

Thames Water Utilities Finance Limited

**Annual report and financial
statements for the year
ended 31 March 2010**



Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Limited

Annual report and financial statements

For the year ended 31 March 2010

Thames Water Utilities Finance Limited

Annual report and financial statements for the year ended 31 March

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Thames Water Utilities Finance Limited

Directors and advisors

Directors

A Beaumont
S Ledger

Independent auditors

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

Registered office

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Finance Limited

Directors' report

The directors present their report and the audited financial statements of Thames Water Utilities Finance Limited ("the Company") for the year ended 31 March 2010.

Review of business, principal activities and future developments

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

The registered company number is 02403744.

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

Results and dividends

The profit and loss account for the year is set out on page 7. The directors do not recommend the payment of a dividend (2009: £Nil).

Directors' indemnity provisions

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 these remain in force at the date of this report.

Principal risks and uncertainties

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

Directors

The directors who held office during the year ended 31 March 2010 and to the date of signing were:

A Beaumont
S Ledger

During the year under review, none of the directors had any contracts with the company or any other body corporate other than their contracts and service.

Political and charitable donation and expenditure

No charitable or political donations were made by the company during the year (2009: £Nil).

Thames Water Utilities Finance Limited

Directors' report (continued)

Financial risk management

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

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

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

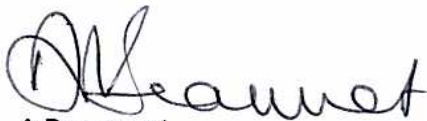
Disclosure of information to auditors

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

Auditors

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

By order of the Board



A Beaumont
Director

9 June 2010

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Finance Limited

Statement of directors' responsibilities in respect of the Directors' Report and the Financial Statements

The directors are responsible for preparing the Directors' 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).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. 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.

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

We have audited the financial statements of Thames Water Utilities Finance Limited for the year ended 31 March 2010 set out on pages 7 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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 auditors' 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

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's web-site at www.frc.org.uk/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements:

- Give a true and fair view of the state of the company's affairs as at 31 March 2010 and of its loss for the year then ended.
- Have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- Have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

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



**W Meredith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor**

Chartered Accountants

9 June 2010

Thames Water Utilities Finance Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2010 £'000	31 March 2009 £'000
Turnover	2	129,574	165,889
Interest payable and similar charges	4	(129,585)	(165,830)
Loss on financial instruments at fair value through profit and loss	10	(44,695)	-
(Loss)/profit on ordinary activities before taxation		(44,706)	59
Tax on (loss)/profit on ordinary activities	6	12,519	(16)
(Loss)/profit for the year	13	(32,187)	43

All amounts relate to continuing operations.

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

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

Thames Water Utilities Finance Limited

Balance sheet as at 31 March

	Note	31 March 2010 £'000	31 March 2009 £'000
Current assets			
Debtors: amounts falling due within one year	7	312,291	123,260
Debtors: amounts falling due after more than one year	8	2,633,183	2,886,180
		2,945,474	3,009,440
Creditors: amounts falling due within one year	9	(299,737)	(123,176)
Net current assets		2,645,737	2,886,264
Creditors: amounts falling due after more than one year	10	(2,677,828)	(2,886,168)
Net (liabilities)/assets		(32,091)	96
Capital and reserves			
Called-up share capital	12	50	50
Profit and loss account	13	(32,141)	46
Shareholder's (deficit)/funds	14	(32,091)	96

The notes on pages 9 to 16 form part of these financial statements.

The financial statements on pages 7 to 16 were approved by the Board of Directors on 9 June 2010 and signed on its behalf by:



A Beaumont
Director

Thames Water Utilities Finance Limited

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies

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

Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with applicable accounting standards, and under historical cost accounting rules.

Going concern

The directors have adopted the going concern basis in preparing these financial statements having given due consideration to the net liabilities of the Company and the requirement for ongoing support from the ultimate parent. This is based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available. The Board also took into account potential contingent liabilities and other risk factors. The ultimate parent company has confirmed that it will continue to provide support to Thames Water Utilities Finance Limited to enable it to meet its liabilities for a period of at least twelve months from the date of signing these financial statements.

Summary of significant accounting policies

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

(a) Turnover

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

(b) Related party disclosures

As the Company is wholly owned subsidiary of Thames Water Utilities Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the group qualifying as related parties). The consolidated financial statements of Kemble Water Finance Limited, within which this Company is included can be obtained from the address in note 15.

(c) Cash flow

Under FRS 1 the Company is exempt from the requirement to prepare a cashflow statement on the grounds that a parent undertaking includes the Company in its own published financial statements.

(d) Financial instruments

The Company's debt arises from secured bonds. These are recorded at the proceeds received, which represent the fair value, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the profit and loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the year in which they arise.

The Company has also applied FRS 26 'Financial Instruments: Recognition and Measurement', and FRS 29 'Financial Instruments: Disclosures' as the Company has listed debt.

Thames Water Utilities Finance Limited

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

1 Principal accounting policies (continued)

(e) 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 year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

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

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

Deferred taxation

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

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

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

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

(f) Foreign currencies

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

(g) Financial risk management

The Company is not exposed to any significant currency or interest rate risk as the Company's financial assets match the liabilities of the Company, so that no net exposure to interest or exchange rates exists. The objective of treasury operations is to ensure the availability of a timely flow of funds at a cost that reflects the credit standing of the Company. The financing arrangements of the Company, and interaction with the wider Group, are further described in note 11 (pages 13 to 15) of these financial statements.

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

The Group's Treasury operations are managed centrally by a small specialist team, which operates with delegated authority of, and under policies approved by, the Board of Directors. Therefore, risks are managed on a group wide basis.

Thames Water Utilities Finance Limited

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

1 Principal accounting policies (continued)

(g) Financial risk management (continued)

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

2 Turnover

The Company's turnover and result arise solely in the United Kingdom and are attributable to the one principal activity of the Company being making certain financing arrangements on behalf of Thames Water Utilities Limited.

3 Auditors' remuneration

The auditors' remuneration of £6,000 (2009: £6,000) was borne by Thames Water Ltd (2009: borne by Thames Water Limited).

4 Interest payable and similar charges

	31 March 2010 £'000	31 March 2009 £'000
Interest payable on other loans	129,585	165,830

5 Directors' emoluments

No director received any remuneration in respect of their services to the Company (2009: £Nil).

6 Taxation on profit on ordinary activities

	31 March 2010 £'000	31 March 2009 £'000
Current tax:		
Amounts (receivable)/payable in respect of group relief	(4)	16
Deferred tax:		
Origination and reversal of timing differences (note 7)	(12,515)	-
Tax on (loss)/profit on ordinary activities	(12,519)	16

The tax charge assessed for the year is lower than (2009: equal to) the standard rate of corporation tax in the United Kingdom of 28% (2009: 28%). The differences are explained below:

	31 March 2010 £'000	31 March 2009 £'000
(Loss)/profit on ordinary activities before tax	(44,706)	59
(Loss)/profit on ordinary activities at corporation tax of 28% (2009: 28%)	(12,519)	16
Disallowable costs (fair value loss on financial instruments)	12,515	-
Current tax (credit)/charge	(4)	16

There are no amounts of unprovided deferred tax.

Thames Water Utilities Finance Limited

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

7 Debtors: amounts falling due within one year

	31 March 2010 £'000	31 March 2009 £'000
Amounts owed by immediate parent undertaking- loan	249,994	70,164
Amounts owed by immediate parent undertaking- Interest	49,774	53,096
Group relief receivable	8	-
Deferred tax asset	12,515	-
	312,291	123,260

There are no amounts past their due by dates. As these assets relate to intercompany debt owed by a regulated water company, the risk exposure is deemed immaterial.

8 Debtors: amounts falling due after more than one year

	31 March 2010 £'000	31 March 2009 £'000
Amounts owed by immediate parent undertaking - loan (see note 10)	2,633,073	2,886,070
Amounts owed by immediate parent undertaking - non-loan	72	72
Called up share capital not paid	38	38
	2,633,183	2,886,180

There are no amounts past their due by dates. As these assets relate to intercompany debt owed by a regulated water company, the risk exposure is deemed immaterial.

9 Creditors: amounts falling due within one year

	31 March 2010 £'000	31 March 2009 £'000
Amounts due to immediate parent undertaking	22	6
Interest payable	49,721	53,032
Secured bonds	249,994	70,126
Group relief payable	-	12
	299,737	123,176

Thames Water Utilities Finance Limited

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

10 Creditors: amounts falling due after more than one year

	31 March 2010 £'000	31 March 2009 £'000
Secured bonds	2,630,936	2,886,108
Derivatives	46,832	-
Other creditors	60	60
	2,677,828	2,886,168

The Company has in issue £2,880,930,000, of which £249,994,000 is due within one year (2009: £70,126,000) and £2,630,936,000 which is due after more than one year (2009: £2,886,108,000). The Secured Bonds are due between 2010 and 2055 (2009: due between 2010 and 2055). The net proceeds were loaned to Thames Water Utilities Limited under the same interest terms for all loans except for the £225,000,000 6.59% secured bond due 2021 which includes a margin of 1 basis point. Net proceeds of £2,880,930,000 (2009: £2,956,234,000) are included in amounts owed by the immediate parent company in respect of these loans. Thames Water Utilities Limited, Thames Water Utilities Cayman Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Holdings Limited have guaranteed the principal and interest payments due under the terms of the secured bonds.

During the year the Company booked a fair value adjustment through the profit and loss account in relation to the fair value movement in its index linked swap (£44,695,000).

11 Financial instruments

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

The Company has also applied FRS 26 'Financial Instruments: Recognition and Measurement', and FRS 29 'Financial Instruments: Disclosures' as the Company has listed debt.

Funding and Treasury Policy

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

The Company's debt arises from the issuance of secured bonds. However, the Company will no longer be issuing debt under its Debt Issuance Program.

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

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

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

Thames Water Utilities Finance Limited

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

11 Financial instruments (continued)

Fair values

	Book value		Fair value	
	31 March 2010 £'000	31 March 2009 £'000	31 March 2010 £'000	31 March 2009 £'000
Primary financial instruments				
- Financial assets	2,883,067	2,956,234	2,797,816	2,892,565
- Financial liabilities	(2,880,930)	(2,956,234)	(2,750,984)	(2,892,565)
- Derivatives	(46,832)	-	(46,832)	-
Total	(44,695)	-	-	-

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

Primary financial instruments include bonds that are traded on a public market. Fair values for these have been calculated using the 31 March 2010 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.

The effects of revaluing foreign currency borrowings at closing rates are included in the valuations.

During the year the Company entered into an index linked swap against its £200m 2015 4.9% bond. At the same time the Company amended the terms of its corresponding 4.9% 2015 intercompany loan to Thames Water Utilities Limited.

Financial assets

Interest rate risk profile at 31 March

	Total at fixed rates		Total book value		Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 %	2009 %	2010 Years	2009 Years
Other loans								
- £ Sterling	2,872,737	2,875,489	2,872,737	2,875,489	5.15	4.54	22.34	24.22
- \$ US	10,330	10,619	10,330	10,619	6.31	6.31	1.10	3.10
- Other	-	70,126	-	70,126	0.00	5.63	0.00	1.25
	2,883,067	2,956,234	2,883,067	2,956,234	5.15	4.57	22.27	23.82

Thames Water Utilities Finance Limited

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

11 Financial instruments (continued)

Financial liabilities

Interest rate risk profile at 31 March

	Total at fixed rates		Total book value		Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2010 £'000	2009 £'000	2010 £'000	2009 £'000	2010 %	2009 %	2010 Years	2009 Years
Other loans								
- £ Sterling	2,917,432	2,875,489	2,917,432	2,875,489	5.15	4.54	22.34	23.36
- \$ US	10,330	10,619	10,330	10,619	6.31	6.31	1.10	2.10
- Other	-	70,126	-	70,126	0.00	5.63	0.00	0.25
	2,927,762	2,956,234	2,927,762	2,956,234	5.15	4.57	22.27	22.74

Maturities

	31 March 2010 £'000	31 March 2009 £'000
Other loans (secured)		
- Less than one year	249,994	70,126
- Between one and two years	10,330	250,000
- Between two and five years	-	10,619
- After more than five years	2,667,438	2,625,489
	2,927,762	2,956,234

Other loans are repayable between 2010 and 2055.

Other loans include:

- £250m 4.75% Secured bond due 2010
- £200m 4.90% Secured bond due 2015
- £200m 5.05% Secured bond due 2020
- £175m 3.38% Index linked bond due 2021
- £225m 6.59% Secured bond due 2021
- £330m 6.75% Secured bond due 2028
- £200m 6.50% Secured bond due 2032
- £600m 5.13% Secured bond due 2037
- £200m 4.90% index linked bond due 2039
- £300m 1.68% index linked bond due 2053
- £300m 1.68% index linked bond due 2055

The range of interest rates on outstanding other loans are 1.68% to 6.75% (2009: 1.68% to 6.75%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.

Thames Water Utilities Finance Limited

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

12 Share capital

	31 March 2010 £'000	31 March 2009 £'000
Allotted, called-up and partly paid 50,000 (2009: 50,000) ordinary shares of £1 each	50	50

13 Profit and loss account

	31 March 2010 £'000	31 March 2009 £'000
At 1 April	46	3
(Loss)/profit for the year	(32,187)	43
At 31 March	(32,141)	46

14 Shareholder's funds

Reconciliation of movements in shareholder's funds

	31 March 2010 £'000	31 March 2009 £'000
Opening shareholder's funds	96	53
(Loss)/profit for the year	(32,187)	43
Closing shareholder's (deficit)/funds	(32,091)	96

15 Immediate and ultimate parent company and controlling party

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

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

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

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

www.thameswater.co.uk



Thames Water Utilities Limited
Customer Centre
PO Box 286
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