>	<u>525.8</u>
Debt due within 1 year		(594.4)	(183.1)	(353.2)
Debt due after 1 year		(4,978.8)	(4,766.0)	(5,279.9)
Finance leases		(209.6)	(209.6)	(209.1)
		<u>(5,782.8)</u>	<u>(5,158.7)</u>	<u>(5,842.2)</u>
Total	12	<u>(5,427.2)</u>	<u>(5,093.7)</u>	<u>(5,316.4)</u>

Included within net debt are amortised bond fees of £39.7m (September 2008: £28.6m).

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2009 (continued)

### 14. Commitments and contingencies

The Company's capital commitments as at 30 September 2009 amounted to £439.0m (March 2009: £296.3m).

Other than third party claims provided (see note 8 Provisions for liabilities and charges), the Company has no other contingent liabilities.

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

### 15. Ultimate parent company

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

Kemble Water Holdings Limited, is owned by a consortium of investors led by Macquarie European Infrastructure Funds 1 and 2 ("MEIF 1 & 2"), wholesale investment funds that make long-term investments in infrastructure and related businesses located across Europe. The Company's remaining shareholders are international pension funds and institutional investors. MEIF 1 & 2 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, Senior Managing Director and Head of Macquarie Capital EMEA  
Arthur Rakowski, Senior Managing Director, Macquarie Capital Funds  
Martin Stanley, Senior Managing Director and Head of Macquarie Capital Funds Europe  
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