

Thames Water Utilities Limited

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



Thames Water Utilities Limited

Contents

	Pages
Report of the Chief Executive Officer	2 - 3
Report of the Chief Financial Officer	4 - 7
Responsibility statement of the directors	8
Auditors' independent review report	9
Condensed profit and loss account	10
Condensed statement of total recognised gains and losses	10
Condensed balance sheet	11
Condensed cash flow statement	12
Notes to the financial statements	13 - 21

Thames Water Utilities Limited

Report of the Chief Executive Officer for the six month period ended 30 September 2010

This report presents a business and financial overview for Thames Water Utilities Limited ("the Company"). The principal activity of the Company (Registered number: 02366661) 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

Financial and Operating Performance

The business continued to deliver strong financial performance in the six months to 30 September 2010. Earnings Before Interest, Tax, Depreciation and Amortisation ("EBITDA") has remained consistent period on period falling by £1.5m to £505.1m compared to £506.6m for the six months to 30 September 2009 ("the prior period"). The underlying operating costs have continued to show further efficiencies although these have been more than offset by increases in rates and pension service costs (driven by actuarial assumptions) whilst revenue has increased marginally by £8.1m compared to the prior period.

Capital expenditure for the six months to 30 September was £328.1m compared to £379.2m for the prior period. The start of a new five year regulatory period necessitates embedding significant new capital delivery contracts. This, combined with third parties and planning issues, has caused small delays in the programme in the first six months of the year, but the rate of delivery is expected to recover by the year end.

Regulatory reform

The Water Services Regulation Authority ("Ofwat") has introduced two new customer service measures to drive improvements in customer experience across the water industry. The measures focus on driving a reduction in unnecessary customer contacts and improving customer satisfaction as measured by independent research. From April 2011, the measures will form part of a new Service Incentive Mechanism ("SIM") which replaces the Overall Performance Assessment ("OPA"). The basket of measures used in OPA, including the Director General ("DG") customer service levels 1 - 9 will continue. For some time the customer experience has been at the forefront of the Company's values and it welcome's this regulatory mechanism as an incentive to improve its own customers' experience and to raise the bar across the whole water industry.

There is also currently a major change agenda for the water industry. Ofwat is conducting a review of how it regulates the industry and determines price controls. The Government is also reviewing the future challenges facing the water industry and has committed to publishing a Water White Paper in summer 2011. The Water White Paper will encompass the Government's conclusions on Professor Martin Cave's 'Review of Competition and Innovation in Water Markets' and Anna Walker's 'Review of Charging for Household Water and Sewerage Services'.

While the existing regime has delivered demonstrable benefits to customers, the Company recognises that reform has the potential to deliver further improvements. It is essential that the strong performance and stability of the existing regulatory regime are not compromised, and that the impact of all material changes are fully understood in advance by all parties. To this end, the Company is working collaboratively with its stakeholders to help advance the debate and ensure that the reforms deliver the most benefit for its customers.

Thames Water Utilities Limited

Report of the Chief Executive Officer for the six month period ended 30 September 2010 (continued)

Business Review (continued)

Public Inquiry

The Public Inquiry into the Company's draft 'Water Resources Management Plan' ended in August 2010. The Inspector has indicated that she will submit her report to the Secretary of State in December 2010 and the Company does not expect to hear the outcome formally until spring 2011. The Company considered that the proposed plan was presented effectively, placing appropriate emphasis on the need to meet statutory requirements on security of supply over the full 25 years of the plan. The Company has committed to undertake further work on a number of issues raised at the inquiry, to inform the next round of water resource planning.

Transforming Thames

The Transforming Thames project continues and in recent months has gathered more pace. In the Company's Annual Report and Financial Statements for the year ended 31 March 2010, there was discussion of the Asset Management business model deemed necessary to fulfil the significant challenges presented in Ofwat's Final Determination. The Asset Management business model was implemented at the start of 2010 and puts the Company in a good position to deliver efficiently the £4,900m capital programme agreed with Ofwat for the five years ending 31 March 2015. Further, the "back office" Finance, Supply Chain and Human Resources work packages of SAP have been very successful implementations. Further roll-out of SAP and the development of increasingly sophisticated approaches to running the business will enable the Company to deploy best practice, end-to-end business processes across its operations, as described below, and provide further operating efficiencies.

The Company currently uses Supervisory Control and Data Acquisition ("SCADA") in a number of ways to monitor and control remotely asset performance on networks and process plants for water networks and treatment works. SCADA is an enabler of the Company's current operational efficiency and is part of wider plans for managing health and safety and operational risks. The Company is currently in the process of replacing and enhancing legacy systems, which will enable it to become even more efficient going forward.

In addition, the Company is starting work on a programme called Work Asset Management and Information ("WAMI"). This is a far-reaching two year programme that will transform the asset management and operational planning process of the Company. One of the most important components of WAMI is a business-wide asset register which will be integrated with a geographic interface. This means that for the first time the Company will be able to see its asset information in one place, enabling it to record cost, risk and performance data against its assets. For Operations, it will provide the Company with an end-to-end work management process, giving joined-up planning, greater visibility of other teams' planned work and better assessments of how proposed changes might affect other parts of the business.

WAMI will be looking at the capture of data from the field, allowing customers to see a quicker response to events such as burst mains and flooding and enabling more efficient scheduling while keeping the Company's customers informed every step of the way.

The Company has demonstrated continuing improvement in both operational and financial performance providing a strong platform for the future.



Martin Baggs
Chief Executive Officer

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2010

Financial overview

Financial Key Performance Indicators (KPI's)

Performance Measure	Half year to 30 September 2010 £m	Half year to 30 September 2009 £m
Turnover	813.7	805.6
Operating expenditure	311.4	301.9
EBITDA	505.1	506.6
Total capital expenditure	328.1	379.2

Methodology and calculation of financial KPI's

1. EBITDA: Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge (IRC).
2. Total capital expenditure: 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.

Turnover

Turnover for the six month period ended 30 September 2010 was £813.7m (2009: £805.6m), an increase of 1.0% 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 £2.5m, with new properties and increased consumption accounting for a further increase of £7.0m. This has been offset by a reduction in water and drainage search revenue of £1.4m as a result of the abolishment of Home Information Packs.

Operating expenditure

Operating expenditure for the six month period ended 30 September 2010 has increased by 3.1% on the prior period. Increases in pension costs (driven by assumptions surrounding current service costs) and an increase in rates account for the majority of this increase. As discussed in the Chief Executive Officer's report, these increases in operating costs are due to factors outside of the Company's control and are not a true reflection on underlying operating efficiency.

EBITDA

The increase in turnover has been more than offset by the increase in operating expenditure described above leading to a reduction in EBITDA of £1.5m.

Net interest payable and similar charges

Net interest payable and similar charges for the six month period ended 30 September 2010 was £194.8m (2009: £98.1m), an increase of £96.7m (99%) compared to the prior period. Included within this figure is £9.8m (2009: £14.1m) of intercompany interest receivable from the upstream loan to Thames Water Utilities Holdings Limited (see note 6). Excluding this intercompany interest, the net interest payable and similar charges figure was £204.6m (2009: £112.2m). The increase in interest expense is largely due to the movement in the year-on-year RPI and its corresponding impact on the Company's RPI linked debt and derivative coupons (see note 12). Other finance expenses represent pension costs, which have decreased because of the reduction in the expected return on scheme assets.

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2010 (continued)

Financial Overview (continued)

Net cash flow before financing activities

Net cash outflow before financing activities of £396.5m (2009: inflow: £41.2m) has moved significantly primarily as a result of an upstream loan made to the immediate parent company of £685.0m (which has been included within Net cash outflow from capital investment and financial investment activities, see page 12). Other key movements include: a further £210.0m was placed on deposit compared to the prior period and interest receivable from the immediate parent company has reduced by £88.7m leading to a net cash outflow from returns from investments and servicing of finance of £83.6m (2009: inflow of £0.1m).

Balance sheet

Net assets as at 30 September 2010 are £51.3m lower than 31 March 2010, reflecting profit for the period of £119.9m, dividend payments of £160.5m and a post tax actuarial loss in relation to the pension in the period of £10.7m. The dividend payments are further explained in note 4 to the financial statements.

Capital expenditure

Capital expenditure for the six months to 30 September was £328.1m compared to £379.2m for the prior period. The start of a new five year regulatory period necessitates embedding significant new capital delivery contracts. This, combined with third parties and planning issues, has caused small delays in the programme in the first six months of the year, but the rate of delivery is expected to recover by the year end.

Other financial indicators

During the period the Company paid three interim dividends totalling £160.5m of which £103.2m related to the year ended 31 March 2010 and £57.3m relates to the current financial period.

On 24 November 2010, the Board of Directors approved an interim dividend of £75.0m (7.3p per ordinary share) in respect of the year ended 31 March 2011.

Financing

As at 30 September 2010, the Company had committed facilities in place with a syndicate of ten relationship banks to the value of £1,175m, all of which were undrawn. These facilities, together with surplus cash, provide the Company with the necessary liquidity to fund the operation of the business for at least the next eighteen months.

Until March 2010, all debt issued by the Securitisation Group (being Thames Water Utilities Holdings, the Company and its wholly owned subsidiaries) was ranked in the same class ("Class A"). The ratio of Class A net debt to Regulated Capital Value ("RCV") within the Securitisation Group is limited to 75 per cent.

From 1 April 2010, the Company and the Securitisation Group also had the option to issue Subordinated Debt ("Class B"), with an increase in the combined Class A and Class B (together "Senior") net Debt/RCV ratio to a limit of 85 per cent. As at 30 September 2010, the Company had issued £850m (2009: £nil) of Class B bonds.

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2010 (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 Team.

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 Financial Statements for the year ended 31 March 2010 and summarised below.

- Failure to meet regulatory targets
- Employee pension scheme funding
- Failure to maintain adequate funding arrangements
- 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
- Impact of low inflation or deflation
- Delivery of the Thames Tideway Tunnel
- Transfer of private sewers

Thames Water Utilities Limited

Report of the Chief Financial Officer for the six month period ended 30 September 2010 (continued)

Non Financial Performance Measures – Service Performance Overview

Summary

In 2009/10 the Company delivered a further improvement in operational performance for the fourth consecutive year and achieved a record OPA score. The Company is targeting improvements in customer satisfaction in the current financial year.

Overall performance assessment

The Company achieved an OPA score of 416 for the period 2009/10. This is a best ever performance, with an improvement of ten points from the 2008/09 score of 406. Based on the Ofwat 'Service and Delivery Report' published on 28 October 2010, the Company was the third best Water and Sewerage company performer in the industry.

Leakage

For the year ended 31 March 2010 the Company outperformed its leakage target despite a severe winter which caused a major increase in burst pipes. The Company has reduced leakage by 27% in the last four years. The Company is targeting further investment in leakage in the current financial year to pro-actively manage performance through the 2010/11 winter.

Security of Supply

The Company closed the 2005-2010 price control period achieving a score of 100 in the regulator's security of supply index. This compares to a score of only 22 at the start of the period in 2005/06. The Company has also completed a Public Inquiry into its draft Water Resource Management Plan as explained in more detail on page 3.

Drinking water quality and sewage works compliance

The Company continues to achieve outstanding levels of performance for both water quality and sewage works compliance, achieving 99.98% compliance for drinking water quality standards at the customer's tap and 100% compliance with effluent quality standards for our sewage treatment works.



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 2010. Subsequent to the publication of the Annual Report and Financial Statements for the year ended 31 March 2010, the following appointments and resignations have been made:

Independent Non Executive Directors

Dame Deirdre Hutton	Director	Appointed 22 July 2010
Edward Richards	Director	Appointed 22 July 2010
Willem Smit	Director	Resigned 1 September 2010

Non Executive Directors

Gordon Parsons	Director	Appointed 10 June 2010
Sara Leong	Alternate Director	Appointed 22 July 2010 (Alternate to Gordon Parsons)
Sara Leong	Alternate Director	Appointed 4 August 2010 (Alternate to Ed Beckley)

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

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 2010

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, 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 Annual Report and Financial Statements for the year ended 31 March 2010.

Our responsibility

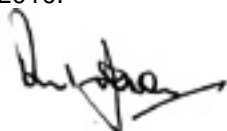
Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly report based on our review.

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 2010 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 Annual Report and Financial Statements for the year ended 31 March 2010.



Paul Johnson

For and on behalf of KPMG Audit Plc

Chartered Accountants

London

24 November 2010

Thames Water Utilities Limited

Condensed profit and loss account for the six month period ended 30 September 2010

		Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	Note	£m	£m	£m
Turnover		813.7	805.6	1,623.8
Operating costs	2	(508.3)	(476.7)	(952.7)
Operating income		<u>2.8</u>	2.9	37.9
Operating profit		308.2	331.8	709.0
Net interest payable and similar charges		(194.8)	(98.1)	(240.6)
Other finance expense		<u>(2.5)</u>	(8.2)	(14.8)
Profit on ordinary activities before taxation		110.9	225.5	453.6
Taxation on profit on ordinary activities	3	<u>9.0</u>	(63.2)	(122.6)
Profit for the period	9	<u>119.9</u>	162.3	331.0

All amounts above relate to continuing operations.

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

Condensed statement of total recognised gains and losses for the six month period ended 30 September 2010

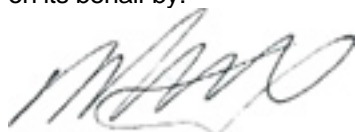
	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
Profit for the period	119.9	162.3	331.0
Actuarial loss on pension scheme	(12.6)	(165.7)	(105.4)
Deferred tax relating to actuarial loss	<u>1.9</u>	46.5	29.5
Total recognised gains for the period	<u>109.2</u>	43.1	255.1

Thames Water Utilities Limited

Condensed balance sheet at 30 September 2010

	Note	30 September 2010 (unaudited)	30 September 2009 (unaudited)	31 March 2010 (audited)
		£m	£m	£m
Fixed assets				
Tangible assets	5	7,673.4	7,313.9	7,541.4
Investments		0.1	0.1	0.1
		7,673.5	7,314.0	7,541.5
Current assets				
Stocks		8.3	6.6	7.7
Debtors:				
Amounts falling due within one year		902.6	872.2	603.0
Amounts falling due after more than one year	6	1,874.8	1,194.1	1,180.0
Total debtors		2,777.4	2,066.3	1,783.0
Investments		212.0	170.4	573.2
Cash at bank and in hand		4.3	185.2	5.9
		3,002.0	2,428.5	2,369.8
Creditors: amounts falling due within one year	7	(1,269.9)	(1,664.4)	(1,351.7)
Net current assets		1,732.1	764.1	1,018.1
Total assets less current liabilities		9,405.6	8,078.1	8,559.6
Creditors: amounts due after more than one year	7	(6,575.0)	(5,181.1)	(5,652.8)
Deferred income		(142.0)	(179.3)	(144.7)
Provisions for liabilities and charges	8	(1,064.1)	(1,073.9)	(1,098.3)
Net asset excluding pension liabilities		1,624.5	1,643.8	1,663.8
Net pension liabilities		(119.4)	(168.4)	(107.4)
Net assets including pension liabilities		1,505.1	1,475.4	1,556.4
Capital and reserves				
Called up share capital		1,029.0	1,029.0	1,029.0
Share premium account		100.0	100.0	100.0
Profit and loss account	9	376.1	346.4	427.4
Total shareholder's funds	10	1,505.1	1,475.4	1,556.4

The interim financial statements were approved by the Board of Directors on 24 November 2010 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 2010

	Note	Six months to 30 September 2010 (unaudited) £m	Six months to 30 September 2009 (unaudited) £m	Year to 31 March 2010 (audited) £m
Net cash inflow from operating activities	11	504.8	487.4	1,011.8
Net cash (outflow)/inflow from returns from investments and servicing of finance*		(83.6)	0.1	(108.1)
Taxation		(21.5)	(37.9)	(76.0)
Net cash outflow from capital investment and financial investment activities**		(996.9)	(382.7)	(713.0)
Dividends paid to Shareholders		(160.5)	(176.9)	(307.9)
Management of liquid resources		361.2	151.2	(251.6)
Net cash (outflow)/inflow before financing		(396.5)	41.2	(444.8)
Financing	12	394.9	(60.2)	246.5
Decrease in cash	12	(1.6)	(19.0)	(198.3)

*As described in note 4, the second interim dividend of £28.2m (2009 third interim: £116.9m) in respect of the year ended 31 March 2010 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.

**This includes an increase of £685.0m in the unsecured loan to £1,865.0m at 30 September 2010 (2009: £1,180.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010

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 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 2010.

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 statements.

The financial statements are consistent with the regulatory historic cost financial statements for the year ended 31 March 2010, 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 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. These financial statements have been reviewed by KPMG Audit Plc.

Changes in accounting estimates

Following the Government’s announcement in July 2010 that increases in retirement benefits would be based on the Consumer Price Index (“CPI”) rather than the Retail Price Index (“RPI”), the Company undertook a review of its Pension Schemes’ rules. Following guidance contained in the proposed Urgent Issues Task Force (“UITF”) Abstract ‘Accounting implications of the replacement of the Retail Price Index with the Consumer Price Index for Retirement Benefits’ the Company has recognised a £20.8m credit (net of tax) in the Statement of total recognised gains and losses in respect of the Thames Water Mirror Image Pension Scheme (“TWMIPS”).

The rules of the Thames Water Pension Scheme (“TWPS”) are more complex and diverse. The implication of the change to CPI is still being determined for the individual sections of the TWPS and therefore no adjustment has been made in these financial statements. Any impact that the change to CPI will have on the TWPS will be reflected in the Company’s Annual Report and Financial Statements for the year ending 31 March 2011.

The financial statements have been prepared in accordance with the historical cost convention and, except for the classification of profit on the sale of fixed assets, the treatment of infrastructure renewals expenditure and the treatment of certain capital contributions as explained below, have been prepared in accordance with the Companies Act 2006. 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 2010 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 2010 (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 2010. Accordingly IRE net of depreciation has been included within creditors.

This treatment of reporting IRE net of depreciation within creditors in the regulatory historic cost financial statements for the year ended 31 March 2010 and these financial statements represents a departure from the accounting policy adopted in the Company's 31 March 2010 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 2006, 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 are not recognised in the profit and loss account.

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.

The regulatory accounts for the year ended 31 March 2010 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.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

2. Operating costs

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
Operating costs before depreciation	311.4	301.9	609.2
Depreciation – infrastructure renewals charge	67.3	57.7	114.0
Depreciation – Non-infrastructure	129.6	117.1	229.5
	508.3	476.7	952.7

3. Taxation

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
<i>Analysis of charge in the period:</i>			
Current tax charge for the period	4.5	38.4	47.5
Deferred tax charge for the period	23.9	24.8	75.1
One-off deferred tax credit arising from change of tax rate to 27%	(37.4)	-	-
	(9.0)	63.2	122.6

Tax on items taken directly to equity:

Deferred tax credit on actuarial losses on defined benefit pension schemes offset in reserves	(3.5)	(46.5)	(29.5)
One-off deferred tax charge arising from change of tax rate to 27%	1.6	-	-
	(1.9)	(46.5)	(29.5)

The corporation tax charge is based upon UK corporation tax of 28% (half year to 30 September 2009 and full year to 31 March 2010, 28%). During the period there was a change in law reducing the corporation tax rate from 28% to 27% from 1 April 2011.

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 2011 applied to the profits earned in the six months to 30 September 2010.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

4. Dividends paid

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
<i>Dividends paid in respect of prior year but not recognised as liabilities in that year:</i>			
Second interim paid 2.7p (2009: nil) per ordinary share	28.2	-	-
Third interim paid: 7.3p (2009: 11.4p) per ordinary share	75.0	116.9	116.9
Fourth interim paid: nil (2009: 5.8p) per ordinary share	-	60.0	60.0
<i>Interim dividends paid in respect of current year:</i>			
First interim paid: 5.6p (2009: nil) per ordinary share	57.3	-	131.0
	160.5	176.9	307.9

The second interim dividend of £28.2m in respect of the year ended 31 March 2010 was paid to Thames Water Utilities Holdings Limited and was used to settle intercompany interest owing to Thames Water Utilities Limited.

As a post balance sheet event, on 24 November 2010 the directors approved a second interim dividend of £75.0m (7.3p per ordinary share) in respect of the six month period ended 30 September 2010. The interim dividend will be paid to Thames Water Utilities Holdings Limited on 30 November 2010.

Interim Distribution for the six months period ended the 30 September 2010:

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
Intra Group Debt Service Distribution	28.2	116.9	116.9
Interim Distributions	132.3	60.0	191.0
	160.5	176.9	307.9

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

5. Tangible fixed assets

	Land and buildings	Plant and equipment	Infrastructure assets	Assets in course of construction	Total
	£m	£m	£m	£m	£m
UK GAAP (FRS 15) historic cost values					
Cost					
At 1 April 2010	2,274.5	4,102.0	4,174.0	1,176.3	11,726.8
Additions	-	-	-	328.1	328.1
Transfer between items	36.9	206.1	224.8	(467.8)	-
Disposals	(0.2)	-	-	-	(0.2)
At 30 September 2010	2,311.2	4,308.1	4,398.8	1,036.6	12,054.7
Capital Contributions					
At 1 April 2010	-	-	589.1	-	589.1
Additions	-	-	13.1	-	13.1
At 30 September 2010	-	-	602.2	-	602.2
Depreciation					
At 1 April 2010	598.2	2,066.4	940.7	-	3,605.3
Provided during the period	19.1	110.5	67.3	-	196.9
At 30 September 2010	617.3	2,176.9	1,008.0	-	3,802.2
UK GAAP Net Book Value	1,693.9	2,131.2	2,788.6	1,036.6	7,650.3
At 30 September 2010					
At 1 April 2010	1,676.3	2,035.6	2,644.2	1,176.3	7,532.4
RAG3 net infrastructure renewal reclassification					
Accrued at 1 April 2010	-	-	(9.0)	-	(9.0)
Infrastructure renewal expenditure in the period	-	-	53.2	-	53.2
Infrastructure renewal depreciation charge	-	-	(67.3)	-	(67.3)
Accrued at 30 September 2010	-	-	(23.1)	-	(23.1)
Regulatory historic cost net book value					
At 30 September 2010	1,693.9	2,131.2	2,811.7	1,036.6	7,673.4
At 31 March 2010	1,676.3	2,035.6	2,653.2	1,176.3	7,541.4

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

This comprises the following two items:

- a secured loan of £1,865.0m (2009: £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 £9.8m (2009: £14.1m) owed by Thames Water Utilities Holdings Limited the immediate parent undertaking, on the loan of £1,865.0m. Interest is charged at Libor + 0.35%.

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

7. Creditors

Included within total creditors are loan amounts owed to group undertakings as detailed below:

- £2,702.2m (2009: £2,931.4m) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £50.8m (2009: £296.6m) is included within creditors due within one year and £2,651.4m (2009: £2,634.8m) within creditors due after more than one year.
- £2,995.0m (2009: £1,995.4m) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking, of which £nil (2009: £35.6m) is included within creditors due within one year and £2,995.0m (2009: £1,959.8m) within creditors due after more than one year.
- Included within loans falling due within one year is £nil (2009: £150.9m) 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 2010 (audited)	995.5	75.7	2.3	24.8	1,098.3
Utilised during the period	-	(18.1)	(2.2)	(3.6)	(23.9)
(Credit)/charge to profit and loss for the period	(12.9)	-	2.0	0.6	(10.3)
At 30 September 2010 (unaudited)	982.6	57.6	2.1	21.8	1,064.1

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 2010 (unaudited)
	£m
Profit and loss account at the beginning of the year	427.4
Profit for the period	119.9
Dividends paid (note 4)	<u>(160.5)</u>
Retained profit	386.8
Actuarial loss on pension scheme	(12.6)
Deferred tax relating to actuarial loss on pension scheme	3.5
One off deferred tax charge relating to actuarial loss on pension scheme arising from change to tax rate	<u>(1.6)</u>
Profit and loss account at the end of the period including total pension liability	<u>376.1</u>

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

10. 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)
	£m	£m	£m
Shareholder's funds at the beginning of the year	1,556.4	1,609.2	1,609.2
Profit for the period/year	119.9	162.3	331.0
Dividends paid	(160.5)	(176.9)	(307.9)
Retained (loss)/profit	(40.6)	(14.6)	23.1
Actuarial loss on pension scheme	(12.6)	(165.7)	(105.4)
Deferred tax relating to actuarial loss on pension scheme	1.9	46.5	29.5
Shareholder's funds at the end of the period including pension liability	<u>1,505.1</u>	<u>1,475.4</u>	<u>1,556.4</u>

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

	Six months to 30 September 2010 (unaudited)	Six months to 30 September 2009 (unaudited)	Year to 31 March 2010 (audited)
	£m	£m	£m
Operating profit	308.2	331.8	709.0
Infrastructure renewals charge	67.3	57.7	114.0
Depreciation – Non-infrastructure	129.6	117.1	229.5
Difference between pension charge and cash contributions	(0.6)	(5.1)	(36.9)
Profit on sale of assets	(2.8)	(2.9)	(37.9)
Increase in stocks	(0.6)	(0.5)	(1.6)
Increase in debtors and prepaid expenses	(301.6)	(343.4)	(62.2)
Increase in creditors and accrued expenses	314.4	343.9	117.1
Decrease in provisions	(3.2)	(3.8)	(4.7)
Deferred income release	(5.9)	(7.4)	(14.6)
Net cash inflow from operating activities	<u>504.8</u>	<u>487.4</u>	<u>1,011.8</u>

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

12 Reconciliation of net debt

	Note	Six months to 30 September 2010 (unaudited) £m	Six months to 30 September 2009 (unaudited) £m	Year to 31 March 2010 (audited) £m
Opening net debt		(5,549.4)	(5,316.4)	(5,316.4)
Decrease in cash		(1.6)	(19.0)	(198.3)
(Decrease)/increase in short term deposits		(361.2)	(151.2)	251.6
Movement on borrowings - cash		(394.9)	60.2	(246.5)
- non-cash		(98.9)	(0.8)	(39.8)
Closing net debt	13	<u>(6,406.0)</u>	<u>(5,427.2)</u>	<u>(5,549.4)</u>

Non-cash increase in net debt comprises amortisation of bond fees and the carrying value accretion by RPI, of a number of RPI index-linked bonds and swaps. This adjustment for RPI index-linked bonds and swaps is in accordance with FRS 4 'Capital instruments'.

13 Analysis of net debt

	Note	Six months to 30 September 2010 (unaudited) £m	Six months to 30 September 2009 (unaudited) £m	Year to 31 March 2010 (audited) £m
Cash at bank and in hand		4.3	185.2	5.9
Short term deposits		212.0	170.4	573.2
		216.3	355.6	579.1
Debt due within 1 year		(105.8)	(594.4)	(544.6)
Debt due after 1 year		(6,313.9)	(4,978.8)	(5,380.2)
Finance leases		(202.6)	(209.6)	(203.7)
		(6,622.3)	(5,782.8)	(6,128.5)
Total	12	<u>(6,406.0)</u>	<u>(5,427.2)</u>	<u>(5,549.4)</u>

Included within net debt are unamortised bond fees of £26.8m (2009: £39.7m).

Thames Water Utilities Limited

Notes to the financial statements for the six month period ended 30 September 2010 (continued)

14. Commitments

The Company's capital commitments as at 30 September 2010 amounted to £1,358.0m (2009: £439.0m).

15. Contingencies

There are claims arising in the normal course of business, which are in the process of negotiation. The Company has set aside amounts considered appropriate for all such claims.

16. 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.

Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Fund LP and Macquarie European Infrastructure Fund II LP ("MEIF 1 & 2"), wholesale investment funds which make long-term investments in infrastructure and related businesses located across Europe. The directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the largest group to consolidate these financial statements.

The Company's other shareholders are international pension funds and institutional investors.

MEIF 1 & 2 invests in businesses which:

- provide an essential service to the community.
- have a strong competitive position.
- seek to 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 the Macquarie Capital Funds division of the Macquarie Group.