

Registered no: 02403744 (England and Wales)

**Thames Water Utilities Finance Limited**

Interim report and financial statements

For the six month period ended 30 September 2011

# Thames Water Utilities Finance Limited

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# Thames Water Utilities Finance Limited

## Directors' report for the six month period ended 30 September 2011

### 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 immediate 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.

During the period, the company repaid a JPY 2,000,000,000 (£9,220,000), 3% reverse dual currency debt.

### 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, Retail Price Index ("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. However, within the Company's financial statements, hedge accounting is not applied and therefore the movements in fair value of these swaps are included in the profit and loss account. 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 (being Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its wholly owned subsidiaries).

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

The directors 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 2011.

The above statement of directors' responsibilities was approved on 24 November 2011.

By order of the Board



**A Beaumont**  
Director

# Thames Water Utilities Finance Limited

## Independent review report for the six month period ended 30 September 2011 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 2011 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 DTW) of the UK's Financial Services Authority ("the UK FSAH). 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 UKFSA.

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 2011 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 OTR of the UK FSA.



**W Meredith**  
for and on behalf of KPMG Audit Plc  
Chartered Accountants  
London  
24 November 2011

# Thames Water Utilities Finance Limited

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

	Note	Six months to 30 September 2011 (unaudited)	Six months to 30 September 2010 (unaudited)	Year to 31 March 2011 (audited)
		£'000	£'000	£'000
<b>Turnover</b>		<b>83,312</b>	64,717	169,872
Interest payable and similar charges	2	(83,301)	(64,742)	(169,812)
Loss on financial instruments at fair value through profit and loss	2	(29,023)	(11,520)	(13,824)
<b>Loss on ordinary activities before taxation</b>		<b>(29,012)</b>	(11,545)	(13,764)
Taxation credit on loss on ordinary activities	3	6,668	3,232	2,684
<b>Loss for the period</b>		<b>(22,344)</b>	(8,313)	(11,080)

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 on ordinary activities before taxation and the retained loss 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 2011 (unaudited) £'000	30 September 2010 (unaudited) £'000	31 March 2011 (audited) £'000
<b>Current assets</b>				
<b>Debtors:</b>				
Amounts falling due within one year		62,951	66,527	76,398
Amounts falling due after more than one year		2,712,753	2,651,443	2,683,616
<b>Total debtors</b>	4	<b>2,775,704</b>	2,717,970	2,760,014
<b>Creditors:</b> amounts falling due within one year	5	<b>(40,976)</b>	(50,765)	(61,100)
<b>Net current assets</b>		<b>2,734,728</b>	2,667,205	2,698,914
<b>Creditors:</b> amounts falling due after more than one year	6	<b>(2,800,243)</b>	(2,707,609)	(2,742,085)
<b>Net liabilities</b>		<b>(65,515)</b>	(40,404)	(43,171)
<b>Capital and reserves</b>				
Called up share capital		50	50	50
Profit and loss account	8	(65,565)	(40,454)	(43,221)
<b>Shareholder's deficit</b>	9	<b>(65,515)</b>	(40,404)	(43,171)

The interim financial statements were approved by the Board of Directors on 24 November 2011 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 (continued)

### 1. Basis of preparation

These condensed interim financial statements ("the financial statements") for the period ended 30 September 2011 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 2011.

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 2011. 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 10. These financial statements have been reviewed by KPMG Audit Plc.

The statutory accounts for the year ended 31 March 2011 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

	<b>Six months to 30 September 2011 (unaudited)</b>	Six months to 30 September 2010 (unaudited)	Year to 31 March 2011 (audited)
	<b>£'000</b>	£'000	£'000
Interest payable on other loans	<b>83,301</b>	64,742	169,812
Fair value loss on external derivative instruments (note 7)	<b>29,023</b>	11,520	13,824
	<b>112,324</b>	76,262	183,636

# Thames Water Utilities Finance Limited

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

### 3. Taxation

The corporation tax charge is based upon UK corporation tax of 26% (half year to 30 September 2010 and full year to 31 March 2011 28%).

The interim corporation tax charge for the half year to 30 September 2011 is based upon the forecast effective tax rate for the full year to 31 March 2012 applied to the profits earned in the six months to September 2011.

During the period, there was a change in law reducing the corporation tax rate from 26% to 25% from 1 April 2012. The financial statements for the period reflect this change, a charge of £0.9m taking to the profit and loss account.

	<b>Six months to 30 September 2011 (unaudited) £'000</b>	Six months to 30 September 2010 (unaudited) £'000	Year to 31 March 2011 (audited) £'000
<b>Current tax:</b>			
Amounts payable/(receivable) in respect of group relief	3	(7)	17
<b>Deferred tax:</b>			
Origination and reversal of timing differences	<b>(7,546)</b>	(3,225)	(3,871)
Impact on deferred tax asset of tax rate change	<b>875</b>	-	1,170
Tax on loss on ordinary activities	<b>(6,668)</b>	(3,232)	(2,684)

### 4. Debtors

Included in debtors is an amount of £2,769.0m (2010: £2,702.2m) comprising principal and interest with regards to a loan to the Company's immediate parent company, Thames Water Utilities Limited, of which £2,712.7m (2010: £2,651.4m) is falling due after more than one year.

### 5. Creditors: amounts falling due within one year

	<b>Six months to 30 September 2011 (unaudited) £'000</b>	Six months to 30 September 2010 (unaudited) £'000	Year to 31 March 2011 (audited) £'000
Amounts due to immediate parent undertaking	39	22	22
Amounts payable in respect of group relief	-	-	9
Interest payable	<b>40,937</b>	40,925	46,085
Secured Bonds	-	9,818	14,984
	<b>40,976</b>	50,765	61,100

# Thames Water Utilities Finance Limited

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

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

	Six months to 30 September 2011 (unaudited)	Six months to 30 September 2010 (unaudited)	Year to 31 March 2011 (audited)
	£'000	£'000	£'000
Secured Bonds	2,685,154	2,640,852	2,664,637
Derivatives	115,029	66,697	77,389
Other creditors	60	60	60
	<b>2,800,243</b>	<b>2,707,609</b>	<b>2,742,085</b>

The Company has in issue £2,685.2m (2010: £2,650.7m) of Secured Bonds due between 2015 and 2055 (2010: due between 2011 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 £2,685.2m (2010: £2,650.7m) 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.

### 7. Financial instruments

#### Derivatives

Liabilities as per balance sheet	Book value	Fair value	Mark to market *	Book value	Fair value	Mark to market *	Book value	Fair value	Mark to market *
	Six months to 30 September 2011 (unaudited)			Six months to 30 September 2010 (unaudited)			Year to 31 March 2011 (audited)		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
£200m Index- linked swap due 2029	(18,297)	(87,060)	(68,763)	(6,959)	(50,766)	(43,807)	(12,551)	(59,193)	(46,642)
£100m Index- linked swap due 2019	(9,190)	(27,969)	(18,779)	(3,523)	(15,931)	(12,408)	(6,319)	(18,196)	(11,877)
	<b>(27,487)</b>	<b>(115,029)</b>	<b>(87,542)</b>	<b>(10,482)</b>	<b>(66,697)</b>	<b>(56,215)</b>	<b>(18,870)</b>	<b>(77,389)</b>	<b>(58,519)</b>

\* Mark to market is the difference between book value and fair value

# Thames Water Utilities Finance Limited

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

### 7. Financial instruments (continued)

#### Fair value movement through the profit and loss account

	Six months to 30 September 2011 (unaudited)	Six months to 30 September 2010 (unaudited)	Year to 31 March 2011 (audited)
	£'000	£'000	£'000
Mark to market	(58,519)	(44,695)	(44,695)
Movement for the period/year	(29,023)	(11,520)	(13,824)
Mark to market	(87,542)	(56,215)	(58,519)

### 8. Profit and loss account

	Six months to 30 September 2011 (unaudited)
	£'000
At the beginning of the period	(43,221)
Loss for the period	(22,344)
At the end of the period	(65,565)

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

	Six months to 30 September 2011 (unaudited)	Six months to 30 September 2010 (unaudited)	Year to 31 March 2011 (audited)
	£'000	£'000	£'000
Shareholder's deficit at the beginning of the period/year	(43,171)	(32,091)	(32,091)
Loss for the period/year	(22,344)	(8,313)	(11,080)
Shareholder's deficit at the end of the period/year	(65,515)	(40,404)	(43,171)

### 10. 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.