

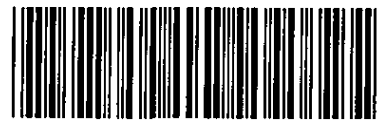
Registered number 5819262 (England & Wales)

Kemble Water Holdings Limited
(formerly Britannia Ports Holdings Limited)
(formerly Bountydale Limited)

Annual report and financial statements

For the period of 10 months and 15 days ended 31 March 2007

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Kemble Water Holdings Limited

Annual report and financial statements for the period ended 31 March 2007

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Kemble Water Holdings Limited

Directors and advisors at 31 March 2007

Directors

Sir Peter Mason KBE
PS Antolik
MW Baggs
CR Deacon
Dr P Dyer
RJ Gregor
C Lynam
GJ Matthews
AFC DeP Santos
MSW Stanley
L Webb

Registered auditors

PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Registered office

Level 28
Citypoint
1 Ropemaker Street
London
EC2Y 9HD

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007

The Directors present their report and the audited financial statements for the period ended 31 March 2007

Principal activities

The principal activity of the Kemble Water Holdings Limited group of companies (the "Group") is the provision of water and wastewater services

Business review

Review of business and future developments

Kemble Water Holdings Limited (the "Company") was incorporated on 17 May 2006 as Bountydale Limited. The Company changed its name on 14 June 2006 to Britannia Ports Holdings Limited and then changed its name on 6 October 2006 to Kemble Water Holdings Limited.

The Company's first accounting reference date was selected as 31 March 2007. As a result, this report and the financial statements cover a period of 10 months and 15 days. Since this is the first period since incorporation there are no comparative figures.

On 1 December 2006, the Company's wholly owned subsidiary company Kemble Water Limited acquired Thames Water Holdings Limited, (formerly Thames Water Holdings Plc), the parent company of Thames Water Limited (formerly Thames Water Plc, formerly RWE Thames Water Plc). Accordingly, these financial statements include the trading results of the Thames Water Holdings Limited group of companies (the "Thames Water group") for the period 1 December 2006 to 31 March 2007.

Details of parent and subsidiary undertakings are given in note 31 and note 32 in the notes to the financial statements on pages 50 and 51 respectively. The Group has a branch outside the United Kingdom. The Company has no branches outside the United Kingdom.

Under new ownership, the Thames Water group strategy will focus on the regulated business within the wholly owned subsidiary Thames Water Utilities Limited. This will be achieved through the disposal of unregulated interests of the Thames Water group, with the exception of the property business, the interests in Metronet and Trans4m, and other minor interests, which will be retained.

Following the acquisition of the Thames Water group, a review of options with regard to the capital structure of the Kemble Water Holdings Limited group was undertaken. As a result, a whole business securitisation of the regulated water business is in progress.

Financial results

Turnover, for the period ended 31 March 2007 was £530.1m. Total operating profit for the period from continuing operations, excluding exceptional items, was £107.0m. Loss on ordinary activities before taxation and exceptional operating costs for the period was £15.7m.

The business is considered to have two segments: the regulated business and other/non-regulated businesses. Further analysis between the business segments is provided in note 2 on pages 24 to 25. Further information on the individual performance of the trading subsidiaries of the Group is available in the statutory financial statements of those companies.

The UK regulated water business, Thames Water Utilities Limited, with its stable sales and earnings, is responsible for a large proportion of the earnings of the Group. For this business in the period ended 31 March 2007, turnover was £473.2m, operating profit was £140.8m, and the profit on ordinary activities before taxation and exceptional operating costs was £87.0m.

The other/non-regulated business is dominated by the debt held within Kemble Water Limited, Kemble Water Finance Limited, Kemble Water Structure Limited, Kemble Water Liberty Limited and Kemble Water Eurobond Plc. This gives rise to £73.4m of the net interest payable.

Other operating losses of £48.9m were incurred in various non-regulated trading businesses and joint ventures.

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

Total gross capital investment for the period ended 31 March 2007 was £291.2m, of which £289.3m relates to the regulated business. This has been particularly targeted towards leakage reduction, security of drinking water supplies to our customers, water and wastewater quality programmes and the alleviation of sewer flooding.

Dividends

The directors do not propose a dividend for the period.

Non-financial performance measures

In addition to financial indicators, the Group uses other non-financial performance measures to manage and monitor performance. The principal Key Performance Indicators ("KPI's") of the Group are those that relate to the regulated business of Thames Water Utilities Limited.

The non-financial performance measures used by the Group are largely those used by Ofwat to measure Thames Water Utilities Limited ("TWUL") performance against the regulatory targets set out in the 2004 Final Determination. These KPI's relate to regulatory accounting periods which run April to March, unless otherwise stated.

Further guidance regarding these non-financial performance measures is provided after the tables set out below on pages 5 and 6.

Water Service

Measure	Unit	Actual 2005/6	Target 2006/7	Achieved 2006/7
Total leakage	MI/d	862 ¹	810 ²	790.3
Security of Supply Index	SoSI	22	40 ³	57.3 (42.2 critical period)
DG4 – restrictions on use	Population Affected	0%	Restrictions less than 1 in 20 years	100%
Total mains bursts	No	14,901 ⁴		12,196
Mains bursts per 000km	No	479	377 to 412 ⁵	389
DG2 – water pressure number of properties	Properties	1,338	2,455	1,189
Increase in the DG2 register	%	0.04%	0.07%	0.03%
	Properties	4,572	-	223
DG3 – unplanned supply interruptions	Properties Index	32,171	0.49	30,636
		0.97		0.93
Infrastructure serviceability assessment		Deteriorating	Deteriorating ⁵	Marginal
Drinking Water Quality (at the tap)				
Water quality regulations	MZCP			
Iron	%	99.95%	-	99.97%
	%	99.74%	-	99.78%
Cat 1 & 2 pollution incidents for water	Incidents	0	0	1
Non infrastructure serviceability assessment		Stable	Stable	Stable

¹ JR06 result was 894MI/d but after adjustment for wastage in houses was 862MI/d which is comparable to the JR07 target and actuals.

² Monitoring Plan target has been substituted by the revised target published by Ofwat in the security of supply, leakage and water efficiency report 2005/06.

³ Monitoring Plan target has been substituted by the section 19 undertaking target.

⁴ Mains bursts have been restated since JR06 following a change in reporting methodology.

⁵ Targets taken from Serviceability Action Plan submitted to Ofwat 18 November 2005.

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

Sewerage Service

Measure	Unit	Actual 2005/06	Target 2006/07	Achieved 2006/07
% of sewage works non compliant (WRA numeric consents)	%	4.9*	2.0*	4.5*
% of sewage works non compliant (UWWTD consents)	%	1.6*	1.3*	1.3*
% of total people served by STWs in breach of WRA consents	%	0.76*	0.5*	3.3*
% of total people served by STWs in breach of UWWTD consents	%	2.21*	0.5*	0*
Intermittent discharges deemed satisfactory	%	98.9	97.6	99.0
Sewage sludge managed in a satisfactory way	%	100	100	100
Pollution incidents process (STW) category 1,2 and 3	No	51*	30-50* ¹	34
Sewerage non infrastructure serviceability assessment		Deteriorating	Marginal	Deteriorating
Total sewer collapses in the year				
Sewer collapses per 1000km	No	898	1079 ¹	530
	No	13.5	13.4 ¹	7.8
Pollution incidents at CSOs and foul sewers categories 1,2 and 3	No	122*	156* ¹	95*
Sewerage infrastructure serviceability assessment		Marginal	Deteriorating	Stable
DG5 – Properties at risk of internal flooding				
Twice in 10 years	No	660	849	575
Once in 10 years	No	3,065	4,560	2,599
Once in 20 years	No	14,080	n/a	12,567
Properties flooded in the year				
Internally flooded due to overloaded sewers	No	495	236	648
Internally flooded due to other causes				
Externally flooded due to overloaded sewers	No	562	718	1,225
Externally flooded due to other causes	No	162	347	1,117
	No	3,430	4,182	5,489

Customer Services

Measure (%)	Actual 2005/06	Target 2006/07	Achieved 2006/07
DG6 - Responding within 5 days to customer billing enquiries	99.6	99.2	99.8
DG7 - Responding within 10 days to written complaints	99.0	99.6	99.7
DG8 - Providing bills for metered customers based on a meter reading	98.65	99.73	99.24
DG9 - Calls abandoned	4.1	4.0	7.5 (including IVR calls – 3.67 excluding IVR)

* Reporting based upon calendar years

¹ Targets taken from Serviceability Action Plans submitted to Ofwat

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

Overall Performance

	Actual 2005/06	Target 2006/07	Achieved 2006/07
Overall Performance Assessment ("OPA") score	362		343

Employees

People and Health and Safety.		Actual 2005/06	Target 2006/07	Achieved 2006/07
Absenteeism	%	2.9	n/a	3.0
Injury Rate per 1000 employees	No	13.3	10.7	8.1

During the Group's four-month period of ownership to 31 March 2007 there were no fatalities, prosecutions or enforcement notices directly affecting TWUL. There were however, 12 reportable accidents in total. Two were 'major injuries', the remainder were injuries resulting in more than 3 days absence (as defined under the Reporting of Injuries, Illnesses and Dangerous Occurrences Regulations ('RIDDOR') 1995). As a result of these reportable injury accidents, 365 days were lost in total.

Methodology and Calculation of KPIs

- 1 Leakage (Total Rolling Average) This measure is based on a 12 month rolling average for operational leakage across TWUL and is aligned with TWUL's 'reported' leakage calculation approach as agreed with Ofwat
- 2 SoSI (Annual) The security of supply index ("SoSI") describes TWUL's planned and reference levels of service for present and future water supplies for average demand in a dry year
- 3 DG4 (Water restrictions) This indicator is a measure of percentage of the population affected by hosepipe restrictions
- 4 Serviceability (Infrastructure and Non-infrastructure) These indicators are based on the concept of serviceability to customers. Overall trends in a range of indicators that describe the performance of assets is examined and judgements are made as to whether the capital maintenance carried out by TWUL over the period has resulted in stable, improving or deteriorating services to customers. The four classes of assets and the leading serviceability indicators are
 - a Water Infrastructure Measured by the number of mains bursts
 - b Water Non Infrastructure Measured by drinking water quality
 - c Sewerage Infrastructure Measured by the number of sewer collapses
 - d Sewerage Non Infrastructure Measured by sewage works effluent compliance
- 5 DG2 (Inadequate Pressure) This indicator shows the number of connected properties that have received pressure below the reference level (10m head)
- 6 DG3 (Supply Interruptions) This performance indicator is based on proportion of connected properties subject to supply interruptions of >6, 12 & 24 hours converted to a points score
- 7 Water Quality (mean zonal compliance) This measure indicates TWUL's overall performance with regard to water quality across each water zone based on a basket of important water quality parameters
- 8 Pollution Incidents – the number of pollution incidents occurring on either the water or waste network and treatment sites. A CSO is a Combined Sewer Overflow which diverts excess storm water and diluted sewage to a nearby watercourse. The categories are nominated by the Environment Agency and describe the severity of the incident
- 9 STW Compliance (Water Resources Act 1991 ("WRA") Compliance) This indicator demonstrates performance of sewage treatment works against Environment Agency effluent consents based on the Water Resources Act 1991
- 10 STW Compliance (UWWTD) This indicator demonstrates performance of sewage treatment works against the Urban Wastewater Treatment which is relevant for all sites with a population equivalent greater than 2,000
- 11 Intermittent Discharges These are consented discharges to watercourses that may be made from combined sewer overflows or storm tanks at sewage works
- 12 % of unsatisfactory sludge disposal This indicator monitors the quality compliance of sludge production at TWUL's sludge treatment works against agreed standards
- 13 DG5 (Sewer Flooding - risk) This indicator examines TWUL's performance in respect of internal sewage flooding of properties (no. of properties at risk of sewer flooding)
- 14 DG5 (Properties internally flooded in the year) These measures demonstrate the number of properties internally flooded in the year due to either hydraulic incapacity (overloaded sewers) or from other causes (sewer blockages, collapses or equipment failure)
- 15 DG6 (Billing Enquiries) This indicator shows the percentage of billing contacts that TWUL responded to within five working days
- 16 DG7 (Complaint Handling) This indicator shows the percentage of written customer complaints that TWUL responded to within ten working days

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

- 17 DG8 (Meter Reading) This indicator shows the percentage of metered customers who receive at least one bill during the year based on a meter reading taken by either the water company (or its representative) or the customer
- 18 DG9 (Call Abandon Rate inc IVR, i.e. Interactive Voice Recognition) This measure indicates the abandonment rate of calls to TWUL's advertised telephone numbers including those dropping out from the automated handling system
- 19 OPA (Overall Performance Assessment) This is a measure of a company's overall performance used by Ofwat to incentivise good performance and penalise poor performance at periodic price reviews. The measure is based on a weighted basket of operational, environmental and customer service performance
- 20 Absenteeism This measure indicates the average percentage of their time that employees were unavailable based on sickness
- 21 Injury Rate This is the year to date measure for lost time associated with incidents per 1000 employees. The goal is for significant reductions, however TWUL aspiration is for zero or as low levels as are realistically achievable

Principal risks and uncertainties

The Group has developed an Enterprise-Wide Risk Management approach to minimise the organisation's exposure to unforeseen events and to provide certainty to the management of identified risks. This is intended to create a more stable environment within which the organisation can deliver its strategic objectives. This approach allows the Group to identify and manage a continually updated risk portfolio, detailing the risks to the achievement of the organisation's strategic objectives. This is done by a process of consistent and replicable risk identification, assessment and escalation.

The Group is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These comprise a mix of those of internal derivation (i.e. operational risks) and those of external origin (i.e. extrinsic risks).

Operational Risks are defined as those that are intrinsic to Group performance, they will remain a constant potential threat to the Group. They are, therefore, controlled via internal policies and procedures. Examples of significant operational risks are

- **Failure to deliver the regulatory contract** – The Final Determination contains outputs for the regulated business of Group covering capital investment and operating performance and efficiencies. Failure to deliver agreed targets may result in fines, intervention by Ofwat and less favourable future determinations.
- **Failure to comply with current laws or regulation** – The Group operates in a highly regulated and legislative environment. Regulatory and/or legislature changes could leave the Group in breach of one or more changes only until the point at which it had been able to re-align its business to comply with those changes.
- **Operational loss as a result of a failure to comply with internal processes** – The Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures and to staff training. However it is only possible to be reasonably (not absolutely) certain that such procedures will be effective in controlling each of the operational risks faced by the Group.
- **Contractual risks** – The Group is exposed to risks and uncertainties to each individual contract entered into and its ability to provide the services for which it is contracted. These contracted services include risks in the following areas: construction, environment, delivery timetables, operational and meeting forecasted costs.

Extrinsic Risks are those types of risks that are usually of a transient nature, outside of the normal macro-operating environment of an organisation and therefore outside of the organisation's control. They are usually only relevant during a finite time period and are, therefore, managed via unique and dedicated response plans. The Group has a risk management process for the identification of such risks before they become an issue, allowing influencing and other management responses to be adopted. Examples of significant extrinsic risks are

- **Future changes in laws or regulations** – The regulated business of the Group is not funded by Ofwat for changes in obligations that would affect the whole economy. Consequently the Group may, for example, have to meet the obligations resulting from changes in environmental legislation without recourse to Ofwat. However, changes that are specific to, or are more material for, the water industry will be funded by Ofwat as a relevant change of circumstance. This can be claimed at an interim determination of K if the impact meets the Ofwat materiality threshold, or claimed via logging up at the next periodic price review.

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

- **Managing increased competition in the water industry** – As a result of the reduction in the barriers to entry to the water industry, the Group will have to meet the challenges posed by aspiring new entrants and the resultant effect of competition on its pricing schemes and modes of operation
- **Increasing energy prices** – Whilst the Group continues to introduce increasing energy efficiency measures to offset the growing volumes of treated wastewater and clean water it is still affected by price fluctuations in the energy market
- **The effects of climate change and long-term changes in weather patterns** – As the Group continues to supply a rapidly increasing population, the effects of climate change could adversely affect its ability to maintain Security of Supply Index (SoSI) requirements. Consequently, in addition to substantially enhanced demand management measures, the company is currently making provision for increased storage capacity, greater network integrity and the development of new sources of potable water

Financial risk management

As described above the Group has an Enterprise-Wide Risk Management approach to minimise the organisation's exposure to unforeseen events and to provide certainty to the management of identified risks, including financial risks

Financial risk management is addressed in more detail in section (x) of the Accounting policies on pages 21 to 22

Directors and their interests

The Directors of the Company who served throughout the period, except where stated are

Sir Peter Mason KBE (appointed 1 December 2006)

PS Antolik (appointed 22 June 2006)

MW Baggs (appointed 1 December 2006)

CR Deacon (appointed 1 December 2006)

Dr P Dyer (appointed 1 December 2006)

RJ Gregor (appointed 1 December 2006)

A Levy (appointed 17 May 2006, resigned 12 June 2006)

C Lynam (appointed 1 December 2006)

GJ Matthews (appointed 1 December 2006)

DJ Pudge (appointed 17 May 2006, resigned 12 June 2006)

A Rakowski (appointed 12 June, resigned 1 December 2006)

AFC DeP Santos (appointed 1 December 2006)

MSW Stanley (appointed 12 June 2006, resigned 17 August, re-appointed 1 December 2006)

L Webb (appointed 1 December 2006)

Three directors have formally appointed Alternate Directors to represent them when they are unavailable, namely PED Crone (Alternate to GJ Matthews), RD Israel (Alternate to CR Deacon) and J Santos (Alternate to AFC DeP Santos)

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

During the period under review, none of the Directors had significant contracts with the Company or any other body corporate other than their contracts of service

Research and development

Expenditure on research and development of £1.2m was made during the period

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities. These activities deliver innovative technical solutions through a research programme aligned with business needs to address operational and capital programme challenges and also provide specialist technical support to the business

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

Donations for charitable and political purposes

No charitable or political donations were made by the Group during the period other than donations totalling £56,900 made out by the wholly owned subsidiary Thames Water Utilities Limited relating to its Customer Assistance Fund, thereby helping customers who were unable to pay their bills owing to financial difficulty, hardship or distress

Employees

Employee involvement

Operational and financial performance information is available to all employees, through briefings by the Chief Executive Officer ("CEO"), Group-wide emails and team briefings

Methods of communication with employees vary dependent on the subject matter Group-wide announcements, changes to Group policy and business updates are disseminated to all employees and the CEO and his Executive Management Team undertake regular face to face briefings for managers and employees

Consultation with non-management employees is undertaken in partnership with the recognised Trade Unions Consultation with management level employees typically takes place on an individual basis, except in the case of changes that affect whole areas of the business In these circumstances, consultation would take place on a Group basis with employee representatives being elected for the relevant area

Employment of disabled persons

The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 The Group has policies and procedures in place that aim to ensure that both job applicants and employees with disabilities have equality of opportunity, are treated fairly and have a safe and practical workplace, free from discrimination, bullying, harassment or victimisation

Through disability and attendance management policies, support and training is provided for employees who become disabled during the course of their employment so that they continue to work in a position appropriate to their experience and abilities

Policy and practice on payment of creditors

The Group's policy is to pay all suppliers, contractors and service providers according to pre-agreed terms During the period under review the average amount due to trade creditors represented 69 days purchases received from these creditors

Going concern

The directors have adopted the going concern basis in preparing these financial statements This is based upon a review of the group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available The board also took into account potential contingent liabilities and other risk factors as interpreted by the 'Guidance on Going Concern and Financial Reporting for Directors of Listed Companies registered in the United Kingdom', published in November 1994

Post balance sheet events

The regulated business is embarking on a whole business securitisation programme, which is due to close in late August 2007 The programme will refinance £1.2bn of acquisition debt and allow efficient future financing of the business, the programme has a £10.0bn capacity

The Group is in the process of disposing of ThamesWater Services Limited, part of the non-regulated business A contract was signed on 3 August 2007, to divest this company for approximately £78m to Veolia Water UK This contract is subject to a number of approvals and completion is expected in the next few weeks

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

Kemble Water Holdings Limited

Directors' report for the period ended 31 March 2007 (continued)

Post balance sheet events

On 18 July 2007, Metronet Rail SSL Holdings Limited and Metronet Rail BCV Holdings Limited Group ("Metronet"), companies in which the Group holds joint venture interests, were placed into administration

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and Group and of the profit or loss of the Group for that period. In preparing those financial statements, the Directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable 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 Group 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 Group 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 Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The Directors are responsible for ensuring that arrangements are in place for the maintenance and integrity of the Thames Water website, subject to the legal notice declared thereon

Legislation in the UK concerning the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

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

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company to hold office, until the conclusion of the next general meeting before which accounts are laid, will be proposed at the Annual General Meeting. An Elective Resolution to dispense with the requirements to appoint auditors annually will also be proposed at that time

Approved by the Board of Directors on 23 August 2007, and signed by order of the Board of Directors



Joel Hanson
Company Secretary

Kemble Water Holdings Limited

Independent auditors' report to the members of Kemble Water Holdings Limited

We have audited the group and parent Company financial statements (the "financial statements") of Kemble Water Holdings Limited for the period ended 31 March 2007 which comprise the consolidated Profit and Loss Account, the Group and Company Balance Sheets, the consolidated Cash Flow Statement, the Statement of Group Total Recognised Gains and Losses 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 Annual Report and 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

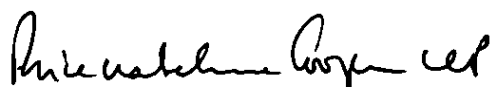
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 group's and 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.

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 group's and the parent Company's affairs as at 31 March 2007 and of the group's loss and cash flows for the 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
23 August 2007

Kemble Water Holdings Limited

Consolidated profit and loss account for the period ended 31 March 2007

	Note	Period end 31 March 2007 £m	Period end 31 March 2007 £m
Turnover (including share of joint ventures)			
- Continuing operations		535.2	
- Discontinued operations		3.8	
			539.0
Less share of turnover of joint ventures			
- Continuing operations			(8.9)
Group turnover	2		530.1
Operating costs (including exceptional restructuring costs of £18.3m)	3		(421.6)
- Continuing operations		105.3	
- Discontinued operations		3.2	
Group operating profit			108.5
Share of operating loss in			
- Joint ventures – continuing operations			(16.6)
Total operating profit group and share of joint venture and associates			91.9
Profit on sale of fixed assets			15.1
Net interest payable			
- Group		(140.2)	
- Share in joint ventures		(0.8)	
	7		(141.0)
Loss on ordinary activities before taxation			(34.0)
Taxation on loss on ordinary activities	8		(8.4)
Loss on ordinary activities after taxation			(42.4)
Retained loss for the financial period	21		(42.4)

There is no difference between the loss on ordinary activities before taxation and the loss for the period stated above, and their historical cost equivalents

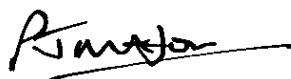
Kemble Water Holdings Limited

Balance sheets at 31 March 2007

	Note	Group 31 March 2007 £m	Company 31 March 2007 £m
Fixed assets			
Intangible assets	10	1,733.5	-
Tangible assets	11	7,948.0	-
Fixed asset investments	12	1.0	1.0
		9,682.5	1.0
Current assets			
Stocks and work in progress	13	16.8	-
Debtors	14	556.1	2,110.0
Investments	15	278.8	-
Cash at bank and in hand		198.0	-
		1,049.7	2,110.0
Creditors amounts falling due within one year	16	(856.9)	(35.8)
Net current assets		192.8	2,074.2
Total assets less current liabilities			
		9,875.3	2,075.2
Creditors amounts falling due after more than one year	17	(6,967.0)	-
Provisions for liabilities and charges	19	(943.1)	-
Net assets excluding pension asset		1,965.2	2,075.2
Net pension asset	24	11.1	-
Net assets including pension asset		1,976.3	2,075.2
Capital and reserves			
Called up share capital	20/21	1,991.6	1,991.6
Profit and loss reserve (deficit)	21	(15.3)	83.6
Equity shareholder's funds		1,976.3	2,075.2

The notes on pages 15 to 51 form part of these accounts

The financial statements on pages 11 to 51 were approved by the Board of Directors on and signed on its behalf by



Sir Peter Mason KBE
Director
23 August 2007

Kemble Water Holdings Limited

Consolidated cash flow statement for the period ended 31 March 2007

	Note	Period end 31 March 2007 £m
Net cash inflow from operating activities	25	107.9
Dividends received from joint ventures		0.4
Returns on investments and servicing of finance	26	(92.6)
Taxation		(19.0)
Capital expenditure and financial investment	27	(203.0)
Acquisitions and disposals		
Net acquisition cost	12	(4,444.6)
Net proceeds from disposals of business		4.9
Net cash outflow before management of liquid resources and financing		(4,646.0)
Management of liquid resources	28	(131.8)
Financing		
Share issue		1,991.6
Cash inflow from increase in debt and lease financing	28	2,984.2
Increase in net cash		198.0

Reconciliation of net cash flow to movement in net debt for the period ended 31 March 2007

	Period end 31 March 2007 £m
Increase in net cash	198.0
Cash inflow from increase in debt and lease financing	
- loans due within one year	(10.9)
- loans due after more than one year	(6,567.8)
- capital repayment of finance leases	(215.6)
Cash outflow from liquid resources	278.8
Increase in net debt resulting from cash flows	(6,317.5)
Other non-cash movements	
- foreign exchange translation differences	1.4
- capitalised loan interest	(0.1)
- RPI uplift on index-linked bond	(28.3)
Increase in net debt	(6,344.5)
Net debt at 17 May 2006	-
Net debt at 31 March 2007	(6,344.5)

Kemble Water Holdings Limited

Statement of group total recognised gains and losses for the period ended 31 March 2007

	Period end 31 March 2007 £m
Group loss for the financial period	(42.4)
Foreign exchange adjustments offset in reserves	0.8
Actuarial gain on pension scheme	37.6
Deferred tax relating to actuarial gain	(11.3)
Total recognised losses relating to the period	(15.3)

Reconciliation of movements in group shareholder's funds for the period ended 31 March 2007

	Period end 31 March 2007 £m
Share issue	1,991.6
Group loss for the financial period	(42.4)
Foreign exchange adjustments offset in reserves	0.8
Actuarial gain on pension scheme	37.6
Deferred tax relating to actuarial gain	(11.3)
Net change in shareholder's funds	1,976.3
Shareholder's funds as at 17 May 2006 (incorporation)	-
Shareholder's funds as at 31 March 2007	1,976.3

Kemble Water Holdings Limited

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

1 Accounting policies

Basis of preparation

The financial statements are prepared on the going concern basis and in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of this departure from the requirements of the Act is given below.

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.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of our financial statements are set out below.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and entities controlled by the Company (its subsidiaries), made up to 31 March, and incorporate the results of its share of jointly controlled entities using equity accounting.

The results of subsidiaries and joint ventures acquired or disposed of during the period are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the Group.

Subsidiaries

Control is achieved where the Company has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to the profit and loss account in the period of acquisition. The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised. Minority interests in the net assets of consolidated subsidiaries are identified separately from the Group's equity therein. Minority interests consist of the amount of those interests at the date of the original business combination and the minority's share of changes in equity since the date of the combination. Losses applicable to the minority in excess of the minority's interest in the subsidiary's equity are allocated against the interests of the Group except to the extent that the minority has a binding obligation and is able to make an additional investment to cover the losses.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(a) Basis of consolidation (continued)

Associates

An associate is an entity over which the Group, either directly or indirectly, is in a position to exercise significant influence by participating in, but not controlling, the financial and operating policies of the entity. Associates are accounted for using the equity method. Losses of an associate in excess of the Group's interest in the associate are not recognised, except to the extent that the Group has incurred obligations in respect of the associate. Unrealised profits and losses recognised by the Group on transactions with an associate are eliminated to the extent of the Group's interest in the associate concerned.

Joint ventures

Joint ventures are entities in which the Group holds an interest on a long-term basis and which are jointly controlled with one or more parties under a contractual arrangement. The Group's share of joint venture income, expenses, assets, liabilities and cash flows are included in the consolidated financial statements on an equity accounting method.

(b) Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided and is recognised in accordance with FRS 5 'Reporting the Substance of Transactions'. Where relevant, this includes an estimate of the sales value of water to customers between the date of the last meter reading and the period end together with waste water charges unbilled, exclusive of value added tax and foreign sales tax.

The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should the Group consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of delivery are recorded as deferred revenue.

(c) Intangible assets

Goodwill

Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary, joint venture or associated undertakings acquired, is capitalised and amortised using the straight line method over its estimated useful economic life, not exceeding 40 years. Impairment tests on the carrying value are undertaken if events or changes in circumstances indicate that the carrying values may not be recoverable or on an annual basis where the goodwill is amortised over a period greater than 20 years. These tests involve a comparison of the book value with the higher of the net realisable value and the value in use.

Profit or loss on disposal of a previously acquired subsidiary, joint venture or associated undertaking is determined after including the attributable amount of purchased goodwill.

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Their carrying amount is reduced by any provision for impairment where necessary.

Intangible assets currently comprise of fees on concession contracts. These assets are being amortised over their remaining useful lives of between 14 and 40 years.

(d) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers and pumped raw water storage reservoirs and sludge pipelines), and other assets (including land, buildings, properties, overground plant and equipment) and fair value adjustments on acquisition.

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(d) Tangible fixed assets (continued)

Directly attributable employee and related costs incurred in implementing the capital programme of the Group are capitalised within fixed assets

Infrastructure assets comprise a network of systems. In the UK water regulated business, all expenditure on infrastructure assets is capitalised at cost, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as depreciation

Other assets

All other assets, comprising plant and equipment and land and buildings, are stated at cost less accumulated depreciation

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Freehold land is not depreciated and assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Buildings 20 - 80 years

Operational structures 40 – 80 years

Other 20 – 60 years

Fixtures, fittings, vehicles and computers 3 – 10 years

Fixed and mobile plant 20 - 40 years

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in income.

Impairment of tangible and intangible assets excluding goodwill

Intangible assets and fixed assets are assessed for impairment whenever there is an indicator of impairment to determine whether there is any indication that those assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell, and value in use. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of non-current assets is recognised in the profit and loss account within operating costs.

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(d) Tangible fixed assets (continued)

Where an impairment loss subsequently reverses, it is recognised in the profit and loss account and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years

(e) 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 1985 that requires fixed assets to be stated at their purchase price without deduction of contributions, which are accordingly 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 finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account. The effect of this departure on the value of tangible fixed assets is disclosed in note 11.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

(f) Stocks and work in progress

Stock and work in progress, with the exception of long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(g) Long-term contracts

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs, the excess is disclosed in provisions for liabilities and charges.

(h) Pre-contract costs

Pre-contract costs are expensed as incurred, except where it is virtually certain that the contract will be awarded, in which case they are recognised as an asset and written off to the profit and loss account over the life of the contract.

(i) Taxation

The tax expense represents the sum of current tax and deferred tax.

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date.

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

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(i) Taxation (continued)

Deferred taxation

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

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

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

Deferred taxation is measured on a non-discounted basis

Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with in via Statement of Total Recognised Gains and Losses in equity

(j) Leased assets

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases

Lessee

Finance leases

Finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease

The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease

(k) Pension and other post retirement benefits

Pension obligations

The Group operates two significant defined benefit pension schemes, which are independently administered funds, for the substantial majority of its employees. Actuarial valuations of the schemes are carried out as determined by the pension scheme trustees using the projected unit credit method at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates. Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair value)

The difference between the two amounts is recognised as a surplus or obligation in the balance sheet

The cost of providing pension benefits to employees is included in the profit and loss account within cost of employee benefits. The difference between the expected return on scheme assets and interest on scheme liabilities are included within interest in the profit and loss account

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(k) Pension and other post retirement benefits (continued)

Actuarial gains and losses are recognised outside the profit and loss account in retained earnings and presented in the statement of total recognised gains and losses

In addition, the Group also operates defined contribution pension schemes. Payments are charged as employee costs as they fall due. The Group has no further payment obligations once the contributions have been paid.

(l) Foreign currencies

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

On consolidation, the balance sheets of overseas subsidiaries and joint ventures (none of which has the currency of a hyper inflationary economy) are translated into sterling at exchange rates applicable at the balance sheet date. The profit and loss accounts are translated into sterling using the average rate unless exchange rates fluctuate significantly in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the period, together with the differences between profit and loss accounts translated at average rates and rates ruling at the period end, are dealt with as movements on the profit and loss reserve.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

(m) Cash and cash equivalents

Cash equivalents includes cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value.

(n) Trade receivables

Trade receivables are stated at nominal value (which approximates to fair value) less allowances for estimated irrecoverable amounts.

(o) Trade payables

Trade payables are stated at their nominal value (which approximates to fair value).

(p) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(q) Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

(r) Financial instruments and derivatives

Interest rate swap agreements and financial futures are used to manage interest rate exposure. While the group enters into currency swaps to manage its exposure to fluctuations in exchange rates, the group does not use derivative financial instruments for speculative purposes. As the Group becomes increasingly focused on the United Kingdom market, management of the foreign currency exchange risk is becoming less important.

The Group currently does not apply FRS 26 'Financial Instruments Recognition and Measurement', therefore there is no fair valuing of derivatives.

(s) Accruals and deferred income

Grants and contributions receivable in respect of fixed assets are treated as deferred income, which is credited to the profit and loss account over the estimated economic lives of the related assets.

(t) Research and development

Research expenditure is recognised as an expense as incurred.

(u) Provisions

Provisions, except for insurance provisions, are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Insurance provisions are recognised or released by assessing their adequacy using current estimates of future cashflows under insurance contracts.

(v) Related party disclosures

The Company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8 'Related party disclosures', which requires the disclosure of the details of material transactions between the reporting entity and any related parties.

(w) Post Balance Sheet Events

The Company has adopted the full requirements of FRS 21 'Events after the Balance Sheet Date' in the financial statements.

In accordance with FRS 21, dividends declared after the balance sheet date are no longer recognised as a liability at the balance sheet date and are now recorded in the financial statements on a cash paid basis.

(x) Financial risk management

The Group has a Risk Review Committee, which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The Group is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Group aims to manage its risk by fixing contract prices where possible.

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

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

(x) Financial risk management (continued)

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

Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the Group's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable. The Group actively maintains a broad portfolio of debt, diversified by source and maturity designed to ensure the Group has sufficient available funds for operations.

(y) Critical accounting policies and key sources of estimation uncertainty

The preparation of financial statements in conformity with UK GAAP requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at reporting date and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below.

Fixed assets and depreciation – The estimated useful economic lives of fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively. Due to the significance of fixed asset investment to the group, variations between actual and estimated useful lives could impact operating results both positively and negatively, although historically, few changes to estimated useful lives have been required.

The carrying values of fixed assets are also reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on the Directors' best estimates of future prices, output and costs and is therefore subjective.

Revenue recognition – The Group recognises revenue generally at the time of delivery and when collection of the resulting receivable is reasonably assured. Should management consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of revenue recognition are recorded as deferred revenue.

For regulated utility operations, the Group raises bills and recognises revenue in accordance with its entitlements to receive revenue in line with the limits established by the periodic regulatory price review process. For water and wastewater customers with water meters, the revenue is dependent upon the volumes supplied and includes an estimate of the volume supplied between the date of the last meter reading and the period end. Meters are read on a cyclical basis and the Group recognises revenue for unbilled amounts based on estimated usage from the last billing through to the end of the reporting period. The estimate of sales value is calculated using a defined methodology based on a measure of unbilled water consumed which is calculated from historical billing information.

Pensions – Within the UK, the Group operates two approved defined benefit schemes. The Group accounts for these schemes in accordance with FRS 17 "Retirement Benefits" with the cost of providing benefits determined using the projected unit credit method, and actuarial valuations being carried out at each reporting date. Inherent in these valuations are key assumptions, including, discount rates, expected returns on plan assets and compensation increases. These actuarial assumptions are reviewed annually and modified as appropriate. The Group believes that the assumptions utilised in recording obligations under the scheme are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions.

Kemble Water Holdings Limited

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

1 Accounting policies (continued)

Accounting for provisions and contingencies – The Group is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience. A provision is recognised when it is probable that an obligation exists for which a reliable estimate of the obligation can be made and after careful analysis of the individual matter. The required provision may change in the future due to new developments and as additional information becomes available. Matters that either are possible obligations or do not meet the recognition criteria for a provision are disclosed, unless the possibility of transferring economic benefits is remote.

Provision for doubtful debts – At each reporting date, the Company and each of its subsidiaries evaluate the collectability of trade receivables and record provisions for doubtful receivables based on experience. These provisions are based on, amongst other things, comparisons of the relative age of accounts and consideration of actual write-off history. The actual level of receivables collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively.

Deferred taxation – Full provision is made for deferred taxation, as required under FRS 19 ‘Deferred Tax’, at the rates of tax prevailing at the period end dates unless future rates have been substantively enacted. Deferred tax assets are recognised where it is more likely than not that they will be recovered.

Kemble Water Holdings Limited

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

2 Segmental analysis

The segments by class of business are

Regulated: This incorporates the business activities of Thames Water Utilities Limited and its apportionment of fair value and goodwill derived from the purchase by Kemble Water Limited

Other/Non-regulated: All other activities including provision of engineering, utility network and asset and facilities management services, land and property development and those activities carried out in managing the Group, including insurance services provided by the captive insurer to the Group, financing arrangements in the holding companies, discontinued activities and elimination of Group transactions

No geographic segmental analysis is necessary as all material activity and net assets are within the UK

Profit and Loss account by class of business:

	Period end 31 March 2007		
	Regulated £m	Other/non- regulated £m	Total £m
Turnover	473.2	56.9	530.1
Add share of joint ventures	-	8.9	8.9
Group Turnover	473.2	65.8	539.0
Operating Profit/(Loss)	140.8	(32.3)	108.5
Add share of joint ventures	-	(16.6)	(16.6)
Group Operating Profit/(Loss)	140.8	(48.9)	91.9
Profit on sale of fixed asset	9.1	6.0	15.1
Add share of joint ventures	-	-	-
Group profit on sale of fixed assets	9.1	6.0	15.1
Net interest payable	(62.9)	(77.3)	(140.2)
Add share of joint ventures	-	(0.8)	(0.8)
Group Net interest payable	(62.9)	(78.1)	(141.0)
Taxation	(29.4)	21.2	(8.2)
Add share of joint ventures	-	(0.2)	(0.2)
Group Taxation	(29.4)	21.0	(8.4)
(Loss)/Profit after tax	57.6	(82.4)	(24.8)
Add share of joint ventures	-	(17.6)	(17.6)
Group (Loss)/Profit after tax	57.6	(100.0)	(42.4)

Kemble Water Holdings Limited

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

2 Segmental analysis (continued)

Balance sheet by class of business:

	31 March 2007		
	Regulated £m	Other/non- regulated £m	Total £m
Fixed assets			
Intangible assets	1,679.7	53.8	1,733.5
Tangible assets	7,919.0	29.0	7,948.0
Fixed asset investments	0.1	0.9	1.0
	9,598.8	83.7	9,682.5
Current assets			
Stocks and work in progress	6.1	10.7	16.8
Debtors	444.6	111.5	556.1
Investments	112.5	166.3	278.8
Cash at bank and in hand	89.4	108.6	198.0
	652.6	397.1	1,049.7
Creditors amounts falling due within one year	(730.9)	(126.0)	(856.9)
Net current assets/(liabilities)	(78.3)	271.1	192.8
Total assets less current liabilities	9,520.5	354.8	9,875.3
Creditors amounts falling due after more than one year	(3,906.7)	(3,060.3)	(6,967.0)
Provisions for liabilities and charges	(818.0)	(125.1)	(943.1)
Net assets/(liabilities) excluding pension asset	4,795.8	(2,830.6)	1,965.2
Net pension asset	11.1	-	11.1
Net assets/(liabilities) including pension asset	4,806.9	(2,830.6)	1,976.3

The Regulated business net assets above include the net book values of goodwill of £1,679.7m, fair value adjustments to tangible assets of £2,018.6m and financial instruments included in creditors falling due after more than one year of £321.4m. The non-regulated business has a goodwill adjustment of £44.6m. For further detail of the initial goodwill and fair value adjustments pre amortisation, see note 12.

The cash flows for the Regulated business can be analysed by key headings as follows: net cash inflows from operating activities of £133.6m, cash outflows on returns on investments and servicing of finance of £44.9m, cash outflows on taxation of £16.4m, cash outflows on capital and financial investments of £216.1m, cash outflows on liquid resources of £112.5m and cash outflows from a reduction in debt and lease financing of £56.0m resulting in a net cash outflow of £312.3m.

Kemble Water Holdings Limited

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

3 Operating costs

	Period end 31 March 2007	Period end 31 March 2007	Period end 31 March 2007
	Continuing operations £m	Discontinued operations £m	Total £m
Staff costs (note 5)	90.7	0.6	91.3
Materials and consumables	26.5	0.7	27.2
Other operating charges/(credit)	190.2	(1.0)	189.2
Amortisation of goodwill and intangibles	14.6	0.1	14.7
Depreciation			
- owned assets	80.4	0.2	80.6
- infrastructure assets	35.3	-	35.3
- assets held under finance leases	3.2	-	3.2
Rentals under operating leases			
- hire of plant and machinery	1.5	-	1.5
- other	2.2	-	2.2
Research and development	1.2	-	1.2
Auditors' remuneration in respect of audit work and other statutory and regulatory requirements	0.2	-	0.2
Foreign currency gains	(1.1)	-	(1.1)
	444.9	0.6	445.5
Own work capitalised	(42.2)	-	(42.2)
	402.7	0.6	403.3
Exceptional costs – restructuring of group	18.3	-	18.3
	421.0	0.6	421.6

Included in auditors' remuneration is £7,000 in respect of audit fees incurred by the Company for the period ended 31 March 2007

Exceptional costs in 2007 of £18.3m relating to the restructuring of the group including the divestment of a large part of the non-regulated business. Tax credit attributable to the exceptional costs is £4.0m

Kemble Water Holdings Limited

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

4 Information regarding Directors

A fixed fee of £35,000 per annum is payable by Thames Water Limited, a subsidiary of the Group, in respect of the services rendered by MW Baggs, CR Deacon, Dr P Dyer, RJ Gregor, C Lynam, GJ Matthews, AFC DeP Santos, MSW Stanley and L Webb to ten separate Boards of Directors within the Kemble Water group of companies, including the Company. It is not practicable to apportion this remuneration between the different group companies in any other manner.

In the case of PS Antolik, a fixed fee of £35,000 per annum is shared between Thames Water Limited and Thames Water Utilities Limited and will not be paid to PS Antolik but will instead be paid to the entities who have jointly nominated him, which include the manager of Macquarie's European Infrastructure Funds. During the period PS Antolik was employed by Macquarie Bank Limited (London branch) and remunerated by Macquarie Bank Limited in relation to his role as Head of Regulation for the Macquarie European Infrastructure Funds managed by Macquarie. In this role he provided services to Macquarie Bank's advisory division, the Macquarie European Infrastructure Funds and to certain entities in which those funds have invested including Thames Water Utilities Limited, Wales and West Utilities and MGN Gas Networks. It is not possible to reliably allocate his total remuneration from Macquarie Bank Limited between that awarded for services as Interim Director of Regulation and Strategy to Thames Water Utilities Limited and the other services provided. On 1 August 2007, PS Antolik was confirmed as the Director of Regulation and Strategy for Thames Water Utilities Limited.

In the case of Sir Peter Mason KBE, a fixed fee of £250,000 per annum is shared between Thames Water Limited and Thames Water Utilities Limited. It is not practicable to apportion this remuneration between the different group companies in any other manner.

Aggregate total emoluments payable to all the directors for services to the Group for the period amounted to £200,000. Total emoluments payable to the highest paid director, Sir Peter Mason KBE, were £83,333.

No additional remuneration is payable in respect of any Alternate Directors.

Directors' interests

None of the Directors has any interest in the shares of Kemble Water Holdings Limited, or its subsidiary companies. During the period under review none of the Directors had significant contracts with Macquarie, Kemble Water Holdings Limited or any other Group company other than their contracts of service.

Transactions with Directors and Officers

There were no other transactions or arrangements which are required to be disclosed under the provision of the Companies Act 1985, nor were there any related party transactions with the Directors or connected persons.

5 Employees

Employment costs	Period end 31 March 2007 £m
Group employment costs including Executive Directors' remuneration	
- Wages and salaries	73.1
- Social security costs	6.7
- Other pension costs (note 24)	12.2
	92.0
Employment costs included within research and development	(0.7)
Net employment costs	91.3

Kemble Water Holdings Limited

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

5 Employees (continued)

Employee numbers	Period end 31 March 2007 Number
Average monthly number of persons employed by the Group including Executive Directors	
Regulated	5,172
Non-regulated	1,773
	6,945

The Company had no employees during the period. There were no directors' emoluments (see note 4.)

6 Profit/(loss) on disposal of businesses

	Period end 31 March 2007 £m
Profit/(loss) on disposal of businesses during the period	-

On 17 January 2007 the Group sold its interests in its Indonesian entity Thames Pam Jaya Limited to Acuatico Pte Limited for a consideration of US\$26.2m ("£13.3m"). After taking into account the net assets disposed of and provisions for disposal, the Group made neither a profit or loss on disposal.

7 Net interest payable

	Period end 31 March 2007 £m
Bank loans, overdrafts and other loans	
- Interest payable on bank loans and overdrafts	86.6
- Amortisation of issue costs of bank loan	7.0
- Interest payable on other loans	53.6
- Interest payable on finance leases	3.3
Other finance charges	2.1
Interest payable and similar charges	152.6
Interest receivable	(11.6)
	141.0

Kemble Water Holdings Limited

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

8 Taxation on loss on ordinary activities

Analysis of charge in period

	Period end 31 March 2007 £m
UK corporation tax	1.9
Share of associates and joint venture tax	(0.2)
Total current tax	1.7
Deferred tax - origination and reversal of timing differences	(8.9)
Deferred tax – pension cost charge lower than pension cost relief	(1.2)
Total deferred tax	(10.1)
Taxation on loss on ordinary activities	(8.4)

Factors affecting tax charge for period

The current tax credit for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below

	Period end 31 March 2007 £m
Loss on ordinary activities before taxation	(34.0)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	10.2
Effects of	
Capital allowances in excess of depreciation	7.3
Other timing differences	(3.9)
Disallowable expenditure and other permanent differences	(12.9)
Net pension cost charge lower than pension cost relief	1.2
Share of associates and joint venture tax	(0.2)
Current tax credit for the period	1.7

The 2007 Finance Bill contains proposals under which the UK Corporation Tax rate will reduce from 30% to 28% with effect from 1 April 2008. It was also announced that balancing adjustments on assets on which Industrial Buildings Allowances (IBA's) are claimed will no longer apply and there will be a phasing out of annual writing down allowances.

At 31 March 2007 the above changes were not substantively enacted. Had these changes been enacted, the deferred tax liability as at 31 March 2007 would have been reduced by £82.1m. The IBA's available in the period, equivalent to £27.2m per annum, will be phased out on a straight line basis over three years commencing 1 April 2008.

Kemble Water Holdings Limited

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

9 Losses of holding company

Of the loss of the Group for the financial period, a profit of £83.6m has been dealt with in the accounts of Kemble Water Holdings Limited. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

10 Intangible assets

	Group		
	Goodwill	Other	Total
	£m	intangible	£m
		assets	
		£m	£m
Cost			
At 17 May 2006 (incorporation)	-	-	-
Acquisitions	1,738.8	9.3	1,748.1
Additions	-	0.1	0.1
At 31 March 2007	1,738.8	9.4	1,748.2
Aggregate amortisation			
At 17 May 2006 (incorporation)	-	-	-
Charge for the period	14.5	0.2	14.7
At 31 March 2007	14.5	0.2	14.7
Net book value			
At 31 March 2007	1,724.3	9.2	1,733.5
At 17 May 2006 (incorporation)	-	-	-

The Company has no intangible assets.

Kemble Water Holdings Limited

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

11 Tangible fixed assets

	Group			
	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	Total £m
Cost				
At 17 May 2006 (incorporation)	-	-	-	-
Acquisitions	1,916.9	3,561.5	2,332.2	7,810.6
Additions	16.1	146.4	128.7	291.2
Disposals	(1.0)	-	(36.2)	(37.2)
Disposal of business	-	-	(38.9)	(38.9)
Foreign exchange adjustments	-	-	(1.0)	(1.0)
At 31 March 2007	1,932.0	3,707.9	2,384.8	8,024.7
Capital contributions				
At 17 May 2006 (incorporation)	-	-	-	-
Additions	-	(17.3)	-	(17.3)
At 31 March 2007	-	(17.3)	-	(17.3)
Accumulated depreciation				
At 17 May 2006 (incorporation)	-	-	-	-
Provided during the period	(13.1)	(35.3)	(70.7)	(119.1)
Disposals	-	-	20.3	20.3
Disposal of business	-	-	38.5	38.5
Foreign exchange adjustments	-	-	0.9	0.9
At 31 March 2007	(13.1)	(35.3)	(11.0)	(59.4)
Net book value				
At 31 March 2007	1,918.9	3,655.3	2,373.8	7,948.0
At 17 May 2006 (incorporation)	-	-	-	-

The Company has no fixed assets

The net book value of land and buildings is analysed as follows

	31 March 2007 £m
Group	
Freehold land and buildings	1,890.9
Leaseholds - over 50 years	14.2
- under 50 years	13.8
	1,918.9

No depreciation has been charged on freehold land included at a cost of £42.7m

Kemble Water Holdings Limited

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

11 Tangible fixed assets (continued)

Details of the Group's tangible fixed assets which are held under finance leases are

	31 March 2007	31 March 2007
	Cost £m	Net Book Value £m
Plant and equipment	272.5	164.8

Tangible fixed assets at 31 March 2007 include £926.1m of assets in the course of construction

Thames Gateway Water Treatment Plant

In June 2005 the London Borough of Newham, following a direction from the Mayor of London, formally refused planning permission for Thames Water Utilities Limited's ("TWUL") proposed Thames Gateway Water Treatment Plant, employing desalination technology at Beckton in East London. The site is operational land owned by TWUL. An appeal was lodged and a public inquiry completed in June 2006. The works carried out to date are a combination of site preparation, for which planning permission is not considered a requirement, a pilot plant constructed on the site to prove the technology, for which planning permission has been granted and some preliminary construction works in readiness for the permanent plant which has been refused planning permission. The works on site were ceased pending the outcome of the public inquiry with the exception of work required to make the site safe and to fulfil contractual obligations. To 31 March 2007 TWUL has spent £68.4m, of which £15m is in respect of site preparation and the pilot plant. On 14 June 2007, the Secretary of State for Communities and Local Government and the Secretary of State for Environment, Food and Rural Affairs accepted the decision of the Inspector who held the public inquiry that the appeal should be allowed and that planning permission should be granted, subject to an amended Section 106 Unilateral Undertaking, which will formally refer to the agreement of the parties as to the appointed use of the desalination plant. On the 17 July 2007, this undertaking was accepted and planning permission became unconditional. There is a period of 6 weeks, from 16 July 2007, in which any person aggrieved by the decision can register a challenge. On 20 August 2007, the Mayor of London lodged an application to the High Court to challenge this decision. It is not known when this application will be heard.

Upper Thames Major Resource Development Project

On 14 September 2006 Thames Water Utilities Limited ("TWUL") announced the proposed construction of a large reservoir to the South West of Abingdon to ensure security of water supply in the longer term. A period of public consultation is in progress, which will be followed by an application by TWUL for a compulsory works order for the construction of the reservoir. To 31 March 2007 the total spent on this project was £26.7m, comprising principally costs of site selection, design and land acquisition in the proposed area. This expenditure has been capitalised on the basis that these costs are directly attributable to the asset and that, because it is an essential part of longer term security of water supply for southern England, it is anticipated that the project will go forward.

12 Fixed asset investments

Group

Interests in joint ventures and associated undertakings	£m
Share of net assets	
At 17 May 2006 (incorporation)	-
Acquisitions	0.9
Share of Profit after tax for period	0.5
Dividends	(0.4)
At 31 March 2007	1.0

Kemble Water Holdings Limited

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

12 Fixed asset investments (continued)

The carrying value of the Group's interests in associated undertakings and joint ventures at 31 March 2007 amounted to £(21.9)m. Where the carrying value of an individual investment is less than £nil, then the negative carrying value has been disclosed in Provisions for liabilities and charges (note 19). The value of the transfer is £(22.9)m, with the largest negative value attributable to Trans4m Limited of £(18.8)m.

The associated undertakings and joint ventures are all unlisted.

On 1 December, the Group, on acquisition of the Thames Water Holdings Limited (formerly Thames Water Holdings Plc), placed a fair valuation of £nil on the investments in and loans made to Metronet Rail SSL Holdings Limited and Metronet BCV Holdings Limited ("Metronet") by Thames Water Limited. On 18 July 2007, Metronet Rail SSL Holdings Limited and Metronet Rail BCV Holdings Limited were placed into administration.

Investments in subsidiaries during the period

Acquisition of Thames Water Holdings Plc

On 1 December 2006, the Group acquired 100% of the ordinary share capital of Thames Water Holdings Limited (Thames Water Holdings Plc at the date of purchase), a company incorporated in the UK. Thames Water Holdings Limited wholly owns Thames Water Utilities Limited and a number of other undertakings, see note 31.

	At Acquisition £m	Fair value adjustments £m	Fair value £m
Net assets acquired:			
Intangible assets	9.3	-	9.3
Tangible assets (1)	5,784.8	2,025.8	7,810.6
Investments	0.9	-	0.9
Stocks and work in progress	20.4	-	20.4
Debtors	646.8	-	646.8
Current asset investments	147.0	-	147.0
Cash at bank and in hand	414.8	-	414.8
Creditors falling due within one year	(1,080.0)	-	(1,080.0)
Creditors falling due after more than one year (2)	(3,583.6)	(325.0)	(3,908.6)
Provisions for liabilities and charges (3)	(1,020.2)	97.5	(922.7)
Net pension liability	(17.9)	-	(17.9)
Net assets acquired:	1,322.3	1,798.3	3,120.6
Goodwill (provisional)			1,738.8
Consideration			4,859.4
Consideration satisfied by			
Cash			4,797.3
Other costs of acquisition			62.1
			4,859.4

(1) Adjustment to reflect the fair value of regulatory assets

(2) Adjustment to reflect the fair value of loans

(3) Adjustment to reflect deferred tax on the fair value of monetary liabilities

Kemble Water Holdings Limited

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

12 Fixed asset investments (continued)

Given that Thames Water Holdings Limited acquired Thames Water Limited on 4 October 2006 the results of the acquired entity reported below are for the Thames Water Limited group. Accordingly, the profit and loss account and total recognised gain of the Thames Water Limited group for the period 1 January 2006 to 30 November 2006 is as follows

	£m
Turnover	1,589.0
Operating profit	457.8
Exceptional items	
Profit on disposal of fixed assets	8.9
Profit on disposal of business	22.5
Profit before tax	335.1
Taxation	(103.4)
Profit after tax	231.7
Minority interest	18.8
Profit after tax and minority interests	250.5
Foreign exchange adjustments	5.5
Actuarial gain on pension scheme	43.6
Deferred tax relating to actuarial gain	(13.1)
Total recognised gains and losses relating to the period	286.5

The profit after tax and minority interests of the Thames Water Limited group for the year ended 31 December 2005 was £211.0m

Treatment of investment in Izmit Su As

From 1 December 2006, as a result of the acquisition of Thames Water Holdings Limited, the Group held the legal interest in Izmit Su As, an entity registered in Turkey. The beneficial interest in Izmit Su As is not held by the Group, and accordingly the Group has no financial responsibility for the economic interests of Izmit Su As from the date of the acquisition of the Thames Water Holdings Limited by Kemble Water Limited. The accounting treatment has been to recognise no profit or loss from Izmit Su As, and to hold the investment in debtors at £49.7m, with an equivalent liability of the Group, held in creditors.

Company

The Company's fixed asset investments can be analysed as follows

	Total £m
At 17 May 2006 (incorporation)	-
Additions	1.0
At 31 March 2007	1.0

The additions reflect the investment in the direct subsidiary undertaking Kemble Water Eurobond Plc

Kemble Water Holdings Limited

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

13 Stocks and work in progress

	31 March 2007 £m
Group	
Raw materials and consumables	5.9
Work in progress	9.3
Finished goods and goods for resale	1.6
	16.8

The Company had no stock and work in progress at 31 March 2007

14 Debtors

	Group 31 March 2007 £m	Company 31 March 2007 £m
Due within one year:		
Trade debtors	214.5	-
Amounts owed by subsidiary undertakings	-	2,110.0
Amounts owed by joint venture undertakings	19.8	-
Insurance claims receivable	49.8	-
Other debtors	78.9	-
Prepayments and accrued income	193.1	-
	556.1	2,110.0
	£m	£m
Inter-company loans		
- Within one year	-	1,990.6
	-	1,990.6
Non-loan amounts due within one year	-	119.4
	-	2,110.0

A loan of £1,990.6m which incurs interest at 18% is owed by the immediate subsidiary company, Kemble Water Eurobond Plc. All other amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

15 Current asset investments

	Group 31 March 2007 £m	Company 31 March 2007 £m
Short term deposits	278.8	-

Kemble Water Holdings Limited

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

16 Creditors: amounts falling due within one year

	Group	Company
	31 March	31 March
	2007	2007
	£m	£m
Bank loans and overdrafts	10.2	-
Trade creditors – operating	207.4	-
Trade creditors – capital	209.2	-
Amounts owed joint venture undertaking	0.8	-
Obligations under finance leases	11.8	-
Corporation tax payable	11.5	-
Group relief creditor	-	35.8
Insurance claims payable	49.8	-
Other taxation and social security	5.9	-
Other creditors	84.4	-
Interest creditors	87.8	-
Accruals and deferred income	178.1	-
	856.9	35.8

17 Creditors: amounts falling due after more than one year

	Group	Company
	31 March	31 March
	2007	2007
	£m	£m
Bank loans	3,099.5	-
Other loans	3,495.2	-
Obligations under finance leases	203.8	-
Deferred income	168.5	-
	6,967.0	-

For further detail of maturity see note 18

Kemble Water Holdings Limited

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

18 Financial instruments

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from the following financial instruments' disclosures, other than the currency risk disclosures

Financial assets

Interest rate risk profile at 31 March

	Total at floating rates	Total at fixed rates	No interest	Total book value	For fixed rate assets only	
					Weighted average interest rate	Weighted average period until maturity for which rate is fixed
	2007 £m	2007 £m	2007 £m	2007 £m	2007 %	2007 Periods
Current asset investment						
- £ Sterling	278.8	-	-	278.8	-	-
	278.8	-	-	278.8	-	-
Cash at bank/hand						
- £ Sterling	192.4	-	-	192.4	-	-
- \$ US	0.3	-	2.3	2.6	-	-
- Other	2.8	-	0.2	3.0	-	-
	195.5	-	2.5	198.0	-	-
	474.3	-	2.5	476.8	-	-

The Group is not exposed to currency risk on non-sterling current asset investments, as they are held within an overall portfolio managed by external fund managers

LIBID and Bank of England base rate are the benchmark rates for floating current asset investments and cash at bank respectively

Financial liabilities

Interest rate risk profile at 31 March

	Total at floating rates	Total at fixed rates	No interest	Total book value	For fixed rate liabilities only	
					Weighted average interest rate	Weighted average period until maturity for which rate is fixed
	2007 £m	2007 £m	2007 £m	2007 £m	2007 %	2007 Periods
Bank loans and overdraft						
- £ Sterling	255.8	2,853.9	-	3,109.7	5.2	3.8
	255.8	2,853.9	-	3,109.7	5.2	3.8
Other loans and finance leases						
- £ Sterling	215.6	3,424.7	-	3,640.3	6.0	23.9
- \$ US	-	8.3	-	8.3	6.3	4.1
- Other	-	63.0	-	63.0	5.8	1.9
	215.6	3,496.0	-	3,711.6	6.0	23.4
	471.4	6,349.9	-	6,821.3	5.6	14.6

Kemble Water Holdings Limited

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

18 Financial instruments (continued)

The Group's interest rate and cross currency swaps are £2,652.6m of floating to fixed interest rate swaps and £26.9m of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £81.8m of foreign currency borrowings.

The Company has no interest rate swaps nor cross-currency swaps.

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate borrowings of £6,349.9m equate to 93% of gross borrowings and 100% of net debt.

Currency risk

The Group is not exposed to any significant currency risk after matching foreign currency assets and liabilities, and taking the effects of its hedging instruments into consideration.

Gains and losses on hedges

The table below shows the extent to which the Group has unrecognised gains and losses in respect of hedges at the beginning and end of the period.

	Gains £m	Losses £m	Net £m
Unrecognised gains/(losses) on hedges at start of period	-	-	-
(Losses)/gains arising in the period that were not recognised	86.0	(45.5)	40.5
Unrecognised gains/(losses) on hedges at end of period	86.0	(45.5)	40.5
of which			
losses expected to be recognised in the next financial year	-	(0.2)	(0.2)
Gains/(losses) expected to be recognised after the next financial year	86.0	(45.3)	40.7

Fair values

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 below sets out a comparison of the book and fair values of the Group's financial instruments.

	Book value 31 March 2007 £m	Fair value 31 March 2007 £m
Primary financial instruments held or issued to finance the Group's operations:		
Financial assets		
Current asset investments	278.8	278.8
Cash at bank and in hand	198.0	198.0
Financial liabilities		
Bank loans and overdrafts	(3,097.3)	(3,129.5)
Other loans and finance leases	(3,711.6)	(3,651.3)
Derivative financial instruments held to manage the interest rate and currency profile:		
Interest rate swaps, cross currency swaps and forward foreign currency contracts	(12.4)	70.8
	(6,344.5)	(6,233.2)

Kemble Water Holdings Limited

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

18 Financial instruments (continued)

Fair values (continued)

Primary financial instruments include bonds, which 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 cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values which approximate to book value.

Maturities

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors > 1 year, as disclosed on page 36, is as follows

	Group 31 March 2007 £m	Company 31 March 2007 £m
Bank loans and overdrafts		
- Within one year	10.2	-
- Between one and two years	1,197.7	-
- Between two and five years	1,081.5	-
- After more than five years	820.3	-
	3,109.7	-
Other loans		
- Within one year	0.8	-
- Between one and two years	19.2	-
- Between two and five years	303.2	-
- after more than five years	3,172.8	-
	3,496.0	-
Finance leases		
- Within one year	11.8	-
- Between one and two years	11.7	-
- Between two and five years	72.2	-
- after more than five years	119.9	-
	215.6	-
Total borrowings	6,821.3	-

The analysis of maturities excludes creditors due after more than one year. Loans are repayable between 2008 and 2055.

Kemble Water Holdings Limited

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

18 Financial instruments (continued)

Loans wholly repayable after more than five years are

	Group	Company
	31 March	31 March
	2007	2007
	£m	£m
Bank Loans	820.3	-
Other loans	3,172.8	-
	3,993.1	-

Other 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
- £835m 8 36% Bank loans due 2013
- £310 4m 11% Bond due 2021

Loans repayable by instalments after more than five years are

	Group	Company
	31 March	31 March
	2007	2007
	£m	£m
Other loans and finance leases	119.9	-

The range of interest rates on outstanding bank loans, other loans and finance leases are 0% to 11%. These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection. There is one interest free loan of £0.2m. Apart from this loan the lowest rate of interest is 1.7%.

Borrowing facilities

At 31 March 2007 the Group has access to committed facilities of £700m through its subsidiary company Kemble Water Limited.

The Group also has a £5billion uncommitted Euro Medium Term Note programme. The programme provides access for Thames Water Utilities Limited (via Thames Water Utilities Finance Limited) to the capital markets in a range of currencies and maturities. At 31 March 2007, outstanding debt obligations of Thames Water Utilities Finance Limited were £2,877.5m with a weighted average term of 24.5 years at a weighted average rate of 5.49%. These facilities are required for continuing investment within the Group and the Directors consider them sufficient for the Group's requirements.

Kemble Water Holdings Limited

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

19 Provisions for liabilities and charges

Group

	Deferred Tax £m	Insurance Liabilities £m	Other £m	Total £m
At 17 May 2006	-	-	-	-
Acquisitions	805.2	50.4	67.1	922.7
Transfer to debtors	-	-	(12.7)	(12.7)
Provided during the period	8.9	13.9	18.1	40.9
Disposal of business	(1.4)	-	(6.4)	(7.8)
At 31 March 2007	812.7	64.3	66.1	943.1

Deferred taxation

An analysis of amounts provided at current tax rates is as follows

	£m
Accelerated capital allowances	924.1
Other timing differences	(111.4)
At 31 March 2007	812.7

Total deferred tax provision:

	£m
Included above	812.7
Deferred tax liability provided on pension surplus	4.8
	817.5

Insurance liabilities

Insurance liabilities comprise provisions for claims received but not yet settled and anticipated claims not yet reported. These provisions are held by the Group's captive insurance company, Isis Insurance Company Limited.

Other provisions

Included in this provision is a provision of £19.3m relating to the future loan that the Kemble Water Investments Limited Group is obliged to make to Metronet. Where the carrying value of an individual fixed asset investment (note 12) is less than £nil, then the negative carrying value has been disclosed in Provisions for liabilities and charges. The value of the transfer is £22.9m, with the largest negative value attributable to Trans4m Limited of £18.8m.

The balance relates primarily to liabilities in respect of contracts, third party claims and restructuring and reorganisation.

The Company had no provisions at 31 March 2007.

Kemble Water Holdings Limited

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

20 Share capital

	31 March 2007 £m
Group and Company	
Authorised	
1,991,600,000 ordinary shares of £1 each	1,991.6
<hr/>	
Allotted, called up and fully paid	
1,991,600,000 ordinary shares of £1 each	1,991.6
<hr/>	

The Company was incorporated on 17 May 2006 with an authorised share capital of £100. On this date the Company issued 1 ordinary share of £1 each, for £1.

On 16 October 2006 the Company increased its authorised share capital to £1,991,600,000. On 16 October 2006 the Company issued 9,207 ordinary shares of £1 each, for £9,207. On 1 December 2006, the Company issued 1,991,590,792 ordinary shares of £1 each, for £1,991,590,792.

21 Share capital and reserves

	Share capital £m	Profit and loss reserve £m	Total £m
Group			
At 17 May 2006 (incorporation)	-	-	-
Share issue (1 December 2006)	1,991.6	-	1,991.6
Loss for the financial period	-	(42.4)	(42.4)
Foreign exchange adjustments	-	0.8	0.8
Actuarial gain on pension scheme	-	37.6	37.6
Movement on deferred tax relating to pension scheme	-	(11.3)	(11.3)
At 31 March 2007	1,991.6	(15.3)	1,976.3

Kemble Water Holdings Limited

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

22 Operating leases

At 31 March 2007, the Group was committed to making the following annual payments in respect of non-cancellable operating leases

Group	2007 £m
Land and buildings	
Leases which expire	
- Within one year	0.2
- Between two and five years	0.9
- After more than five years	4.6
	5.7
Other	
Leases which expire	
- Within one year	1.0
- Between one and two years	0.8
- Between two and five years	0.5
	2.3

At 31 March 2007 the Company has no commitments to make payments in respect of non-cancellable operating leases

23 Capital commitments and contingencies

	31 March 2007 £m
Group	
Contracted for but not provided in the financial statements	372.0

In addition to these commitments, the Group has long-term capital investment plans to meet performance and asset condition requirements and to provide for new demand and growth

The Company has no capital commitments

The Group's share of joint ventures and associated undertakings' capital commitments are not separately disclosed since they are not material to the Group

Guaranteed Standards Scheme and Non-Financial data integrity

(a) Guaranteed Standards Scheme

In January 2006 the directors of Thames Water Utilities Limited ("TWUL") informed Ofwat that it had discovered that it had been

- failing to achieve required performance standards in customer services set out in the GSS, and
- failing to make the payments due to customers as required under the GSS

Under the terms of a notice issued by Ofwat (PN 21/06) on 19 July 2006, TWUL was advised that Ofwat proposed to impose a financial penalty for our failure to achieve customer service performance standards under the Guaranteed Standards Scheme (GSS)

Kemble Water Holdings Limited

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

23 Capital commitments and contingencies (continued)

Guaranteed Standards Scheme and Non-Financial data integrity (continued)

Ofwat is required to issue notice within 12 months of the failure to achieve customer service standards and the notice applies only to those performance standard failures that have occurred since July 2005

As a result Ofwat and Thames Water jointly appointed Ernst & Young LLP to carry out an independent investigation into these irregularities Ofwat also asked Ernst & Young to examine whether there had been any mis-reporting of TWUL customer service performance to the regulator Ernst & Young have concluded their investigation and have submitted their final reports to Ofwat

(b) Non-Financial data integrity

On 7 June 2006, Ofwat issued notice under s 203(2) of the Water Industry Act 1991 stating that it considered that TWUL may have contravened conditions J and/or M of its appointment in providing information in its June Return which may not be reliable, accurate or complete This notice would allow Ofwat to take steps to impose penalties on TWUL in respect of information contained in the June Return 2005 if it is satisfied that there has been any breach

TWUL has been required to produce further information, as requested by Ofwat, which it has done in accordance with a mutually agreed timetable

Any financial penalty which may be imposed in respect of each failure or breach may not exceed 10% of TWUL's turnover as set out in Water Industry (Determination of Turnover for Penalties) Order 2005 No 477 TWUL's regulated turnover for 2005-06 was £1.4 billion

The directors believe that to disclose the amount set aside for any penalty would be commercially prejudicial and have applied the exemption in FRS 12 not to disclose

Mogden Sewage Treatment Works

A number of residents living close to the Mogden Sewage Treatment Works have filed a claim against TWUL under Articles 1 & 8 of the First Protocol of the European Convention on Human Rights in respect of odour and mosquitoes caused by the works A private action is being pursued by 1326 claimants, 775 Group A claimants (those with property interests) and 551 Group B claimants (those without property interests) TWUL does not have details of individual claims values and is being advised by Counsel and external legal advisors on the conduct of the defence of the claims TWUL has made an accrual in the financial statements for these matters

British Waterways Board

TWUL is also in discussions with the British Waterways Board in relation to payment for abstraction costs from the River Lee There is a large differential between TWUL's interpretation of the costs to be charged under the River Lee Act and that of the British Waterways Board The expectation is that the Secretary of State (DEFRA) will either deal with the matter on the basis of written submissions by the parties or appoint an Inspector to hold an inquiry and resolve the issue in due course

TWUL has set aside amounts considered by the directors to be an adequate reserve for all legal and similar claims

Kemble Water Holdings Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

24 Post retirement schemes

Pension Schemes

Pension arrangements for the majority of the Group's UK employees are of the defined benefit type. They are funded through pension schemes, whose assets are held separately from Group assets in independently administered funds. In addition, there are un-funded defined benefits provided for Directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements. Other overseas arrangements are established in accordance with local custom and practice.

Defined benefit scheme

The disclosures in this note are based on the calculations carried out in connection with the formal actuarial valuation of the main schemes as at 31 December 2004. This valuation has been updated at 31 March 2007 by Hewitt, Bacon and Woodrow (the independent and professionally qualified consulting actuaries to the schemes) using revised assumptions that are consistent with the requirements of FRS 17 and shown in the table below.

The next full actuarial valuation will be undertaken by Hewitt, Bacon and Woodrow during 2008.

The Group has taken advice from Hewitt, Bacon and Woodrow in respect of the funding position of the Group's pension schemes. With consideration of the funding position of the schemes, the Group contribution rate is in accordance with Hewitt, Bacon and Woodrow recommendations.

The main financial assumptions used for FRS 17 purposes are as follows:

	31 March 2007
Price inflation	3.2%
Salary increases	4.2%
Pension increases	3.2%
Discount rate for scheme liabilities	5.4%

The fair value of the assets held by the pension schemes, the long-term expected rate of return on each class of assets and the value of the schemes' liabilities assessed on the assumptions described above are shown in the following table:

	31 March 2007	
	Long term rate of return expected	Value £m
Equities	8.8%	577.8
Bonds	5.3%	66.0
Gilts	4.5-4.8%	472.4
Property	7.8%	95.0
Other assets	5.5%	35.2
Total market value of assets		1,246.4
Present value of schemes liabilities		(1,205.9)
Irrecoverable surplus		(24.6)
Surplus in the schemes		15.9
Related deferred tax liability		(4.8)
Net pension surplus		11.1

Kemble Water Holdings Limited

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

24 Post retirement schemes (continued)

This can be analysed as follows:

	31 March 2007 £m
Thames Water Mirror Image Pension Scheme	37.3
Thames Water Pension Scheme	(26.2)
	11.1

Analysis of amount charged to operating profit:

	Period end 31 March 2007 £m
Current service cost	17.2
Past service cost	(5.0)
Total operating charge included in operating profit	12.2

Analysis of amount credited to other finance income:

	Period end 31 March 2007 £m
Expected return on pension scheme assets	34.8
Interest on pension scheme liabilities	(29.6)
Impact of restriction on expected return on assets due to irrecoverable surplus	(7.3)
Net finance charge included within net interest payable	(2.1)

Analysis of amount recognised in statement of recognised gains and losses:

	Period end 31 March 2007 £m
Actual return less expected return on pension scheme assets	25.8
Experience gains and losses arising on the scheme liabilities	11.7
Changes in assumptions underlying the present value of scheme liabilities	(15.3)
Adjustment relating to irrecoverable surplus	15.4
Actuarial gain recognised in STRGL	37.6

Kemble Water Holdings Limited

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

24 Post retirement schemes (continued)

The movement in the scheme during the period to 31 March 2007 was as follows:

	31 March 2007 £m
At 17 May 2006 (incorporation)	-
Acquisition	(25.6)
Operating charge	(12.2)
Employer contributions	18.2
Other finance charges	(2.1)
Actuarial gain	37.6
Surplus in scheme at end of period	15.9

The details of experience gains and losses for the period to 31 March 2007 are as follows

	31 March 2007 £m
Difference between the expected gains and losses on scheme assets	
Amount (£m)	25.8
Percentage of scheme assets	2.1%
Experience gains and losses on scheme liabilities	
Amount (£m)	11.8
Percentage of the present value of the scheme liabilities	1.0%
Total amount recognised in statement of total recognised gains and losses	
Amount (£m)	37.6
Percentage of the present value of the scheme liabilities	3.1%

25 Net cash inflow from operating activities

	Period end 31 March 2007 £m
Group operating profit (after exceptional operating items)	108.5
Depreciation and amortisation	133.8
Decrease in stocks	2.7
Decrease in debtors	64.5
Decrease in creditors	(195.2)
Difference between pension charge and cash contributions	(6.0)
Foreign exchange	(0.4)
	107.9

Depreciation includes maintenance expenditure on infrastructure assets in accordance with FRS 15

Kemble Water Holdings Limited

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

26 Return on investments and servicing of finance

	Period end 31 March 2007 £m
Interest received	12.0
Interest paid	(104.6)
	(92.6)

27 Capital expenditure and financial investment

	Period end 31 March 2007 £m
Purchase of tangible fixed assets	(206.5)
Purchase of intangible fixed assets	(0.1)
Infrastructure renewals expenditure	(45.7)
Capital contributions received	17.3
Proceeds on sale of tangible fixed assets	32.0
	(203.0)

28 Analysis of net debt

	At 17 May 2006 incorporation) £m	Acquisition £m	Cash flow £m	Exchange movements £m	Other non- cash movements £m	At 31 March 2007 £m
Cash in hand	-	414.8	(216.8)	-	-	198.0
Net cash	-	414.8	(216.8)	-	-	198.0
Loans due within one year	-	(69.1)	58.2	-	(0.1)	(11.0)
Loans due after more than one year	-	(3,525.4)	(3,042.4)	1.4	(28.3)	(6,594.7)
Finance leases	-	(215.6)	-	-	-	(215.6)
	-	(3,810.1)	(2,984.2)	1.4	(28.4)	(6,821.3)
Liquid resources	-	147.0	131.8	-	-	278.8
Total	-	(3,248.3)	(3,069.2)	1.4	(28.4)	(6,344.5)

The Group includes as liquid resources term deposits of less than one year, fixed and floating interest rate securities and managed funds. Further details are given in note 15.

Other non-cash changes mainly comprise the carrying value uplift by RPI, of an RPI index-linked bond. This adjustment is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

Kemble Water Holdings Limited

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

29 Related parties

During the period, the Group completed the following sales to related parties, all of which were undertaken at arm's length commercial prices in the ordinary course of business

Related party	Status	Nature of transaction	Period end	31 March
			2007	2007
			Sale value £m	Amount due £m
*Metronet Rail SSL Limited	Joint Venture	Technical service fee	0.5	0.1
*Metronet Rail BCV Limited	Joint Venture	Technical service fee	0.5	-
Stirling Water Seafield Holdings Limited	Joint Venture	Products and services	3.7	1.1
Stirling Water (2003) Limited	Associate	Products and services	0.8	0.3
Scottish Water Solutions Limited	Associate	Technical service fee	0.5	-
Trans4M Limited	Joint venture	Technical service fee	5.1	0.5
MUJV	Joint Venture	General construction	0.2	0.2

* These companies were placed into administration on 18 July 2007

30 Guarantees

At 31 March 2007 the Group has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £392.5m. The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £32.7m at 31 March 2007 and certain non Thames Water group companies amounting to £17.4m.

The Group has also provided letters of credit amounting to £19.3m in respect of obligations to commit subordinated loans to Metronet Rail SSL Holdings Limited and Metronet Rail BCV Holdings Limited, in addition to £25m letters for credit in respect of enhanced credit support. On 18 July 2007 these companies were placed into administration. Full provision has been made against these obligations.

The Group has guaranteed a subsidiary's borrowing facility up to the maximum value of £1,860m. The Group has provided security by way of a debenture over its assets in relation to monies owed by the Group under its credit facility agreement with Barclays Capital and other lenders. This facility amounted to £3,800m, the amount outstanding at 31 March 2007 was £2,770m. The chargee is Barclays Bank as security trustee to the secured creditors of the facility.

The ISIS Insurance Company Limited, a wholly owned subsidiary of the Group, has letters of credit in issue totalling £12.9m, and £15m secured under a Security Trust Agreement. Security for the letters of credit is provided to the value of £13.3m by a charge over assets held within its Global Treasury Funds.

In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No unprovided loss is expected to arise under these arrangements.

Kemble Water Holdings Limited

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

31 Group undertakings

At 31 March 2007, the Group held more than 10% of the allotted share capital of the following principal undertakings

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
UK						
Kemble Water Eurobond Plc	England & Wales	Ordinary	100%		Subsidiary	Investment holding company
Kemble Water Liberty Limited	England & Wales	Ordinary		100%	Subsidiary	Investment holding company
Kemble Water Structure Limited	England & Wales	Ordinary		100%	Subsidiary	Investment holding company
Kemble Water Finance Limited	England & Wales	Ordinary		100%	Subsidiary	Investment holding company
Kemble Water Investments Limited	England & Wales	Ordinary		100%	Subsidiary	Investment holding company
Kemble Water Limited	England & Wales	Ordinary		100%	Subsidiary	Investment holding company
Thames Water Limited	England & Wales	Ordinary		100%	Subsidiary	Holding company
Thames Water Utilities Limited	England & Wales	Ordinary		100%	Subsidiary	Water and wastewater services
Isis Insurance Company Limited	Guernsey	Ordinary		100%	Subsidiary	Insurance
Kennet Properties Limited	England & Wales	Ordinary		100%	Subsidiary	Property
Thames Water Investments Limited	England & Wales	Ordinary		100%	Subsidiary	Property
Thames Water International Services Limited	England & Wales	Ordinary		100%	Subsidiary	Marketing of technical managerial services
Thames Water Property Services Limited	England & Wales	Ordinary		100%	Subsidiary	Property
Thames Water Services Limited	England & Wales	Ordinary		100%	Subsidiary	Provision of utility network and facility management services
Stirling Water Seafield Limited	Scotland	Ordinary		49%	Joint venture	Waste water treatment services
Trans4m Limited	England & Wales	Ordinary		25%	Joint venture	Contract management for stations and civil assets
*Metronet Rail SSL Holdings Limited	England & Wales	Ordinary		20%	Joint venture	Maintenance and upgrade of London Underground
*Metronet Rail BCV Holdings Limited	England & Wales	Ordinary		20%	Joint venture	Maintenance and upgrade of London Underground
Europe						
Izmit Su As	Turkey	Ordinary		55%	Subsidiary	Water operations and maintenance

* These companies were placed into administration on 18 July 2007

Advantage is taken of section 231(5) of the Companies Act 1985 and full information will be annexed to the next Annual Return delivered to the Registrar of Companies after the accounts in question have been approved under section 233

Kemble Water Holdings Limited

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

32 Ultimate parent company and controlling party

A consortium owns Kemble Water Holdings Limited. 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.

Copies of the accounts of Kemble Water Holdings Limited may be obtained from the Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.