

Thames Water Utilities Finance Limited

**Interim report and financial
statements for the six month period
ended 30 September 2010**



Thames Water Utilities Finance Limited

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Thames Water Utilities Finance Limited

Directors' report for the six month period ended 30 September 2010

Review of business, principal activities and future developments

Thames Water Utilities Finance Limited ("the Company") was established to make certain financing arrangements on behalf of its parent Thames Water Utilities Limited. The ultimate parent undertaking is Kemble Water Holdings Limited ("the Group"). The results of Thames Water Utilities Limited are available on the Thames Water website.

The registered company number is 02403744.

The Group is managed 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.

Financial results

Turnover is consistent with the directors' expectations for the half year. Financing costs arising from raising funds on behalf of Thames Water Utilities Limited are recharged. Although no new debt has been issued, the Company has entered into an index linked swap for £100m against its £200m 2020 5.05% bond. This swap has a maturity of 2029. At the same time the Company amended the terms of its corresponding 5.05% 2020 inter-company loan to Thames Water Utilities Limited.

Principal risks and uncertainties

The Company no longer issues any new debt and is therefore not directly affected by the recent financial crisis impacting the cost of debt.

The Company is a financing subsidiary of Thames Water Utilities Limited and accordingly all financing transactions and obligations were passed to Thames Water Utilities Limited by way of an inter company loan. As such, RPI risk attached to debt already raised within the Company has been transferred to Thames Water Utilities Limited. To the extent that any RPI swaps are taken out by the Company, the risk is hedged by a reciprocating inter-company arrangement with Thames Water Utilities Limited. Risk management relating to the financing obligations of Thames Water Utilities Limited is managed as part of the overall financial risk management strategy of the securitisation group.

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the 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 period and to the date of signing were:

A Beaumont
S Ledger



A Beaumont
Director

Thames Water Utilities Finance Limited

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

We confirm that to the best of our 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; and
- 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 board of directors has remained unchanged following publication of the Annual report and financial statements for the year ended 31 March 2010.

The above statement of Directors’ responsibilities was approved on 24 November 2010.

By order of the Board

A handwritten signature in black ink, appearing to read 'A Beaumont', written over a light grey background.

A Beaumont
Director

Thames Water Utilities Finance Limited

Independent review report for the six month period ended 30 September 2010 to Thames Water Utilities Finance Limited

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 2010 which comprises the condensed profit and loss account and the condensed balance sheet and the related explanatory notes. We have read the other information contained in the half-yearly financial 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 to assist the company in meeting the requirements of the Disclosure and Transparency Rule ("the DTR") of the UK's Financial Services Authority ("the UK FSA"). 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 financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FSA.

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 financial report has been prepared in accordance with the Statement *Half-Yearly Financial Reports* as issued by the UK Accounting Standards Board.

Our responsibility

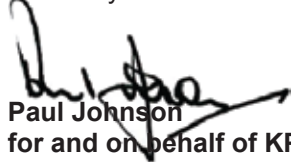
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

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 2010 is not prepared, in all material respects, in accordance with Statement *Half-Yearly Financial Reports* as issued by the UK Accounting Standards Board and the DTR of the UK FSA.



Paul Johnson
for and on behalf of KPMG Audit Plc

Chartered Accountants

London

24 November 2010

Thames Water Utilities Finance Limited

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

	Note	Six months to 30 September 2010 (unaudited) £'000	Six months to 30 September 2009 (unaudited) £'000	Year to 31 March 2010 (audited) £'000
Turnover		64,717	66,125	129,574
Interest payable and similar charges	2	(64,742)	(66,111)	(129,585)
Loss on financial instruments at fair value through profit and loss		(11,520)	-	(44,695)
(Loss)/profit on ordinary activities before taxation		(11,545)	14	(44,706)
Taxation credit/(charge) on (loss)/profit on ordinary activities	3	3,232	(4)	12,519
(Loss)/profit for the period		(8,313)	10	(32,187)

All amounts above relate to continuing operations.

The Company has no recognised gains or losses other than the results above 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 periods as stated above and their historical cost equivalents.

Thames Water Utilities Finance Limited

Condensed Balance sheet at 30 September

	Note	30 September 2010 (unaudited) £'000	30 September 2009 (unaudited) £'000	31 March 2010 (audited) £'000
Current assets				
Debtors:				
Amounts falling due within one year		66,527	296,597	312,291
Amounts falling due after more than one year		2,651,443	2,633,579	2,633,183
	4	2,717,970	2,930,176	2,945,474
Creditors: amounts falling due within one year	5	(50,765)	(296,541)	(299,737)
Net current assets		2,667,205	2,633,635	2,645,737
Creditors: amounts falling due after more than one year	6	(2,707,609)	(2,633,529)	(2,677,828)
Net (liabilities)/assets		(40,404)	106	(32,091)
Capital and reserves				
Called up share capital		50	50	50
Profit and loss account	7	(40,454)	56	(32,141)
Shareholder's (deficit)/funds	8	(40,404)	106	(32,091)

The interim financial statements were approved by the Board of Directors on 24 November 2010 and signed on its behalf by:



Andrew Beaumont
Director

Thames Water Utilities Finance Limited

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

1. Basis of preparation

These condensed interim financial statements ("the financial statements") for the period ended 30 September 2010 have been prepared in accordance with the historical cost convention and on the basis of the accounting policies consistent with those set out in the Company's Annual report and financial statements for the year ended 31 March 2010.

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 396 of the Companies Act 2006, and should be read in conjunction with the Annual report and financial statements for the year ended 31 March 2010. The financial statements have been prepared in accordance with the UK Accounting Standards Board's statement "*Half yearly financial reports*", and the requirements of the "*Disclosure and Transparency Rules*" issued by the Financial Services Authority other than as described in note 9. These financial statements have been reviewed by KPMG Audit Plc.

The statutory accounts for the year ended 31 March 2010 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 498 of the Companies Act 2006.

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 Thames Water Utilities Limited. This is based upon a review of the Thames Water Utilities Limited'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 immediate 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.

2. Interest payable and similar charges

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£'000	£'000	£'000
Interest payable on other loans	64,742	66,111	129,585

3. Taxation

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

The interim corporation tax charge for the half year to 30 September 2010 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 September 2010.

Thames Water Utilities Finance Limited

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

4. Debtors

Included in debtors is an amount of £2,702.2m (2009: £2,930.2m) comprising principal and interest with regards to a loan to the Company's immediate parent company, Thames Water Utilities Limited, of which £2,652.9m (2009: £2,633.6m) is falling due after more than one year.

5. Creditors: amounts falling due within one year

	Six months to 30 September 2010 (unaudited) £'000	Six months to 30 September 2009 (unaudited) £'000	Year to 31 March 2010 (audited) £'000
Amounts due to immediate parent undertaking	22	21	22
Interest payable	40,925	46,538	49,721
Secured Bonds	9,818	249,982	249,994
	50,765	296,541	299,737

On 30 June 2010 the Company repaid its £250m 2010 bond.

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

	Six months to 30 September 2010 (unaudited) £'000	Six months to 30 September 2009 (unaudited) £'000	Year to 31 March 2010 (audited) £'000
Secured Bonds	2,640,852	2,633,469	2,630,936
Derivatives	66,697	-	46,832
Other creditors	60	60	60
	2,707,609	2,633,529	2,677,828

The Company has in issue £2,650.7m (2009: £2,883.4m) of Secured Bonds due between 2011 and 2055 (2009: due between 2010 and 2055). The net proceeds were loaned to Thames Water Utilities Limited under mirrored interest terms for all loans except for the £225.0m 6.59% secured bond due 2021 which includes a margin of 1 basis point. Net proceeds of £2,650.7m (2009: £2,883.4m) 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 period the Company booked a fair value adjustment through the profit and loss account of £11.5m (2009: £nil) in relation to the fair value movement in its index linked swaps. The index linked swaps totalling £300m were entered into by the Company in February 2010 and April 2010. There were no corresponding index linked swaps entered into during the prior period.

Thames Water Utilities Finance Limited

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

7. Profit and loss account

	Six months to 30 September 2010 (unaudited)
	£'000
Profit and loss account at the beginning of the period	(32,141)
Loss for the period	(8,313)
Profit and loss account at the end of the period	(40,454)

8. Reconciliation of movements in shareholder's funds

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£'000	£'000	£'000
Shareholder's (deficit)/funds at the beginning of the period/year	(32,091)	96	96
(Loss)/profit for the period/year	(8,313)	10	(32,187)
Shareholder's (deficit)/funds at the end of the period/year	(40,404)	106	(32,091)

9. Related party transactions

The Company has provided details of certain related party transactions in notes 4 and 6. The Company has not applied the requirements of DTR 4.2.8R regarding related party transactions on the grounds that the Company has listed debt and not listed equity.