

Registered no: 02403744 (England & Wales)

Thames Water Utilities Finance Limited
(formerly Thames Water Utilities Finance plc)

Annual Report and Financial Statements

For the 15 month period ended 31 March 2007

Thames Water Utilities Finance Limited

Annual Report for the period ended 31 March 2007

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Thames Water Utilities Finance Limited

Directors and advisors

Directors

A Beaumont
J Chadwick

Registered auditors

PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Registered office

Clearwater Court
Vastern Road
Reading
RG1 8DB

Thames Water Utilities Finance Limited

Directors' report

The directors present their report and the audited financial statements for the 15 month period ended 31 March 2007.

The Company's accounting reference date was extended to 31 March 2007 in order to coincide with Kemble Water Limited, its new owner. As a result, this report and the financial statements cover a 15 month period and financial and related information linked to the period may not, therefore, be directly comparable with the figures for the previous financial year ended 31 December 2005.

Review of business, principal activities and future developments

The Company was established to make certain financing arrangements on behalf of Thames Water Utilities Limited. Both the level of activity and the period end financial position were satisfactory, and the directors expect that the level of activity will be sustained for the foreseeable future. The profit and loss account for the period is set out on page 8. The directors do not recommend the payment of a dividend (2005: £nil).

On 1 December 2006, the ultimate parent company, RWE AG, sold the Company's intermediate parent company, Thames Water Holdings Plc to Kemble Water Limited, whose ultimate parent company is Kemble Water Holdings Limited ("the group"). The Company was re-registered as a limited company on 4 June 2007.

On 28 June 2007, the Company executed deeds of indemnity for the benefit of each director of the Company. These provisions are qualifying third party indemnity provisions as defined by s.309B of the Companies Act 1985.

Principal risks and uncertainties

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.

Financial risk management

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.

Directors and their interests

The directors who held office during the period are given below:

A Beaumont (appointed 4 May 2006)
H Reid (appointed 25 July 2006)
W Boettcher (resigned 20 June 2006)
S Buck (resigned 25 July 2006)
J Pelczer (appointed 4 May 2006, resigned 1 December 2006)
T Weller (resigned 6 April 2006)

On 12 June 2007, H Reid resigned as a director of the Company and J Chadwick was appointed as a director.

Thames Water Utilities Finance Limited

Directors' report (continued)

Throughout the period, none of the directors declared any interest in the shares or debentures of the Company or any other body corporate in the Group. In accordance with Statutory Instrument 1985/802 the directors' interests in the shares of RWE AG (the ultimate parent company until 1 December 2006) are not required to be disclosed.

During the period under review none of the directors had any contracts with Thames Water Utilities Finance Limited or any other company within the Kemble Water Holdings group of companies other than their contracts of service.

Auditors and disclosure of information to auditors

So far as they are aware, the directors at the date of this report confirm that there is no relevant audit information of which the Company's auditors are unaware, and that the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and accounting standards, which in the case of these accounts is United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

In the case of UK GAAP accounts, the directors are responsible for preparing financial statements for each financial period which 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 judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Thames Water Utilities Finance Limited

Directors' report (continued)

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the Annual General Meeting.

Approved by the Board of Directors on 27 June 2007 and signed on its behalf by

Andrew Beaumont
Director

Thames Water Utilities Finance Limited

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 15 month period ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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

Thames Water Utilities Finance Limited

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

Opinion

In our opinion:

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2007 and of its profit for the 15 month period then ended;
- the financial statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Reading

27 June 2007

Thames Water Utilities Finance Limited

Profit and loss account for the period ended 31 March 2007

		Period end	Year end
		31 March	31 December
	Note	2007	2005
		£'000	£'000
Turnover	2	155,162	68,461
Net interest payable and similar charges	3	(155,141)	(68,461)
Retained profit for the period		21	-

All amounts above relate to continuing operations.

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

There is no difference between the results for the periods stated above and their historical cost equivalents.

Thames Water Utilities Finance Limited

Balance sheet at 31 March 2007

	Note	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Current assets			
Debtors: amounts falling due within one year	5	52,107	39,855
Debtors: amounts falling due after more than one year	6	<u>2,877,579</u>	<u>1,450,451</u>
		2,929,686	1,490,306
Creditors: amounts falling due within one year	7	<u>(52,086)</u>	<u>(39,855)</u>
Net current assets		2,877,600	1,450,451
Creditors: amounts falling due after more than one year	8	<u>(2,877,529)</u>	<u>(1,450,401)</u>
Net assets		<u>71</u>	<u>50</u>
Capital and reserves			
Called-up share capital	10	50	50
Profit and loss reserve	11	<u>21</u>	<u>-</u>
Equity shareholders' funds	12	<u>71</u>	<u>50</u>

The notes on pages 10 to 17 form part of these financial statements.

The financial statements were approved by the Board of Directors on 27 June 2007 and signed on its behalf by:

Andrew Beaumont
Director

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with the historical cost convention and with applicable Accounting Standards in the United Kingdom and with the Companies Act 1985.

In accordance with the requirements of FRS 18, the Directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

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

Changes to accounting policies

The same accounting policies used for the year ended 31 December 2005 have been applied with the following exception:

FRS 26 Financial Instruments: Recognition and Measurement

From 1 January 2006 the Company has adopted the requirements of FRS 26 'Financial Instruments: Recognition and Measurement'. The adoption of this standard is a change in accounting policy but has no effect on current year or prior year results.

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.

(b) Bond issues

The liability under the Guaranteed Bonds and Medium Term loans is stated in the balance sheet at proceeds net of issue and accrued direct costs such that the liability will be recorded at its full maturing value over the life of the bonds.

(c) Taxation

The charge for taxation is based on the profit for the period as adjusted for disallowable and non-taxable items.

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

1 Principal accounting policies (continued)

(d) Foreign currency

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the period in which they arise.

(e) Cashflow

The Company is exempt from the requirements of FRS1 (revised) to prepare a cash flow statement as it is a wholly owned subsidiary and consolidated financial statements, which include the Company's financial statements, are publicly available.

(f) Financial risk management

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

Treasury operations are managed centrally by a specialist team. 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.

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. Treasury is managed as a cost centre and not as a profit centre and no material open or speculative positions are taken. The financing arrangements of the Company are further described in note 9 (pages 13 to 16) of these accounts.

2 Turnover

The Company's turnover and result arises in the United Kingdom and are attributable to the one principal activity of the Company.

3 Interest payable and similar charges

	Period end	Year end
	31 March	31 December
	2007	2005
	£'000	£'000
Bank loans, overdrafts and other loans:		
- group loans	-	16,105
- bank loans	155,141	52,356
	155,141	68,461

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

4 Information regarding directors and employees

The Company had no employees during the period. There were no directors' emoluments.

5 Debtors: amounts falling due within one year

	Period end	Year end
	31 March	31 December
	2007	2005
	£'000	£'000
Amounts owed by parent company - interest	52,107	26,294
Amounts owed by parent company	-	13,390
Amounts owed by parent company - bond discount	-	171
	<u>52,107</u>	<u>39,855</u>

6 Debtors: amounts falling due after more than one year

	Period end	Year end
	31 March	31 December
	2007	2005
	£'000	£'000
Amounts owed by parent company (see note 8)	2,877,469	1,446,750
Amounts owed by parent company - bond discount	-	3,591
Called up share capital not paid	38	38
Amounts owed by parent company - other	72	72
	<u>2,877,579</u>	<u>1,450,451</u>

7 Creditors: amounts falling due within one year

	Period end	Year end
	31 March	31 December
	2007	2005
	£'000	£'000
Interest payable	52,086	26,294
Guaranteed Bonds and Medium Term Notes	-	13,390
Bond discounts	-	171
	<u>52,086</u>	<u>39,855</u>

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

8 Creditors: amounts falling due after more than one year

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Guaranteed Bonds and Medium Term Notes	2,877,469	1,446,750
Bond discounts	-	3,591
Other creditors	<u>60</u>	<u>60</u>
	<u>2,877,529</u>	<u>1,450,401</u>

The Company has in issue £2,877,469,000 (2005:£1,460,140,000) of Guaranteed Bonds and Medium Term Notes due between 2008 and 2055 (2005: due between 2006 and 2032). The net proceeds were loaned to Thames Water Utilities Limited under the same interest terms and £2,877,469,000 (31 December 2005: £1,460,140,000) is included in amounts owed by the parent company in respect of these loans. Thames Water Utilities Limited has guaranteed the principal and interest payments due under the terms of the Bonds and Medium Term Notes.

9 Financial instruments

Financial Reporting Standard 26 requires disclosure of the Company's Funding and Treasury Policy together with further details on its financial assets and liabilities.

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 a mixture of Guaranteed Bonds and Medium Term Notes.

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 Medium Term Notes, 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.

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

9 Financial instruments (continued)

Fair values

	Book value 31 March 2007 £'000	Fair value 31 March 2007 £'000	Book value 31 December 2005 £'000	Fair value 31 December 2005 £'000
Primary financial instruments				
- Financial assets	2,877,469	3,180,683	1,460,140	1,675,725
- Financial liabilities	(2,877,469)	(3,180,683)	(1,460,140)	(1,675,725)
Total	-	-	-	-

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or 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 2007 quoted prices. Mark-to-market techniques (discounting expected cashflows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values that approximate to book value.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effects of revaluing foreign currency borrowings at closing rates are included in the fair valuation.

Interest rate risk profile of financial assets and liabilities

Financial assets

	Total at floating rates		Total at fixed rates		Total at book value		Fixed rate assets			
	Mar	Dec	Mar	Dec	Mar	Dec	Weighted average interest rate	Dec	Weighted average period until maturity for which rate is fixed	Dec
	2007	2005	2007	2005	2007	2005	2007	2005	2007	2005
	£000's	£000's	£000's	£000's	£000's	£000's	%	%	Years	Years
Other loans										
- £ Sterling	-	192,222	2,808,112	1,180,000	2,808,112	1,372,222	5.48	5.71	25.08	15.85
- \$ US Dollar	-	-	7,978	8,759	7,978	8,759	6.31	3.00	4.10	5.35
- Others	-	-	61,379	79,159	61,379	79,159	5.79	2.54	1.89	2.68
Total	-	192,222	2,877,469	1,267,918	2,877,469	1,460,140	5.49	5.49	24.53	14.96

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

9 Financial instruments (continued)

Financial liabilities

	Total at floating rates		Total at fixed rates		Total at book value		Fixed rate liabilities				
							Weighted average interest rate		Weighted average period until maturity for which rate is fixed		
	Mar 2007	Dec 2005	Mar 2007	Dec 2005	Mar 2007	Dec 2005	Mar 2007	Dec 2005	Mar 2007	Dec 2005	
	£000's	£000's	£000's	£000's	£000's	£000's	%	%	Years	Years	
Bank loans											
- £ Sterling	-	192,222	2,808,112	1,180,000	2,808,112	1,372,222	5.48	5.71	25.08	15.85	
- \$ US Dollar	-	-	7,978	8,759	7,978	8,759	6.31	3.00	4.10	5.35	
- Others	-	-	61,379	79,159	61,379	79,159	5.79	2.54	1.89	2.68	
Total	-	192,222	2,877,469	1,267,918	2,877,469	1,460,140	5.49	5.49	24.53	14.96	

Maturities

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Other loans and finance leases		
- Within one year	-	13,390
- Between one and two years	17,537	-
- Between two and five years	301,743	315,768
- After more than five years	2,558,189	1,130,982
	2,877,469	1,460,140

Loans are repayable between 2008 and 2055.

Loans include:

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

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

9 Financial instruments (continued)

The Company has a £5 billion (December 2005: US\$ 4 billion) uncommitted Euro-Medium Term Note programme, which provides the Company with access to the capital markets in a range of currencies and maturities. At 31 March 2007, outstanding debt obligations of the Company were £2,877.5m (December 2005: £1,460.1m), with a weighted average term of 24.5 years (December 2005: 15 years) at a weighted averaged rate of 5.49% (December 2005: 5.49%).

10 Share capital

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Authorised and allotted 50,000 ordinary shares of £1 each	<u>50</u>	<u>50</u>
Called-up and partly paid 50,000 ordinary shares of £1 each (25p paid up)	<u>50</u>	<u>50</u>

11 Profit and loss account reserve

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
At 1 January 2006	-	-
Profit for the period	<u>21</u>	<u>-</u>
At 31 March 2007	<u>21</u>	<u>-</u>

12 Reconciliation of movements in shareholder's funds

	Period end 31 March 2007 £'000	Year end 31 December 2005 £'000
Profit for the period	21	-
Shareholder's funds at 1 January	<u>50</u>	<u>50</u>
Shareholder's funds at 31 March/31 December	<u>71</u>	<u>50</u>

Thames Water Utilities Finance Limited

Notes to the financial statements for the period ended 31 March 2007

13 Auditor's remuneration

The auditors' remuneration of £2,000 (year ended December 2005: £2,900) is to be borne by the Company's immediate parent company.

14 Immediate and ultimate parent company and controlling party

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

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

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

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.