

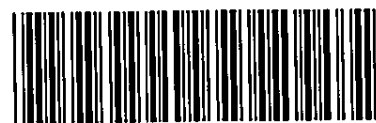
Registered number 5819262 (England & Wales)

Kemble Water Holdings Limited

Annual report and financial statements

For the year ended 31 March 2008

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Kemble Water Holdings Limited

Annual report and financial statements for the year ended 31 March 2008

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Kemble Water Holdings Limited

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Kemble Water Holdings Limited

Directors' Report for the year ended 31 March 2008

The directors present their report and the audited financial statements for the year ended 31 March 2008

Kemble Water Holdings Limited (the "Company") was incorporated on 17 May 2006 resulting in a 10 month and 15 days prior accounting period ended 31 March 2007. The Kemble Holdings Limited Group (the "Group") did not recognise trading results on a consolidated basis until after the Company's wholly owned subsidiary, Kemble Water Limited, acquired the Thames Water Group on 1 December 2006. As a result the prior period ended 31 March 2007 may not be directly comparable with the financial year ended 31 March 2008.

Principal activities

The principal activity of the Kemble Water Holdings Limited group of companies is the provision of water and wastewater services.

Business review

This review covers the first full year since the Company's wholly owned subsidiary, Kemble Water Limited ("Kemble Water"), acquired the Thames Water group of companies headed by Thames Water Holdings Limited ("Thames Water Group") from the German utility group RWE AG on 1 December 2006.

1) Strategy

The Group's strategy throughout the year has been to focus on the regulated business within its wholly owned group company, Thames Water Utilities Limited, and to divest of its unregulated interests in the Thames Water Group, with the exception of the property business and other minor interests, which will be retained.

ii) The Regulated Business – Thames Water Utilities Limited ("TWUL")

a) Background

TWUL is the largest supplier of water and provider of sewerage services in the UK, based on the number of customers served. It is one of ten companies currently holding appointments as water and sewerage undertakers¹ in England and Wales, with a further 14 companies holding appointments as water only undertakers.

In total, the area served by TWUL occupies approximately 13,331 km² and encompasses more than 9% of the area of England and Wales. This includes London and extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. This area has a population of about 13.6 million people, which represents nearly a quarter of the total population of England and Wales. In approximate terms, TWUL supplies 3.6 million properties (just over 8.5 million people) with water, and collects sewage from 5.3 million properties (about 13.6 million people), including 97% of households in its sewerage region.

b) Operational strategy and performance

Following the Group's acquisition of TWUL, the Group's first action has been to install a new management team into TWUL, with instructions to implement a 'back to basics' strategy, focussing on the essentials of the regulated business serving London and the Thames Valley. This strategy has been remarkably successful in reversing years of decline in important areas, and in some cases achieving 'best ever' performance.

TWUL has demonstrated an improvement in every key area of performance during the year, reflected in its highest-ever score in Ofwat's Overall Performance Assessment, a yardstick by which Ofwat compares companies performance.

The year included major improvements in the area of water supply, which included TWUL's best-ever performance on drinking water quality at customers' taps, a fall in the number of burst mains and a major reduction in the number of customers suffering low pressure.

¹ A company that has been appointed to provide water and/or sewerage services to customers in England and Wales is known as an "undertaker". The Company's Instrument of Appointment - usually referred to as "the Licence" - was issued by the Secretary of State for the Environment in August 1989.

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Directors' Report for the year ended 31 March 2008 (continued)

TWUL also met its leakage target for the second year running, and exceeded its target for security of water supplies. It accelerated its Victorian Mains Replacement programme, replacing 527km of mains in London, where leakage is at its highest.

There were also major advances in sewerage and waste treatment. TWUL completed engineering schemes which met targets for the reduction of internal and external sewer flooding due to undersized sewers.

The number of sewer collapses was reduced by the end of 2007, and TWUL had cut the number of failing sewage works from a total of 18 in 2006 to zero. In the calendar year 2007 TWUL was fined for just one event leading to prosecution, which related to events that took place prior to the new management team being appointed, compared to 15 events in the previous 12 months.

During the year the new management team has set out a new cultural framework (brand, mission and values) within which TWUL now operates. The vision is that, 'if customers had a choice they would choose Thames Water'. This is a highly appropriate stance for a Company that exists to serve its customers, yet is in most respects – and for the time being – a monopoly supplier. Strenuous efforts are being made to understand customer priorities, through consultation and the use of new techniques, such as deliberative research. Major improvements are being made at TWUL's Customer Centre in Swindon, to ensure that customers receive the best possible service and in the year TWUL recorded best-ever performances in responding to both billing enquiries and written complaints.

TWUL's focus on essentials has not been confined to operational matters. Despite the high levels of activity required to achieve these excellent results, operating costs (excluding depreciation) of TWUL have been reduced by 7.0% compared to the previous regulatory period. This represents a high level of efficiency and, combined with turnover up by 4.4% compared to the previous regulatory period, has been the major factor in a 55.2% increase in profits before tax.

The above achievements came in a year in which TWUL delivered its biggest-ever programme of capital investment, valued at nearly £1bn.

These improvements are reflected in a significant increase in TWUL's Overall Performance Assessment with the Company's score improving from 342 to 397 – its highest ever total.

c) Looking ahead

i) leakage and security of supply

Reducing leakage remains one of TWUL's biggest priorities – especially in London, where the level of leakage is still above the national average. Over the five years to 2010, TWUL intends to invest more than £500,000 a day to reduce leakage.

TWUL's Victorian Mains Replacement ("VMR") programme has been accelerated and will provide the majority of the reduction in leakage as old pipes are replaced by new in the leakiest parts of London. In 2007/08 the Company delivered 527km, 204km more than in 2006/07, (an increase of over 60%). TWUL has approached Ofwat seeking agreement to maintain an accelerated rate of investment to help bridge the gap in security of supply by 2009/10.

In addition to accelerating efforts on leakage and mains replacement, TWUL is delivering a number of new water resources schemes, both increasing available resource and also optimising distribution around the network. This, with increased focus on water efficiency and continued expansion of the metering programme combine to deliver targets for restoring security of supply.

The Thames Gateway desalination plant at Beckton received planning permission in July 2007 and the Company is working hard with the local authorities to ensure completion by March 2010, as this remains the principal measure by which TWUL may achieve security of supply for its customers in London in the short and medium term. Following discussions with the new mayor, Boris Johnson, the Greater London Authority has dropped its High Court challenge to the Government's decision to grant planning permission for the desalination plant, which TWUL intends to build in London.

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Directors' Report for the year ended 31 March 2008 (continued)

TWUL is also carrying out a large engineering project to improve the way that it supplies water. This is called the 'Network Improvement Project' and has two main areas of work:

- dividing up large water supply areas (known as zones) into smaller areas in order to deliver water more efficiently and meet local demands, referred to as 'zonal reconfiguration', and
- carrying out 'pressure management' to reduce the strain on water mains, caused by variations in pressure throughout the day and night as customers' demand varies, and thereby reducing the likelihood of bursts

This has yielded benefits to customers in the year in the form of further leakage reductions, a smaller number of properties at risk of low pressure and fewer burst mains meaning a significant drop in the number of properties experiencing unforeseen interruptions to supply.

ii) Periodic Review 2009 (PR09)

Away from the operational arena, TWUL has been actively preparing for the future. A lengthy and wide-ranging consultation process informed the preparation of TWUL's first Strategic Direction Statement, covering the next 25 years. This document provides a sound platform on which to build the Company's Strategic Business Plan for the next Periodic Review of prices by Ofwat, which will take place in 2009.

iii) Ensuring Water for future generations

Given TWUL's water region is one of the driest in the UK, ensuring water supply for future generations is a key objective for TWUL. To meet these long-term water resource challenges, TWUL is committed to a 'twin-track' approach, addressing both the management of demand for water, and developing new schemes to increase supplies.

The long-term supply and demand strategy is set out in TWUL's Water Resource Management Plan, which was made public in May 2008 following approval from Defra. Each water resource zone is assessed in terms of supply capability and expected demand. The assessment takes into account future trends including demographic, legislative and climate changes. On the basis of these assessments, TWUL plans demand management activities or resource development schemes.

Even with major progress on reducing leaks and encouraging conservation of existing resources, TWUL faces a significant shortfall over the long-term between demand for water and the amount it can supply during a drought.

TWUL is currently working on two major proposals to supplement water resource availability:

- The Thames Gateway desalination plant in east London, which would use reverse osmosis technology to convert brackish water from the Thames estuary into drinking water, and
- The Upper Thames Major Resource Development Project, a proposed new reservoir that would boost supplies to London and parts of the Thames Valley from about 2019. The project is currently in the pre-planning phase, with an Environmental Impact Assessment ("EIA") being undertaken, and will form part of the Company's 2008 Water Resource Plan.

iv) Thames Tideway Tunnel

It has also been confirmed that the Government wishes TWUL to proceed with the much discussed Thames Tideway tunnel, to ensure that the UK meets the requirements of the Urban Waste Water Treatment Directive. This will be the largest single project ever undertaken by TWUL, involving a relatively short River Lee tunnel from Abbey Mills to Beckton, a much longer River Thames tunnel from Hammersmith to Beckton, and a major extension of Beckton sewage treatment works ("SWT") to provide the necessary treatment. Preparatory work is well advanced and planning applications for the Lee tunnel and Beckton improvements will be made during 2008. On current estimates the project will cost between £2.5 billion and £3.0 billion. TWUL is currently in discussion with Ofwat to ensure appropriate funding for this project.

v) SAP

TWUL is committed to implementing SAP's enterprise business application suite for our core Customer Service and billing functions and back office operations including Finance, HR, Supply Chain and Programme Management. SAP is the global market-leader for this type of cross-business application and their utility-specific solution will underpin the deployment of best-practice business processes across our operations. This in turn will lead to further operating efficiencies.

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Directors' Report for the year ended 31 March 2008 (continued)

iii) The Non-Regulated Business

a) Activity

Consistent with its strategy, during the year the Group disposed of its commercial business, Thames Water Services Limited to Veolia Water UK Plc for a consideration of £65.5m, resulting in no profit or loss on disposal

During the year the Group disposed of telecommunications income rights on a number of properties for proceeds of £24.7m and also disposed of a number of properties which are no longer required for its core operations

b) Metronet and Trans4m

The Group holds a 20% interest in Metronet Rail SSL Limited and Metronet Rail BCV Limited (together "Metronet"), both companies having been established to maintain and upgrade a large part of London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Limited in April 2003

The Group also holds a 25% interest in Trans4m Limited ("Trans4m"), the company contracted by Metronet to deliver £1.86 billion of station upgrade and civil engineering works

Thames Water Services Limited ("TWSL") has contracted with Trans4m under four separate contracts to provide certain station upgrade works and the civil engineering works to Trans4m. During the year this contract was novated to Thames Water Investments Limited ("TWIL")

As a result of significant projected cost overruns and insufficient liquidity, a PPP Administrator was appointed to Metronet on 18 July 2007 and on 30 August 2007 the contract and certain agreements between Metronet and Trans4m were terminated, which led to subsequent terminations of the contracts between Trans4m and TWSL

The Group continues to maintain its ownership interests in Metronet and Trans4m, however both companies are no longer trading, and the Group has no further obligations to provide debt or equity to Metronet or Trans4m. The role of the PPP Administrator is to provide stability to Metronet's operations, and to sell Metronet's activities. To that end, on 27 May 2008 the PPP Administrator transferred certain trade and assets of Metronet to two entities established by Transport for London. Trans4m exists solely as a claims entity

The contracts between Metronet and Trans4m were on a cost reimbursable basis with a target cost and a painshare / gainshare mechanism should costs be above or below the target cost, and should be capped at 22.5% of the initial target cost, indexed (excluding certain costs). Each of Trans4m's shareholders has provided a Parent Company Guarantee, which holds them jointly and severally liable up to the overall liability cap. Trans4m have submitted an Interim Statement of Account in connection with settlement of contractual obligations between Trans4m and the PPP Administrators to Metronet, although to date no final account has been agreed. It should be noted the overruns were largely projected and work ceased prior to completion. As a result it is unclear whether any residual liability by Trans4m up to the capped amount exists

The contracts between Trans4m and TWIL contain a similar painshare / gainshare mechanism, with an overall liability cap of 22.5% of the initial target cost, indexed. Thames Water Limited has provided Parent Company Guarantees in respect of the four contracts between Trans4m and TWIL. No claim currently exists against TWIL, however should one be made it will be vigorously defended

As a result of the above the Group has, at the year-end, provided in full against its investment in Metronet and Trans4m, and has made a provision for potential claims where considered necessary. At the time of preparing the 31 March 2007 financial statements it was not possible for the Company to identify and value all the assets and liabilities of Metronet and Trans4m, hence these assets and liabilities were included in the 31 March 2007 accounts on a provisional basis. Further investigation of Metronet and Trans4m throughout the year has indicated that the issues that have led to the provisions existed at the date of acquisition of the Thames Water Group on 1 December 2006, and as such in accordance with FRS 7 all provisions have been recognised directly in goodwill rather than the profit and loss account

iv) Securitisation

Following the acquisition of the Thames Water group by Kemble Water Limited, a review of options with regard to the capital structure of a Group of companies headed by Kemble Water Holdings Limited, a wholly owned company of the Kemble Water Holdings Limited Group of companies was undertaken. As a result, a whole business securitisation of the regulated water business was completed in the year

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Directors' Report for the year ended 31 March 2008 (continued)

v) *Financial performance measures*

Methodology and calculation of financial KPIs

- 1 EBITDA Profit before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge ("IRC") for continuing operations
- 2 Total Capex Spend Total expenditure on tangible fixed assets excluding contributions received, see note 12
- 3 Net cash inflow from operating activities Total cash inflow from all operating activities, see Consolidated Cash flow statement on page 18
- 4 Operating expenditure Operating costs excluding amortisation, depreciation and IRC for continuing operations, see note 3

Performance Measure	Year end 31 March 2008 £m	Period end 31 March 2007 £m
EBITDA	986.7	237.3
Total Capex Spend (excluding intangibles)	1,001.6	291.2
Net cash inflow from operating activities	907.9	107.9
Operating expenditure	685.2	287.5

vi) *Financial results*

- Financial Performance

Group turnover (excluding turnover from share of joint ventures) was £1,597.6m (period ended 31 March 2007 £530.1m). The Group derives 94% (£1,494.2m) of its turnover from the regulated business. Turnover of the regulated business increased by 4.4% compared to the previous regulatory year.

Group operating expenditure for the year, from continuing operations, excluding amortisation, depreciation and IRC was £685.2m (period ended 31 March 2007 £287.5m). The regulated business has made substantial reductions in its operating costs by focussing on driving operational efficiencies whilst ensuring the delivery of its regulatory outputs. Overall operating costs in the regulatory business fell by 7% compared with the previous regulatory year.

During the year the Group disposed of fixed assets for a profit of £73.7m (period ended 31 March 2007 £15.1m). The majority of asset sales related to the sale of land, office buildings and telecommunication rights.

Net interest for the year was £379.7m (period ended 31 March 2007 £141.0m), including £368.6m (period ended 31 March 2007 £57.2m) payable on other loans and £50.2m (period ended 31 March 2007 £86.6m) on bank loans and overdrafts.

Profit on ordinary activities before taxation and exceptional operating costs for the year was £212.9m (period ended 31 March 2007 loss of £15.7m). The profit for the financial year after taxation was £254.3m (period ended 31 March 2007 loss of £42.4m).

- Financial Position (at year end)

The Group's fixed asset net book value at the year are almost entirely related to the regulated business, this includes the fair value adjustments and goodwill arising on acquisition, which are attributed to the regulated business. The increase in the Group's fixed asset net book value for the year of £511.2m is largely due to the following:

- Total gross capital investment for the year ended 31 March 2008 was £1,001.6m (period ended 31 March 2007 £291.2m). Investment continues to be targeted towards leakage reduction, security of drinking water supplies to our customers, water and wastewater quality programmes and the alleviation of sewer flooding.

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Directors' Report for the year ended 31 March 2008 (continued)

- Total amortisation and depreciation, including IRC for the year was £394.1m (period ended 31 March 2008 £133.8m)
- Other movements include finalisation of goodwill (see note 13), disposal of fixed assets including the commercial business and capital contributions (see notes 11 and 12)

The creditors position (excluding debt related balances) is also consistent with the previous year, with the main increases reflecting the increase in capital investment, advance customer receipts and timing differences

The other/non-regulated business is dominated by the debt held within Kemble Water Limited, (which was repaid during the year by raising debt mostly through Thames Water Utilities Cayman Finance Limited), and Kemble Water Finance Limited, Kemble Water Structure Limited, Kemble Water Liberty Limited (which was repaid during the year) and Kemble Water Eurobond Plc. This gives rise to £199.1m (period ended 31 March 2007 £73.4m) of the net interest payable

vii) Non-financial performance measures

In addition to financial indicators, the Group uses other non-financial performance measures to manage and monitor performance. The principal non-financial Key Performance Indicators ("KPI's") of the Group are those that relate to the regulated business of TWUL and are largely those used by Ofwat to measure TWUL's 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

a) Water Service

Measure	Unit	Actual 2006/07	Target 2007/08	Actual 2007/08
Total leakage	MI/d	790	755 ²	713
Security of Supply Index	SoSI	57 (42 critical period)	58 ³	89
DG4 – restrictions on use	Population Affected	100%	Restrictions less than 1 in 20 years	0%
Total mains bursts	No	12,196	11,412	10,729 ⁵
Mains bursts per 000km	No	389	377 to 412 ⁴	342
DG2 – water pressure number of properties	Properties %	1,189 0.03%	2,455 0.07%	349 0.01%
DG3 – unplanned supply interruptions	Properties Index	30,636 0.93	14,591 0.41	7,218 0.24
Infrastructure serviceability assessment		Deteriorating	Marginal	Stable
Drinking Water Quality (at the tap)	MZCP			
Water quality regulations	%	99.97%*	99.95%*	99.98%*
Iron	%	99.78%*	98.73%*	99.88%*
Cat 1 & 2 pollution incidents for water	Incidents	1*	0*	0*
Non infrastructure serviceability assessment		Stable	Stable	Stable

* Reporting based upon calendar years

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

⁵ Mains bursts have been restated since JR06 following a change in reporting methodology

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Directors' Report for the year ended 31 March 2008 (continued)

b) Sewerage Service

Measure	Unit	Actual 2006/07	Target 2007/08	Actual 2007/08
% of sewage works non compliant (WRA numeric consents)	%	4.5*	2.0	0.03*
% of sewage works non compliant (UWWTD consents)	%	1.3*	1.3*	0.0*
% of total population served by STWs in breach of WRA consents	%	3.3*	0.3*	0.0*
% of total population served by STWs in breach of UWWTD consents	%	0.0*	0.0*	0.0*
Intermittent discharges deemed satisfactory	%	99.0	97.8	99.1
Sewage sludge managed in a satisfactory way	%	100	100	100
Pollution incidents process (STW) category 1,2 and 3	No	34	27 ¹	44*
Sewerage non infrastructure serviceability assessment		Deteriorating	Stable	Marginal
Total sewer collapses in the year	No	530	870 ¹	465
Sewer collapses per 1000km	No	7.8	12.8	6.8
Pollution incidents at CSOs and foul sewers and rising mains categories 1,2 and 3	No	95*	N/a	96*
Sewerage infrastructure serviceability assessment		Marginal	Marginal	Stable
DG5 – Properties at risk of internal flooding				
Twice in 10 years	No	575	683	491
Once in 10 years	No	2,599	2,734	2,139
Once in 20 years	No	12,567	N/a	12,477
Properties flooded in the year				
Internally flooded due to overloaded sewers	No	648	231	1,686
Internally flooded due to other causes	No	1,225	704	1,020
Externally flooded due to overloaded sewers	No	1,117	338	1,292
Externally flooded due to other causes	No	5,489	4,098	5,209

c) Customer Services

Measure	Unit	Actual 2006/07	Target 2007/08	Achieved 2007/08
DG6 - Responding within 5 days to customer billing enquiries	%	99.84	99.20	99.81
DG7 - Responding within 10 days to written complaints	%	99.68	99.60	99.64
DG8 - Providing bills for metered customers based on a meter reading	%	99.24	99.73	99.60
DG9 - Calls abandoned	%	7.5 (including IVR calls – 3.67 excluding IVR)	4.0	7.34 (including IVR calls)

* Reporting based upon calendar years

¹ Targets taken from Serviceability Action Plans submitted to Ofwat

Kemble Water Holdings Limited

Directors' Report for the year ended 31 March 2008 (continued)

d) Overall Performance

	Unit	Actual 2006/07	Target 2007/08	Achieved 2007/08
Overall Performance Assessment ("OPA")	Score	342	N/a	397

e) Employees

People and Health and Safety.		Actual 2006/07	Target 2007/08	Achieved 2007/08
Absenteeism	%	3.0	3.5	3.35
Injury Rate per 1000 employees	No	8.1	6.9	8.3

During the year to 31 March 2008 there were no fatalities, prosecutions or enforcement notices directly affecting TWUL. There were however, 48 reportable accidents in total. Eight 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, 1,101 days were lost in total. Also during the period, there were five 'Dangerous Occurrences', as defined under RIDDOR.

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 Outfall which diverts excess storm water and diluted sewage to a nearby watercourse. The categories are set 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

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Directors' Report for the year ended 31 March 2008 (continued)

- 16 DG7 (Complaint Handling) This indicator shows the percentage of written customer complaints that TWUL responded to within ten working days
- 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 measures
- 20 Absenteeism This measure indicates the average percentage of their time that employees were unavailable based on sickness
- 21 Injury Rate This is the number of RIDDOR reportable injuries (excluding occupational diseases) per 1000 employees. The goal is for significant reductions, however TWUL's aspiration is for zero or as low levels as are realistically achievable

viii) Principal risks and uncertainties

The Group uses an Integrated Business Risk Management approach to minimise the Group's exposure to unforeseen events and to known risks. This creates a stable environment within which the organisation can deliver its strategic objectives. The Group manages its risk portfolio through a process of consistent and replicable risk identification, assessment and escalation, and each business area maintains a risk register.

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 embedded, i.e. operational risks, and those of external origin, i.e. imposed risks.

Operational Risks will remain a constant potential threat to the Group. They are, therefore, controlled via internal controls, i.e. policies and procedures. Examples of significant operational risks are

- **PR09 Determination** – the PR09 price determination will be a negotiated agreement with Ofwat that determines the level of expenditure authorised over the coming 5-year Asset Management Period, and accordingly the revenue available to TWUL. There is a risk that TWUL will not be authorised to incur the expenditure needed to maintain and upgrade its assets in order to provide the service expected by its customers.
- **Failure to deliver the regulatory contract** – The shortage of available skilled labour in London and the South East creates an environment in which the Group must compete with other organisations for staff with the necessary skills, particularly engineering, in order to deliver the capital programme agreed in the Final Determination and additional major planned projects. 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 regulation and/or law until it is 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 internal 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.

Imposed Risks are usually of a temporary nature, outside the normal macro-operating environment of an organisation and therefore outside the Group's control. Accordingly, they are managed by special response plans. The Group has a risk management process for the identification of such risks before they impact, allowing influencing and other management responses to be adopted.

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Directors' Report for the year ended 31 March 2008 (continued)

Imposed risks (continued)

Examples of significant imposed 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. Such a change can be claimed at an Interim Determination of K ("IDOK") if the impact meets the Ofwat materiality threshold, or claimed via "logging up" of the Group's Regulatory Capital Value ("RCV") at the next periodic price review.
- **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** – Some processes involved in water treatment consume significant amounts of energy. Whilst the Group continues to introduce energy efficiency measures, 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 Group is currently making provision for increased storage capacity, greater network integrity and the development of new sources of potable water.

Material financial instruments

As described above, the Group has an Enterprise-wide Risk Management approach to minimising the organisation's exposure to unforeseen events and to increase the degree of certainty to the management of identified risks, including financial risks.

Financial risk management

Financial risk management is addressed in more detail in section (w) of the Accounting policies on pages 26 to 27.

Directors

The directors who held office during the year ended 31 March 2008 and to the date of signing were

Sir Peter Mason
LF Abaira (appointed 9 January 2008)
PS Antolik (resigned 14 February 2008)
MW Baggs
R Blomfield-Smith (appointed 14 February 2008)
CR Deacon
Dr P Dyer
RJ Gregor (resigned 15 October 2007)
C Lynam
GJ Matthews (resigned 14 February 2008)
GIW Parsons (appointed 14 February 2008)
AFC DeP Santos (resigned 9 January 2008)
DJ Shah (appointed 15 October 2007)
MSW Stanley
L Webb (resigned 1 December 2007, reappointed 26 February 2008)

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

Kemble Water Holdings Limited

Directors' Report for the year ended 31 March 2008 (continued)

Directors (continued)

The following directors have formally appointed alternate directors to represent them when they are unavailable

Director	Alternate Director
LF Abrara	P Gomez (appointed 9 January 2008)
R Bromfield-Smith	PED Crone (appointed 14 February 2008)
CR Deacon	RD Israel
GJ Matthews	PED Crone (resigned 14 February 2008)
GIW Parsons	E Beckley (appointed 26 March 2008)
AFC DeP Santos	J Santos (resigned 3 September 2007) SG Batey (appointed 3 September 2007, resigned 9 January 2008)
DJ Shah	RJ Gregor (appointed 15 October 2007, resigned 14 February 2008) WR McKenzie (appointed 26 February 2008)
L Webb	S Kolenc (appointed 26 February 2008)

Research and development

Expenditure on research and development of £4.1m (period ended 31 March 2007 £1.2m) was made during the year

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. Research and development deliver innovative technical solutions through a research programme aligned with business needs to address challenges for AMP4 and PR09 and also provide specialist technical support to the Group.

Employees

Employee involvement

Updates on operational and financial performance are 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 ("EMT") undertake regular briefings for managers and employees.

Consultation with non-management employees is undertaken in partnership with the recognised Trade Unions ("TUs"). 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 takes 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.

Dividend

The Company paid an interim dividend totalling £72.6m (36.45p per ordinary share) during the year (period to 31 March 2007 £Nil). On 22 May 2008, the directors approved a further interim dividend of £113.4m (56.94p per ordinary share) in respect of the year ended 31 March 2008. This interim dividend was subsequently paid on 30 May 2008.

Kemble Water Holdings Limited

Directors' Report for the year ended 31 March 2008 (continued)

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

On 9 April 2008, in very difficult market conditions, Thames Water Utilities Cayman Finance Limited issued a £400m bond due 2058. The proceeds of the bond issue allowed the Group to repay its £250m loan in respect of the Revolving Credit Facility, and provided additional liquidity for the Group.

On 9 May 2008 the Greater London Authority (GLA) dropped its High Court challenge to the Government's decision to grant planning permission for a desalination plant at Beckton, London.

On 22 May 2008, the directors approved a further interim dividend of £113.4m (56.94p per ordinary share) in respect of the year ended 31 March 2008. This interim dividend was subsequently paid on 30 May 2008.

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 year under review the average amount due to trade creditors represented 70 days (2007: 69 days). Purchases received from these creditors.

Political and charitable donations and expenditure

No political donations were made by the Group. The Group made charitable donations totalling £317,889 (period ended 31 March 2007: £56,900) through TWUL of £236,682 (period ended 31 March 2007: £56,900) and Thames Water Limited of £81,207 (period ended 31 March 2007: £nil). Details of these charitable donations are:

- £187,942 (period ended 31 March 2007: £56,900) from TWUL's Customer Assistance Fund, thereby helping customers who were unable to settle their outstanding water bills owing to financial difficulty, hardship or distress,
- £100,947 (period ended 31 March 2007: £nil) to the Charities Aid Foundation, and
- £29,000 (period ended 31 March 2007: £nil) to Wateraid.

No charitable or political donations were made by the Company during the year (period ended 31 March 2007: £nil).

Disclosure of information to auditors

Each of the directors at the date of the approval of this report confirms that there is no relevant audit information (as defined by Section 234ZA of the Companies Act 1985) of which the Company's auditors are unaware. Each of the directors have taken all the necessary steps to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' indemnities

During the year the Company has made qualifying third party indemnity provisions for the benefit of its directors, which were made during the year and these remain in force at the date of this report.

Kemble Water Holdings Limited

Directors' Report for the year ended 31 March 2008 (continued)

Statement of directors' responsibilities

The directors are responsible for preparing the Annual report and the financial statements in accordance with applicable law and regulations

Company law requires the directors to prepare financial statements for each financial period. Under the law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law). The financial statements are required by law to give a true and fair view 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 judgements and estimates that are reasonable and prudent,
- state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the 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 Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and PricewaterhouseCoopers LLP will therefore continue in office.

Approved by the Board of Directors on 9 July 2008, and signed by order of the Board of Directors



J 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 year ended 31 March 2008 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 Group and 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

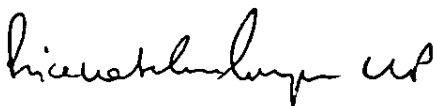
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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 2008 and of the Group's profit and cash flows for the year 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
9 July 2008

Kemble Water Holdings Limited

Consolidated profit and loss account for the year ended 31 March 2008

	Note	Year end 31 March 2008 £m	Year end 31 March 2008 £m	Period end 31 March 2007 £m	Period end 31 March 2007 £m
Turnover (including share of joint ventures)					
- Continuing operations		1,618.5		535.2	
- Discontinued operations		-		3.8	
			1,618.5		539.0
Less share of turnover of joint ventures					
- Continuing operations			(20.9)		(8.9)
Group turnover	2		1,597.6		530.1
Operating costs (including exceptional restructuring costs of £Nil (2007 £18.3m))	3		(1,079.3)		(421.6)
- Continuing operations		518.3		105.3	
- Discontinued operations		-		3.2	
Group operating profit			518.3		108.5
Share of operating profit/(loss) in					
- Joint ventures – continuing operations			0.6		(16.6)
Total operating profit: group and share of joint venture and associates			518.9		91.9
Profit/(loss) on disposal of business	6		-		-
Profit on sale of fixed assets			73.7		15.1
Net interest payable					
- Group		(377.8)		(140.2)	
- Share in joint ventures		(1.9)		(0.8)	
	7		(379.7)		(141.0)
Profit/(loss) on ordinary activities before taxation			212.9		(34.0)
Taxation on profit/(loss) on ordinary activities	8		41.4		(8.4)
Profit/(loss) on ordinary activities after taxation			254.3		(42.4)
Profit/(loss) for the year/period	22		254.3		(42.4)

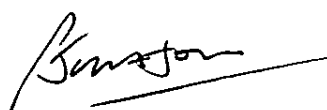
There is no difference between the profit/(loss) on ordinary activities before taxation and the profit/(loss) for the year/period stated above, and their historical cost equivalents

Kemble Water Holdings Limited

Balance sheets at 31 March 2008

	Note	Group		Company	
		31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Fixed assets					
Intangible assets	11	1,715.8	1,733.5	-	-
Tangible assets	12	8,477.8	7,948.0	-	-
Investment in joint ventures					
Share of gross assets		2.6	69.2	-	-
Share of gross liabilities		(2.6)	(68.3)	-	-
	13(a)	-	0.9	-	-
Other fixed asset investments	13(b)	0.1	0.1	1.0	1.0
		10,193.7	9,682.5	1.0	1.0
Current assets					
Stocks	14	9.6	16.8	-	-
Debtors	15	596.8	556.1	2,395.7	2,110.0
Current asset investments	16	53.8	278.8	-	-
Cash at bank and in hand		119.1	198.0	-	-
		779.3	1,049.7	2,395.7	2,110.0
Creditors amounts falling due within one year	17	(1,177.0)	(856.9)	(143.3)	(35.8)
Net current (liabilities)/assets		(397.7)	192.8	2,252.4	2,074.2
Total assets less current liabilities		9,796.0	9,875.3	2,253.4	2,075.2
Creditors amounts falling due after more than one year					
	18	(6,708.6)	(6,967.0)	-	-
Provisions for liabilities and charges	20	(949.4)	(943.1)	-	-
Net assets excluding pension asset		2,138.0	1,965.2	2,253.4	2,075.2
Net pension asset	25	26.1	11.1	-	-
Net assets including pension asset		2,164.1	1,976.3	2,253.4	2,075.2
Capital and reserves					
Called up share capital	21	1,991.6	1,991.6	1,991.6	1,991.6
Profit and loss account	22	172.5	(15.3)	261.8	83.6
Total shareholders' funds		2,164.1	1,976.3	2,253.4	2,075.2

The notes on pages 20 to 57 form part of these accounts. The financial statements on pages 16 to 57 were approved by the Board of Directors on and signed on its behalf by



Sir Peter Mason KBE
Director
9 July 2008

Kemble Water Holdings Limited

Consolidated cash flow statement for the year ended 31 March 2008

Cash flow statement	Note	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Net cash inflow from operating activities	26	907.9	107.9
Dividends received from joint ventures		-	0.4
Net cash outflow from returns on investments and servicing of finance	27	(338.4)	(92.6)
Taxation		(4.4)	(19.0)
Net cash outflow for capital expenditure and financial investment	28	(803.1)	(203.0)
Acquisitions and disposals			
Purchase of subsidiary undertaking		-	(4,859.4)
Cash acquired with subsidiary undertaking	13	-	414.8
Sale of subsidiary undertakings		77.9	13.3
Cash disposed of with subsidiary undertakings		(12.4)	(8.4)
Equity dividends paid to shareholders	9	(72.6)	-
Net cash (outflow) before management of liquid resources and financing		(245.1)	(4,646.0)
Net cash inflow/(outflow) from Management of liquid resources	29	225.0	(131.8)
Financing			
Share issue		-	1,991.6
Cash (outflow)/inflow from (decrease)/increase in debt and lease financing	29	(58.8)	2,984.2
(Decrease)/Increase in net cash		(78.9)	198.0

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in net cash	(78.9)	198.0
Cash (outflow)/inflow from (decrease)/increase in debt and lease financing		
- loans due within one year	(270.3)	(10.9)
- loans due after more than one year	318.0	(6,567.8)
- capital repayment of finance leases	11.1	(215.6)
Cash (inflow)/outflow from (increase)/decrease in liquid resources	(225.0)	278.8
Increase in net debt resulting from cash flows	(245.1)	(6,317.5)
Other non-cash movements		
- foreign exchange translation differences	-	1.4
- capitalised loan interest	-	(0.1)
- RPI uplift on index-linked bond and debt issue cost amortisation	(77.7)	(31.9)
- Fair value amortisation on loans at acquisition	24.6	3.6
Increase in net debt	(298.2)	(6,344.5)
Net debt at 1 April 2007	(6,344.5)	-
Net debt at 31 March 2008	(6,642.7)	(6,344.5)

Kemble Water Holdings Limited

Statement of group total recognised gains and losses for the year ended 31 March 2008

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Group profit/(loss) for the financial year/period	254.3	(42.4)
Foreign exchange adjustments offset in reserves	3.3	0.8
Actuarial gain on pension scheme (see note 25)	3.9	37.6
Deferred tax relating to actuarial gain	(1.1)	(11.3)
Total recognised gains/(losses) relating to the year/period	260.4	(15.3)

Of the above profit of £260.4m (period ended 31 March 2007 loss £15.3m) £261.9m (period ended 31 March 2007 profit £2.3m) related to Group and £1.5m loss (period ended 31 March 2007 £17.6m loss) related to joint ventures

Reconciliation of movements in group shareholders' funds for the year ended 31 March 2008

	Group		Company	
	Year end 31 March 2008 £m	Period end 31 March 2007 £m	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Share issue	-	1,991.6	-	1,991.6
Profit/(loss) for the financial year/period	254.3	(42.4)	250.8	83.6
Foreign exchange adjustments offset in reserves	3.3	0.8	-	-
Actuarial gain on pension scheme (see note 25)	3.9	37.6	-	-
Deferred tax relating to actuarial gain	(1.1)	(11.3)	-	-
Dividend	(72.6)	-	(72.6)	-
Net change in shareholders' funds	187.8	1,976.3	178.2	-
Shareholder's funds as at 1 April 2007 and 17 May 2006	1,976.3	-	2,075.2	-
Shareholders' funds as at 31 March 2008	2,164.1	1,976.3	2,253.4	2,075.2

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

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.

Comparative accounting period

The Company was incorporated on 17 May 2006 resulting in a 10 month and 15 days prior accounting period ended 31 March 2007. The Kemble Holdings Limited Group (the "Group") did not recognise trading results on a consolidated basis until after the Company's wholly owned subsidiary, Kemble Water Limited, acquired the Thames Water Group on 1 December 2006. As a result, the prior period ended 31 March 2007 may not be directly comparable with the financial year ended 31 March 2008.

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.

Changes to accounting policies

The same accounting policies used for the period ended 31 March 2007 have been applied with the following exception.

The amendment of FRS17 'Retirement benefits' has been adopted in these financial statements for the first time and the content of the disclosures it requires have been presented for both the current and comparative period. The amendment to FRS 17 also requires that quoted securities are valued at their current bid-price rather than their mid-market value.

On the basis of materiality, the effect of the change in accounting policy to adopt the amendments to FRS 17 did not affect the brought forward profit and loss reserves or the net actuarial gain/loss in the year.

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 2008, 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 year 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.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

1 Accounting policies (continued)

(a) Basis of consolidation (continued)

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

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 year 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. A life longer than 20 years is deemed appropriate because the goodwill relates primarily to the regulated business of providing water and waste water services which is expected to generate stable revenues and there are significant barriers to entry to this business.

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.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

1 Accounting policies (continued)

(d) Tangible fixed assets (continued)

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

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 year 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	10 - 60 years
Operational structures	5 - 100 years
Other	20 - 60 years
Fixtures, fittings, vehicles and computers	3 - 10 years
Fixed and mobile plant	5 - 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 the profit and loss account.

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 year ended 31 March 2008

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 determinable 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 12.

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

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 year 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 year ended 31 March 2008

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 years 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 via the Statement of Total Recognised Gains and Losses

(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 year, 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 assets and liabilities of the schemes are recognised as a surplus (to the extent the surplus is recoverable) 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 year ended 31 March 2008

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 year.

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 year, together with the differences between profit and loss accounts translated at average rates and rates ruling at the year 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 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 at any time without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

(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 year ended 31 March 2008

1 Accounting policies (continued)

(q) Borrowings

Interest bearing bank loans and overdrafts are recorded at the proceeds received, net of direct issue costs and fair value adjustments at acquisition. 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 year 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 depreciating 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 and development 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) Post balance sheet events

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.

(w) Financial risk management

The Group has a Executive Management Team, 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 year ended 31 March 2008

1 Accounting Policies (continued)

(w) Financial risk management (continued)

The Group's Treasury operations are managed centrally by a small specialist team, which operate with delegated authority of, and under policies approved by, the Board of Directors

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.

(x) 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 year. 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 year 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 is 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 year 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 year. 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 year ended 31 March 2008

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 year 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.

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 determinable 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 12.

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.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

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:

	Year end 31 March 2008			Period end 31 March 2007		
	Regulated £m	Other/non -regulated £m	Total £m	Regulated £m	Other/non- regulated £m	Total £m
Turnover	1,494.2	124.3	1,618.5	473.2	65.8	539.0
Less share of joint ventures	-	(20.9)	(20.9)	-	(8.9)	(8.9)
Group turnover	1,494.2	103.4	1,597.6	473.2	56.9	530.1
Operating profit/(loss)	503.5	14.8	518.3	140.8	(32.3)	108.5
Add share of joint ventures	-	0.6	0.6	-	(16.6)	(16.6)
Group operating profit/(loss)	503.5	15.4	518.9	140.8	(48.9)	91.9
Profit on sale of fixed asset	45.1	28.6	73.7	9.1	6.0	15.1
Add share of joint ventures	-	-	-	-	-	-
Group profit on sale of fixed assets	45.1	28.6	73.7	9.1	6.0	15.1
Net interest payable	(146.3)	(231.5)	(377.8)	(62.9)	(77.3)	(140.2)
Add share of joint ventures	-	(1.9)	(1.9)	-	(0.8)	(0.8)
Group net interest payable	(146.3)	(233.4)	(379.7)	(62.9)	(78.1)	(141.0)
Taxation	(63.9)	105.5	41.6	(29.4)	21.2	(8.2)
Add share of joint ventures	-	(0.2)	(0.2)	-	(0.2)	(0.2)
Group taxation	(63.9)	105.3	41.4	(29.4)	21.0	(8.4)
Profit/(loss) after tax	338.4	(82.6)	255.8	57.6	(82.4)	(24.8)
Add share of joint ventures	-	(1.5)	(1.5)	-	(17.6)	(17.6)
Group profit/(loss) after tax	338.4	(84.1)	254.3	57.6	(100.0)	(42.4)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

2 Segmental analysis (continued)

Balance sheet by class of business:

	31 March 2008			31 March 2007		
	Regulated £m	Other/non- regulated £m	Total £m	Regulated £m	Other/non- regulated £m	Total £m
Fixed assets						
Intangible assets	1,714.3	1.5	1,715.8	1,679.7	53.8	1,733.5
Tangible assets	8,477.8	-	8,477.8	7,919.0	29.0	7,948.0
Investment in joint ventures						
Share of gross assets	-	2.6	2.6	-	69.2	69.2
Share of gross liabilities	-	(2.6)	(2.6)	-	(68.3)	(68.3)
	-	-	-	-	0.9	0.9
Other fixed asset investments	0.1	-	0.1	0.1	-	0.1
	10,192.2	1.5	10,193.7	9,598.8	83.7	9,682.5
Current assets						
Stocks	7.0	2.6	9.6	6.1	10.7	16.8
Debtors amounts falling due within one year	482.6	114.2	596.8	444.6	111.5	556.1
Debtors amounts falling due after one year (inter group loan)	1,223.8	(1,223.8)	-	-	-	-
Current asset investments	15.6	38.2	53.8	112.5	166.3	278.8
Cash at bank and in hand	65.8	53.3	119.1	89.4	108.6	198.0
	1,794.8	(1,015.5)	779.3	652.6	397.1	1,049.7
Creditors amounts falling due within one year	(1,489.5)	312.5	(1,177.0)	(730.9)	(126.0)	(856.9)
Net current (liabilities)/assets	305.3	(703.0)	(397.7)	(78.3)	271.1	192.8
Total assets less current liabilities	10,497.5	(701.5)	9,796.0	9,520.5	354.8	9,875.3
Creditors amounts falling due after more than one year	(4,634.7)	(2,073.9)	(6,708.6)	(3,906.7)	(3,060.3)	(6,967.0)
Provisions for liabilities and charges	(794.2)	(155.2)	(949.4)	(818.0)	(125.1)	(943.1)
Net assets excluding pension assets	5,068.6	(2,930.6)	2,138.0	4,795.8	(2,830.6)	1,965.2
Net pension assets	26.1	-	26.1	11.1	-	11.1
Net assets including pension assets	5,094.7	(2,930.6)	2,164.1	4,806.9	(2,830.6)	1,976.3

The Regulated business net assets above include the net book values of goodwill of £1,714.3m (2007 £1,679.7m), fair value adjustments to tangible assets of £1,997.2m (2007 £2,018.6m) and financial instruments included in creditors falling due after more than one year of £296.8m (2007 £321.4m). The non-regulated business has a goodwill apportionment of £Nil (2007 £44.6m). For further detail of the final goodwill and fair value adjustments pre amortisation, see note 13.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

3 Operating costs

	Year end 31 March 2008			Period end 31 March 2007		
	Continuing operations £m	Discontinued operations £m	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Staff costs (note 5)	237.0	-	237.0	108.4	0.6	109.0
Materials and consumables	85.5	-	85.5	26.5	0.7	27.2
Other operating charges/(credit)	469.7	-	469.7	172.0	(1.0)	171.0
Amortisation of goodwill and intangibles	44.9	-	44.9	14.6	0.1	14.7
Depreciation						
- owned assets	232.7	-	232.7	80.4	0.2	80.6
- infrastructure assets	106.9	-	106.9	35.3	-	35.3
- assets held under finance leases	9.6	-	9.6	3.2	-	3.2
Rentals under operating leases						
- hire of plant and machinery	4.1	-	4.1	1.5	-	1.5
- other	7.4	-	7.4	2.2	-	2.2
Research and development	4.1	-	4.1	1.2	-	1.2
Auditors' remuneration	1.4	-	1.4	0.7	-	0.7
Foreign currency loss/(gains)	3.7	-	3.7	(1.1)	-	(1.1)
	1,207.0	-	1,207.0	444.9	0.6	445.5
Own work capitalised	(127.7)	-	(127.7)	(42.2)	-	(42.2)
	1,079.3	-	1,079.3	402.7	0.6	403.3
Exceptional costs	-	-	-	18.3	-	18.3
	1,079.3	-	1,079.3	421.0	0.6	421.6

Exceptional costs of £18.3m for the period ended 31 March 2007 related to the restructuring of the Thames Water Group including costs associated with dismantling Thames Water Limited as the group head office function, costs associated with divestment of a large part of the non-regulated business, and certain costs of the Thames Water Group sale by RWE AG to Kemble Water Limited. Tax credits attributable to these exceptional costs in the period ended 31 March 2007 were £4.0m.

Comparatives for other operating charges/(credits) have been amended to reclassify severance costs which are now disclosed within staff costs, and auditors remuneration.

Further analysis of auditors' remuneration

	Year end 31 March 2008 £'000	Period end 31 March 2007 £'000
Fees payable to the Company's auditors for the audit of the Company and consolidated accounts	56	82
Fees payable to the Company's auditors and its associates for other services		
- the audit of the Company's subsidiaries pursuant to legislation	424	407
- other services pursuant to legislation	107	75
- tax services	162	68
- all other services	552	-
Audit fees in respect of the Thames Water pension schemes	65	103
	1,366	735

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

4 Information regarding Directors

For the year ended 31 March 2008 a fixed fee of £35,000 was payable on a pro rata basis per annum, based on period of appointment by Thames Water Limited, a subsidiary of the Group, in respect of the services rendered by each of LF Abraira, P Antolik, MW Baggs, R Blomfield-Smith, CR Deacon, GJ Matthews, Dr P Dyer, RJ Gregor, C Lynam, GIW Parsons, AFC DeP Santos, DJ Shah, MSW Stanley, L Webb to ten separate Boards of Directors within the Kemble Water group of companies, including the Company. No additional remuneration was payable to any of these directors other than the fixed fee as noted above. No additional remuneration was payable in respect of any alternate directors whose period of service can be found in the Directors' Report on page 12.

In the case of Sir Peter Mason KBE, a fixed fee of £250,000 (period ended 31 March 2007 £83,333) is shared between Thames Water Limited and Thames Water Utilities Limited. No additional remuneration was payable other than the fixed fee as noted above.

Aggregate total emoluments payable to all the directors for services to the Group for the period amounted to £591,775 (period ended 31 March 2007 £200,000). Total emoluments payable to the highest paid director, Sir Peter Mason KBE, were £250,000.

5 Employees

Employment costs

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Group employment costs including Executive Directors' remuneration		
- Wages and salaries	188.7	73.1
- Social security costs	15.9	6.7
- Other pension costs (note 25)	22.6	12.2
- Severance costs	11.9	17.7
	239.1	109.7
Employment costs included within research and development	(2.1)	(0.7)
Net employment costs	237.0	109.0

Comparatives have been amended to include severance costs which were previously disclosed within other operating charges.

Employee numbers

	Year end 31 March 2008 Number	Period end 31 March 2007 Number
Average monthly number of persons employed by the Group including Executive Directors		
Operations	5,597	6,383
Support	377	562
	5,974	6,945

The Company had no employees during the year (2007 Nil)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

6 Profit/(loss) on disposal of businesses

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Profit/(loss) on disposal of businesses during the year	-	-

On 28 November 2007 the Group sold its interests in its commercial business, Thames Water Services Limited to Veolia Water UK Plc for a cash consideration of £65.5m. As the business was disposed of within one year of acquisition the proceeds of sale have been included in determining the fair value of assets acquired (note 13). Accordingly, after taking into account the net assets disposed of and provisions for disposal, the Group made neither a profit or loss on disposal.

On 11 December 2007 the Group sold its interests in Thames Water Chile Limitada to Inversiones Vientos Del Sur S A and Asesorias E Inversiones Caraves Y Gimpel Limitada for a consideration of Ch\$2 (<£1). After taking into account the net assets disposed of and provisions for disposal, the Group made neither a profit or loss on disposal.

There was no material effect on the amounts reported under any of the standard cash flow headings arising from the subsidiary undertakings acquired or disposed of in the current or preceding period.

7 Net interest payable

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Bank loans, overdrafts and other loans		
- Interest payable on bank loans and overdrafts	50.2	86.6
- Amortisation of issue costs of bank loan	19.9	7.0
- Interest payable on other loans	368.6	57.2
- Interest payable on finance leases	10.0	3.3
Other finance charges	8.1	2.1
Interest payable and similar charges	456.8	156.2
Interest receivable	(40.2)	(11.6)
Amortisation of fair value	(24.6)	(3.6)
Pension interest	(12.3)	-
	379.7	141.0

Included in interest payable on other loans are net swaps of £2.4m (period ended 31 March 2007 £0.9m) comprising interest payable swaps of £1.82m (period ended 31 March 2007 £1.6m) and interest receivable swaps of £15.8m (period ended 31 March 2007 £0.7m).

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

7 Net interest payable (continued)

Included in interest payable on bank loans are net swaps of £124.8m (period ended 31 March 2007 £21.4m) comprising interest payable swaps of £157.4m (period ended 31 March 2007 £34.2m) and interest receivable swaps of £32.6m (period ended 31 March 2007 £12.8m)

8 Taxation on profit/(loss) on ordinary activities

Analysis of credit/(charge) in year /period	Year end 31 March 2008 £m	Period end 31 March 2007 £m
UK corporation tax - amounts recoverable in respect of group relief for the year/period	(0.1)	1.9
Share of associates and joint venture tax	(0.2)	(0.2)
Adjustments in respect of previous periods	11.5	-
Total current tax	11.2	1.7
Deferred tax - origination and reversal of timing differences	(48.8)	(8.9)
Reversal of deferred tax liability on abolition of industrial building allowances	17.0	-
Effect of decreased tax rate from 30% to 28%	57.1	-
Adjustment in respect of previous period	9.1	-
Deferred tax – pension cost charge lower than pension cost relief	(4.2)	(1.2)
Total deferred tax	30.2	(10.1)
Tax credit/(charge) on loss on ordinary activities	41.4	(8.4)

Factors affecting tax credit for year/period

The current tax credit for the year is different to (2007 lower than) the standard rate of corporation tax in the UK of 30%. The differences are explained below

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Profit/(loss) on ordinary activities before taxation	212.9	(34.0)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	(63.9)	10.2
Effects of		
Capital allowances in excess of depreciation and other timing differences	48.8	3.4
Disallowable expenditure and other permanent differences	10.1	(12.9)
Net pension cost charge lower than pension cost relief	4.9	1.2
Adjustments to tax charge in respect of previous periods	11.5	-
Share of associates and joint venture tax	(0.2)	(0.2)
Current tax credit for the year/period	11.2	1.7

The tax charge attributable to the profit on sale of fixed assets is £19.0m (period ended 31 March 2007 £3.4m)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

8 Taxation on profit/(loss) on ordinary activities (continued)

Of the deferred tax credit as at 31 March 2008 of £30.2m (31 March 2007 £10.1m charge), a deferred tax credit for the year ended 31 March 2008 of £34.4m (31 March 2007 £8.0m charge) is shown as a movement within note 20 provisions for liabilities and charges, and a deferred tax charge for the year ended 31 March 2008 of £4.2m (31 March 2007 £1.2m) within note 25 Pension schemes

9 Dividends

	31 March 2008 £m	31 March 2007 £m
First interim paid 36.45p (2007 £nil) per £1.00 ordinary share	72.6	-
	72.6	-

As a post balance sheet event, on 22 May 2008 the directors approved a further interim dividend of £113.4m (56.94p per ordinary share) in respect of the year ended 31 March 2008. This interim dividend was paid on 30 May 2008.

10 Profit of holding company

A profit of £250.8m (period ended 31 March 2007 profit £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.

11 Intangible assets

	Group		
	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 April 2007	1,738.8	9.4	1,748.2
Adjustment to acquisition	34.6	28.8	63.4
Additions	-	0.7	0.7
Disposal of business	-	(37.3)	(37.3)
At 31 March 2008	1,773.4	1.6	1,775.0
Aggregate amortisation			
At 1 April 2007	14.5	0.2	14.7
Charge for the year	44.6	0.3	44.9
Disposal of business	-	(0.4)	(0.4)
At 31 March 2008	59.1	0.1	59.2
Net book value			
At 31 March 2008	1,714.3	1.5	1,715.8
At 31 March 2007	1,724.3	9.2	1,733.5

Other intangible assets include concessions, licences and similar rights and assets

The Company has no intangible assets

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

12 Tangible fixed assets

	Group			
	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	Total £m
Cost				
At 1 April 2007	1,932.0	3,707.9	2,384.8	8,024.7
Acquisition adjustment	-	-	(6.8)	(6.8)
Additions	153.4	559.1	289.1	1,001.6
Disposals	(66.6)	-	(9.2)	(75.8)
Disposal of business	(0.3)	-	(8.4)	(8.7)
Foreign exchange adjustments	-	-	0.5	0.5
At 31 March 2008	2,018.5	4,267.0	2,650.0	8,935.5
Capital contributions				
At 1 April 2007	-	(17.3)	-	(17.3)
Additions	-	(37.6)	-	(37.6)
At 31 March 2008	-	(54.9)	-	(54.9)
Accumulated depreciation				
At 1 April 2007	(13.1)	(35.3)	(11.0)	(59.4)
Provided during the year	(40.2)	(106.9)	(202.1)	(349.2)
Disposals	1.8	-	3.9	5.7
Disposal of business	-	-	0.6	0.6
Foreign exchange adjustments	-	-	(0.5)	(0.5)
At 31 March 2008	(51.5)	(142.2)	(209.1)	(402.8)
Net book value				
At 31 March 2008	1,967.0	4,069.9	2,440.9	8,477.8
At 31 March 2007	1,918.9	3,655.3	2,373.8	7,948.0

The Company has no fixed assets

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

	31 March 2008 £m	31 March 2007 £m
Group		
Freehold land and buildings	1,963.6	1,890.9
Leaseholds - over 50 years	0.9	14.2
- under 50 years	2.5	13.8
	1,967.0	1,918.9

No depreciation has been charged on freehold land included at a cost of £30.6m (2007 £42.7m)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

12 Tangible fixed assets (continued)

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

	31 March 2008		31 March 2007	
	Cost £m	Net Book Value £m	Cost £m	Net Book Value £m
Plant and equipment	272.5	155.2	272.5	164.8

Tangible fixed assets include £1,503.6m (2007 £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 the Group's proposed Thames Gateway Water Treatment Plant, employing desalination technology at Beckton in East London. An appeal was lodged and a public inquiry completed in June 2006. On 9 May 2008, the Greater London Authority dropped its objection to the grant of planning permission.

Upper Thames Major Resource Development Project

On 14 September 2006 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 the Group for a compulsory works order for the construction of the reservoir. To 31 March 2008 the total spent on this project was £34.4m, comprising principally costs of planning, environmental impact assessment, consultation, 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.

13 Fixed asset investments

13(a) Interests in joint ventures and associates

Group	31 March 2008 £m
Opening net assets	0.9
Loss for the period	(1.5)
Disposals	(0.6)
Transferred to provisions	1.2
Net assets carried forward	-

In accordance with FRS 9, 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 20). The negative carrying value of the Group's interests in associated undertakings and joint ventures at 31 March 2008 amounted to £1.8m (2007 £2.9m). A significant amount of the Group's investment in joint ventures was disposed of as part of the sale to Veolia Water UK Plc.

The Group has a significant investment in Metronet and one of its principal contractors Trans4m. In the period from late 2006 onwards the operations of Metronet and its contractors were increasingly affected by insufficient liquidity and the emergence of significant unfunded cost overruns. On 18 July 2007 Metronet went into administration. Accordingly the Group considers that the relationship between investor and investee has irrevocably changed and the Metronet investment is no longer dealt with under the gross equity method of accounting in accordance with FRS 9 - Associates and Joint Ventures. Although Trans4m is not in administration the integrated nature of the relationship between Metronet and Trans4m and the absence of any ongoing activity other than that arising from the Metronet contract means that the relationship between investor and investee is similarly altered and the investment has been treated on the same basis.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

13(a) Interests in joint ventures and associates (continued)

On 1 December, the Group, on acquisition of 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

The associated undertakings and joint ventures are all unlisted. The Company has no (2007 £nil) investments in joint ventures or associates

13(b) Other fixed asset investments

Group

Interests in investments	£m
Cost	
At 1 April 2007	0.1
Additions	10.0
At 31 March 2008	10.1
Impairment	
At 1 April 2007	-
Utilised against provision	(10.0)
At 31 March 2008	(10.0)
Net Book Value	
At 31 March 2008 and 31 March 2007	0.1

The investment and impairment relates to a loan, made during the year, to Trans4m Limited, which as described on page 37, is no longer accounted for using gross equity accounting

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 Thames Water Holdings Limited by Kemble Water Limited. Accordingly, the accounting treatment has been to recognise no profit or loss from Izmit Su As, and to hold the investment in debtors at £47.4m (2007 £49.7m), with an equivalent liability of the Group, held in creditors

Company

	Investment in subsidiary under- takings £m
Cost	
At 1 April 2007	1.0
At 31 March 2008	1.0

The investment relates to Kemble Water Eurobond Plc

See note 32 for a list of principal subsidiaries

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

13 Fixed asset investments (continued)

13(c) Investments in subsidiaries during the prior 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, indirectly wholly owns Thames Water Utilities Limited and a number of other undertakings, see note 32.

The directors have taken the opportunity to finalise the fair values of the net assets acquired in the previous accounting period.

The following table sets out the identifiable assets and liabilities acquired and their fair value to the group.

	At Acquisition £m	Fair value adjustments £m	As previously stated provisional fair value to group £m	Final fair value adjustments £m	Fair value to group £m
Net assets acquired:					
Intangible assets (1)	9.3	-	9.3	28.8	38.1
Tangible assets (2)	5,784.8	2,025.8	7,810.6	(6.8)	7,803.8
Investments	0.9	-	0.9	-	0.9
Stock	20.4	-	20.4	-	20.4
Debtors (3)	646.8	-	646.8	(24.3)	622.5
Current asset investments	147.0	-	147.0	-	147.0
Cash at bank and in hand	414.8	-	414.8	-	414.8
Creditors falling due within one year	(1,080.0)	-	(1,080.0)	(0.5)	(1,080.5)
Creditors falling due after more than one year (4)	(3,583.6)	(325.0)	(3,908.6)	-	(3,908.6)
Provisions for liabilities and charges (5)	(1,020.2)	97.5	(922.7)	(18.8)	(941.5)
Net pension liability	(17.9)	-	(17.9)	-	(17.9)
Net assets acquired:	1,322.3	1,798.3	3,120.6	(21.6)	3,099.0
Goodwill			1,738.8	34.6	1,773.4
Consideration			4,859.4	13.0	4,872.4
Consideration satisfied by					
Cash			4,797.3	-	4,797.3
Other costs of acquisition			62.1	13.0	75.1
			4,859.4	13.0	4,872.4

(1) Adjustment to reflect the fair value of the commercial business

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

(3) Adjustment to reflect fair value of trade debtors

(4) Adjustment to reflect fair value of loans

(5) Adjustment to reflect deferred tax on the fair value of monetary liabilities and other provisions

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

14 Stocks

	31 March 2008 £m	31 March 2007 £m
Group		
Raw materials and consumables	7.0	5.9
Work in progress	1.3	9.3
Finished goods and goods for resale	1.3	1.6
	9.6	16.8

The Company had no stocks (2007 £nil)

15 Debtors

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Due within one year:				
Trade debtors	253.0	214.5	-	-
Amounts owed by group undertakings	-	-	2,395.7	2,110.0
Amounts owed by joint venture undertakings	2.9	19.8	-	-
Corporation tax receivable	9.1	-	-	-
Insurance claims receivable	42.8	49.8	-	-
Other debtors	98.4	78.9	-	-
Prepayments and accrued income	190.6	193.1	-	-
	596.8	556.1	2,395.7	2,110.0
	£m	£m	£m	£m
Inter-company loans				
- Within one year	-	-	1,990.6	1,990.6
	-	-	1,990.6	1,990.6
Non-loan amounts due within one year	-	-	405.1	119.4
	-	-	2,395.7	2,110.0

A loan of £1,990.6 (2007 £1,990.6m) which incurs interest at 18% (2007 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.

16 Current asset investments

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Short term deposits	53.8	278.8	-	-

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

17 Creditors: amounts falling due within one year

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Secured bank loans and overdrafts	280.1	10.2	-	-
Trade creditors – operating	183.5	207.4	-	-
Trade creditors – capital	245.8	209.2	-	-
Amounts owed to joint venture undertaking	-	0.8	-	-
Obligations under finance leases	-	11.8	-	-
Corporation tax payable	-	11.5	143.3	-
Group relief creditor	-	-	-	35.8
Insurance claims payable	42.8	49.8	-	-
Other taxation and social security	11.9	5.9	-	-
Other creditors	47.7	84.4	-	-
Interest creditors	90.4	87.8	-	-
Accruals and deferred income	274.8	178.1	-	-
	1,177.0	856.9	143.3	35.8

In July 2007 the Group arranged for the transfer of two of its leases from Societe Generale to Royal Bank of Scotland. As such, the profile of the rental payments on these leases was changed so that there are no capital repayments until 2009. These leases are now held as falling due after more than one year (note 18 below).

18 Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Secured bank loans	1,932.7	3,099.5	-	-
Other loans	4,398.3	3,495.2	-	-
Obligations under finance leases	204.5	203.8	-	-
Deferred income	173.1	168.5	-	-
	6,708.6	6,967.0	-	-

Other loans are all secured except for a loan of £310.4m (2007: £310.4m). For further detail of security see note 31.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

19 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

Group 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	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 %	2007 %	2008 Years	2007 Years
Current asset investment												
- £ Sterling	53.8	278.8	-	-	-	-	53.8	278.8	-	-	-	-
	53.8	278.8	-	-	-	-	53.8	278.8	-	-	-	-
Cash at bank/hand												
- £ Sterling	118.0	192.4	-	-	-	-	118.0	192.4	-	-	-	-
- \$ US	0.8	0.3	-	-	-	2.3	0.8	2.6	-	-	-	-
- Other	0.3	2.8	-	-	-	0.2	0.3	3.0	-	-	-	-
	119.1	195.5	-	-	-	2.5	119.1	198.0	-	-	-	-
	172.9	474.3	-	-	-	2.5	172.9	476.8	-	-	-	-

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

Group financial liabilities

Interest rate risk profile 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	
	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 £m	2007 £m	2008 %	2007 %	2008 Years	2007 Years
Bank loans and overdraft												
- £ Sterling	294.6	255.8	1,918.2	2,853.9	-	-	2,212.8	3,109.7	7.1	5.2	4.1	3.8
	294.6	255.8	1,918.2	2,853.9	-	-	2,212.8	3,109.7	7.1	5.2	4.1	3.8
Other loans and finance leases												
- £ Sterling	103.1	215.6	4,442.0	3,424.7	-	-	4,545.1	3,640.3	6.5	6.0	27.6	23.9
- \$ US	-	-	7.9	8.3	-	-	7.9	8.3	6.3	6.3	3.1	4.1
- Other	-	-	49.8	63.0	-	-	49.8	63.0	5.6	5.8	1.3	1.9
	103.1	215.6	4,499.7	3,496.0	-	-	4,602.8	3,711.6	6.5	6.0	27.3	23.4
	397.7	471.4	6,417.9	6,349.9	-	-	6,815.6	6,821.3	6.7	5.6	20.3	14.6

*Included in fixed rate liabilities are Index linked bonds at a fixed coupon rate with an indexation adjustment based on RPI

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

19 Financial instruments (continued)

The Group's interest rate and cross currency swaps are £1,479.5m (2007 £2,652.6m) of floating to fixed interest rate swaps and £26.9m (2007 £26.9m) of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £62.4m (2007 £81.8m) of foreign currency borrowings.

The Company has no interest rate swaps nor cross-currency swaps (2007 £nil).

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate borrowings of £6,417.9m (2007 £6,349.9m) equate to 94% (2007 93%) of gross borrowings and 97% (2007 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.

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		Fair value	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets				
Current asset investments	53.8	278.8	53.8	278.8
Cash at bank and in hand	119.1	198.0	119.1	198.0
Financial liabilities				
Bank loans and overdrafts	(2,198.9)	(3,097.3)	(2,196.3)	(3,129.5)
Other loans and finance leases	(4,602.8)	(3,711.6)	(4,583.9)	(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	(13.9)	(12.4)	(8.7)	70.8
	(6,642.7)	(6,344.5)	(6,616.0)	(6,233.2)

Primary financial instruments include bonds, which are traded on a public market. Fair values for these have been calculated using the 31 March 2008 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.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

19 Financial instruments (continued)

Maturities

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors more than 1 year, as disclosed on page 41, is as follows

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Bank loans and overdrafts				
- Within one year	280.1	10.2	-	-
- Between one and two years	157.4	1,197.7	-	-
- Between two and five years	796.4	1,081.5	-	-
- After more than five years	978.9	820.3	-	-
	2,212.8	3,109.7	-	-
Other loans				
- Within one year	-	0.8	-	-
- Between one and two years	49.8	19.2	-	-
- Between two and five years	258.6	303.2	-	-
- after more than five years	4,089.9	3,172.8	-	-
	4,398.3	3,496.0	-	-
Finance leases				
- Within one year	-	11.8	-	-
- Between one and two years	1.2	11.7	-	-
- Between two and five years	92.7	72.2	-	-
- after more than five years	110.6	119.9	-	-
	204.5	215.6	-	-
Total borrowings	6,815.6	6,821.3	-	-

Loans are repayable between 2008 and 2062

Loans wholly repayable after more than five years are

	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Bank loans	978.9	820.3	-	-
Other loans	4,089.9	3,172.8	-	-
	5,068.8	3,993.1	-	-

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

19 Financial instruments (continued)

Other loans include

-	£330m 6 75% MTN Eurobond due 2028	£50m 1 98% Index linked bond due 2042
-	£200m 6 50% MTN Eurobond due 2032	£100m 1 85% Index linked bond due 2047
-	£600m 5 13% MTN Eurobond due 2037	£200m 1 82% Index linked bond due 2049
-	£175m 3 38% Index linked bond due 2021	£200m 1 77% Index linked bond due 2057
-	£300m 1 68% Index linked bond due 2053	£350m 1 76% Index linked bond due 2062
-	£300m 1 68% Index linked bond due 2055	£250m 6 00% Short term loan due 2009
-	£225m 6 59% Guaranteed bond due 2021	£200m 5 05% Guaranteed bond due 2020
-	£250m 4 75% Guaranteed bond due 2010	£835m 8 36% Bank loan due 2013
-	£200m 4 90% Guaranteed bond due 2015	£310 4m 11% Bond due 2021

Loans repayable by instalments after more than five years are	Group		Company	
	31 March 2008 £m	31 March 2007 £m	31 March 2008 £m	31 March 2007 £m
Other loans and finance leases	110.6	119.9	-	-

The range of interest rates on outstanding bank loans, other loans and finance leases are 1.7% to 18.0% (2007 0% to 11%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection. In 2007, there was one interest free loan of £0.2m. Apart from this loan the lowest rate of interest is 1.7%.

Borrowing facilities

At 31 March 2008 the Group has access to committed credit facilities of £1.1bn, (31 March 2007 £nil) of which £0.3bn (31 March 2007 £nil) had been drawn at the balance sheet date, through its subsidiary company Thames Water Utilities Cayman Finance Limited. This new access to funding replaces the Group's previous access to committed facilities through Kemble Water Limited of £0.7bn as at 31 March 2007.

Following the completion of the whole business securitisation programme in August 2007, the Group has access to funding through its wholly owned subsidiary, Thames Water Utilities Cayman Finance Limited's £10bn multi-currency bond programme, of which £0.9bn had been drawn at the balance sheet date.

Previously debt has been raised through its wholly owned subsidiary, Thames Water Utilities Finance Limited's £5bn debt issuance programme, of which £2.9bn (2007 £2.9bn) had been drawn at the balance sheet date. Legacy debt obligations will remain outstanding but it is not expected that any further debt will be issued by Thames Water Utilities Finance Limited.

20 Provisions for liabilities and charges

Group	Deferred Tax £m	Insurance Liabilities £m	Other £m	Total £m
At 1 April 2007	812.7	64.3	66.1	943.1
Adjustment to opening acquisition balances	(22.4)	-	41.2	18.8
Reclassifications	3.6	-	13.0	16.6
Released	-	-	(1.3)	(1.3)
Utilised	(34.4)	(6.0)	(44.6)	(85.0)
Provided during the year	-	-	63.5	63.5
Disposal of business	-	-	(6.3)	(6.3)
At 31 March 2008	759.5	58.3	131.6	949.4

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

20 Provisions for liabilities and charges (continued)

Deferred taxation

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

	£m
Accelerated capital allowances	852.2
Other timing differences	(92.7)
At 31 March 2008	759.5

Total deferred tax provision:

	£m
Included above	759.5
Deferred tax liability provided on pension surplus (see note 25)	10.1
	769.6

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset unrecognised at 28% (2007: 30%) is

	31 March 2008 £m	31 March 2007 £m
Deferred tax asset not recognised in respect of tax losses	66.6	37.6

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

Other provisions principally relate to claims against the Company and represents management's best estimate of the value of settlement and costs. It is estimated that claims will be settled in more than one year.

The Company had no provisions (2007: £nil).

21 Share capital

	31 March 2008 £m	31 March 2007 £m
Group and Company		
Authorised		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6
Allotted, called up and fully paid		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

22 Profit and loss account

	Group		Company	
	Year end 31 March 2008 £m	Period end 31 March 2007 £m	Year end 31 March 2008 £m	Period end 31 March 2007 £m
(Deficit)/profit at beginning of the year/period	(15.3)	-	83.6	-
Profit/(loss) for the financial year/period	254.3	(42.4)	250.8	83.6
Foreign exchange adjustments offset in reserves	3.3	0.8	-	-
Actuarial gain on pension scheme	3.9	37.6	-	-
Deferred tax relating to actuarial gain	(1.1)	(11.3)	-	-
Dividend	(72.6)	-	(72.6)	-
	172.5	(15.3)	261.8	83.6

23 Operating leases

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

Group	2008 £m	2007 £m
Land and buildings		
Leases which expire		
- Within one year	0.2	0.2
- Between one and two years	1.8	-
- Between two and five years	1.1	0.9
- After more than five years	4.6	4.6
	7.7	5.7
Other		
Leases which expire		
- Within one year	1.1	1.0
- Between one and two years	0.7	0.8
- Between two and five years	0.5	0.5
	2.3	2.3

The Company has no commitments to make payments in respect of non-cancellable operating leases (2007 £nil)

24 Capital commitments

Group	31 March 2008 £m	31 March 2007 £m
Contracted for but not provided in the financial statements	497.5	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 (2007 £Nil)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

24 Capital commitments (continued)

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

25 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.

In addition to the ongoing cost of the UK pension arrangements, the Company operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the year ended 31 March 2008 such payments amounted to £3.0m (period to 31 March 2007 £4.0m).

Defined benefit scheme

The latest full actuarial valuation was undertaken as at December 2004. This valuation has been updated at 31 March 2008 by Hewitt Associates Limited ("Hewitt") (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 this note to the accounts.

The next full actuarial valuation as at 31 December 2007 is currently being undertaken by Hewitt. The recent exceptional volatility on the credit markets has impacted the pension valuation as calculated under the requirements of FRS17. Consequently the results of the full actuarial valuation may be significantly adverse to those included in these accounts.

The Group has taken advice from Hewitt in respect of the funding position of the Group's pension schemes and the Group's contribution rate takes account of this position.

Reconciliation of funded status to balance sheet	31 March 2008 £m	31 March 2007 £m
Fair value of scheme assets	1,214.8	1,246.4
Present value of scheme liabilities	(1,098.9)	(1,205.9)
Surplus in scheme	115.9	40.5
Impact of irrecoverable surplus	(79.7)	(24.6)
Asset recognised on the balance sheet	36.2	15.9
Deferred tax liability	(10.1)	(4.8)
Net pension asset	26.1	11.1

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

25 Pension schemes (continued)

Movement in the present value of scheme liabilities

	31 March 2008 £m	31 March 2007 £m
Opening present value of scheme liabilities	1,205.9	1,178.6
Current service cost	25.6	17.2
Interest cost	64.7	29.6
Contribution by scheme participants	5.6	2.5
Actuarial (gains)/losses on scheme liabilities	(157.9)	3.6
Net benefit paid out	(45.0)	(24.6)
Past service cost	-	(5.0)
Termination pension cost	3.0	4.0
Gains on curtailments	(6.7)	-
Loss on settlements	3.7	-
Closing present value of scheme liabilities	1,098.9	1,205.9

Movement in fair value of scheme assets

	31 March 2008 £m	31 March 2007 £m
Opening fair value of scheme assets	1,246.4	1,185.7
Expected return on scheme assets	80.8	34.8
Actuarial (losses)/gains on scheme assets	(102.7)	25.8
Contributions by the employer	26.7	18.2
Contributions by scheme participants	5.6	2.5
Termination pension costs	3.0	4.0
Net benefits paid out	(45.0)	(24.6)
Closing fair value of scheme assets	1,214.8	1,246.4

Expense recognised in the profit and loss account:

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Current service cost	25.6	17.2
Past service cost	-	(5.0)
Curtailement gain	(6.7)	-
Settlement cost	3.7	-
Interest cost	64.7	29.6
Expected return on scheme assets	(80.8)	(34.8)
Impact of restriction on expected return on assets due to irrecoverable surplus	3.8	7.3
	10.3	14.3

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

25 Pension schemes (continued)

The expense is recognised in the following line items in the profit and loss account:

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Operating costs staff costs	22.6	12.2
Other finance income/(expense)	(12.3)	2.1
Total expense charged in the profit and loss account	10.3	14.3

Analysis of amount recognised in the Statement of total recognised gains and losses:

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Actual return less expected return on pension scheme assets	(102.7)	25.8
Experience (losses)/gains arising on the scheme liabilities	(5.4)	11.7
Changes in assumptions underlying the present value of scheme liabilities	163.3	(15.3)
Adjustment relating to irrecoverable surplus	(51.3)	15.4
Actuarial gain recognised in the Statement of total recognised gains and losses	3.9	37.6
Cumulative amount of gains recognised in the Statement of total recognised gains and losses	41.5	37.6

Fair value of scheme assets and return on these assets:

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 average expected long-term rate of return obtained by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio are shown in the following table

	31 March 2008		31 March 2007	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	8.5%	519.9	8.8%	577.8
Bonds	5.5%	70.9	5.3%	66.0
Gilts	4.3-4.5%	532.3	4.5-4.8%	472.4
Property	7.5%	82.9	7.8%	95.0
Other assets	6.0%	8.8	5.5%	35.2
Average expected long-term rate of return/total fair value of assets	6.4%	1,214.8	6.8%	1,246.4

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

25 Pension schemes (continued)

Thames Water employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the schemes.

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

	31 March 2008	31 March 2007
Price inflation	3.7%	3.2%
Salary increases	4.7%	4.2%
Pension increases	3.7%	3.2%
Discount rate for scheme liabilities	6.9%	5.4%

In valuing the liabilities of the pension schemes at 31 March 2008, mortality assumptions have been made as indicated below. These mortality assumptions are based on the recent actual mortality experience of members within the schemes and the assumptions also allow for future mortality improvements.

The assumptions are that a male member who retires in 2028 at age 60 will live on average for a further 25 years after retirement or a further 28 years after retirement if she is female. Furthermore, a current male pensioner aged 60 will live on average for a further 24 years after retirement or a further 26 years after retirement if they are female.

History of fair value of assets, present value of liabilities, surplus in scheme and experience gains and losses:

	31 March 2008 £m	31 March 2007 £m
Fair value of scheme assets	1,214.8	1,246.4
Present value of scheme liabilities	(1,098.9)	(1,205.9)
Surplus in scheme	115.9	40.5

Experience adjustments:

	31 March 2008 £m	31 March 2007 £m
Experience (losses)/gains on scheme assets:		
Amounts	(102.7)	25.8
Percentage of scheme assets	8.5%	2.1%
Experience (losses)/gains on scheme liabilities:		
Amounts	(5.4)	11.7
Percentage of scheme liabilities	0.5%	1.0%
Total amount recognised in the Statement of total gains and losses:		
Amounts	3.9	37.6
Percentage of present value of scheme liabilities	0.4%	3.1%

The Group expects to contribute approximately £32.1m to the defined benefit schemes in the next financial year.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

26 Net cash inflow from operating activities

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Group operating profit (after exceptional operating items)	518.3	108.5
Depreciation	349.2	119.1
Amortisation	44.9	14.7
(Increase)/decrease in stocks	(0.2)	2.7
(Increase)/decrease in debtors	(33.5)	64.5
Increase/(decrease) in creditors	20.5	(195.2)
Increase in provisions	12.9	-
Difference between pension charge and cash contributions	(4.2)	(6.0)
Foreign exchange	-	(0.4)
	907.9	107.9

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

27 Net return on investments and servicing of finance

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Interest received	76.8	12.0
Finance lease interest paid	(16.5)	-
Other interest paid	(398.7)	(104.6)
	(338.4)	(92.6)

28 Net capital expenditure and financial investment

	Year end 31 March 2008 £m	Period end 31 March 2007 £m
Purchase of tangible fixed assets	(804.6)	(206.5)
Purchase of intangible fixed assets	(0.7)	(0.1)
Infrastructure renewals expenditure	(160.4)	(45.7)
Capital contributions received	56.6	17.3
Investment	(10.0)	-
Proceeds on sale of tangible fixed assets	116.0	32.0
	(803.1)	(203.0)

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

29 Analysis of net debt

	At 1 April 2007 £m	Cash flow £m	Exchange movements £m	Other non- cash movements £m	At 31 March 2008 £m
Cash at bank and in hand	198.0	(78.9)	-	-	119.1
	198.0	(78.9)	-	-	119.1
Loans due within one year	(11.0)	(270.3)	0.2	1.0	(280.1)
Loans due after more than one year	(6,594.7)	318.0	(0.2)	(54.1)	(6,331.0)
Finance leases	(215.6)	11.1	-	-	(204.5)
	(6,821.3)	58.8	-	(53.1)	(6,815.6)
Liquid resources	278.8	(225.0)	-	-	53.8
Total	(6,344.5)	(245.1)	-	(53.1)	(6,642.7)

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 16.

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.

30 Related parties

During the year, the Group completed the following sales to and purchases from 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	Year end	31 March	Period end	31 March
			31 March	2008	31 March	2007
			Sale value £m	Amount due £m	Sale value £m	Amount due £m
*Metronet Rail SSL Limited	Investment	Technical service fee	1.0	-	0.5	0.1
*Metronet Rail BCV Limited	Investment	Technical service fee	0.4	-	0.5	-
Trans4m Limited (1)	Investment	Technical service fee	2.5	-	5.1	0.5
Stirling Water Seafield Holdings Limited	Joint Venture	Products and services	7.7	-	3.7	1.1
Stirling Water (2003) Limited	Associate	Products and services	2.2	-	0.8	0.3
Scottish Water Solutions Limited	Associate	Technical service fee	0.6	-	0.5	-
MUJV (Multi-Utility JV)	Joint Venture	General construction	0.3	-	0.2	0.2
			Purchase value £m	Amount owing £m	Purchase value £m	Amount owing £m
Macquarie Group Limited (2)		Management and other services	33.2	25.0	31.0	1.0

* These companies were placed into administration on 18 July 2007.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

30 Related parties (continued)

The following items relating to financing are excluded from the table on page 53

(1) Trans4m Limited had a £10 0m (2007 £Nil) working capital advance (see note 13)

(2) Macquarie Group Limited have swaps in place on some of the Group debt. The net interest receivable on these swaps is £5 4m (period ended 31 March 2007 £2 8m). There are no balances outstanding at the year-end (2007 no balance outstanding)

31 Contingent liabilities

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

Mogden Sewage Treatment Works

A number of residents living close to Mogden Sewage Treatment Works have filed a claim against TWUL alleging (in the alternative) nuisance, negligence and breach of Articles 1 & 8 of the First Protocol of the European Convention on Human Rights. A private action is being pursued by 1,350 claimants, 816 Group A claimants (those with property interests) and 534 Group B claimants (those without property interests). At this date, TWUL does not have details of the values of the individual claims being made against it.

Liability is denied and the claim is being vigorously defended by TWUL. A hearing of preliminary legal issues took place in 2007 and judgment on those preliminary issues was handed down on 24 August 2007. The trial of the claim has been listed to commence on 2 February 2009 with a time estimate of 6 weeks.

British Waterways Board

TWUL is in dispute with the British Waterways Board ("BWB") in relation to the charges payable for abstraction of water by the company from the River Lee, whereby BWB are claiming a potentially significant increase in their charges. TWUL is vigorously disputing their claim on the basis that it does not agree with the legal grounds for any increase to these charges or the economic analysis used to justify the level of charges proposed by BWB.

As the competent authority, DEFRA has been asked to determine the issue and it is believed that such determination will take place by means of inquiry. It is unclear when this decision will be made.

Metronet and Trans4m

The Group holds a 20% interest in Metronet Rail SSL Limited and Metronet Rail BCV Limited (together "Metronet"), both companies having been established to maintain and upgrade a large part of London Underground's rail system as part of a public private partnership ("PPP") under a service contract signed with London Underground Limited in April 2003.

The Group also holds a 25% interest in Trans4m Limited ("Trans4m"), the company contracted by Metronet to deliver £1 86 billion of station upgrade and civil engineering works.

Thames Water Services Limited ("TWSL") has contracted with Trans4m under four separate contracts to provide certain station upgrade works and the civil engineering works to Trans4m. During the year this contract was novated to Thames Water Investments Limited ("TWIL").

As a result of significant projected cost overruns and insufficient liquidity, a PPP Administrator was appointed to Metronet on 18 July 2007 and on 30 August 2007 the contract and certain agreements between Metronet and Trans4m were terminated, which led to subsequent terminations of the contracts between Trans4m and TWSL.

The Group continues to maintain its ownership in Metronet and Trans4m, however both companies are no longer trading, and the Group has no further obligations to provide debt or equity to Metronet or Trans4m. The role of the PPP Administrator is to provide stability to Metronet's operations, and to sell Metronet's activities. To that end, on 27 May 2008 the PPP Administrator transferred certain trade and assets of Metronet to two entities established by Transport for London. Trans4m exists solely as a claims entity.

Kemble Water Holdings Limited

Notes to the financial statements for the year ended 31 March 2008

31 Contingent liabilities (continued)

The contracts between Metronet and Trans4m were on a cost reimbursable basis with a target cost and a painshare / gainshare mechanism should costs be above or below the target cost, and should be capped at 22.5% of the initial target cost, indexed (excluding certain costs). Each of Trans4m's shareholders has provided a Parent Company Guarantee, which holds them jointly and severally liable up to the overall liability cap. Trans4m have submitted an Interim Statement of Account in connection with settlement of contractual obligations between Trans4m and the PPP Administrators to Metronet, although to date no final account has been agreed. It should be noted the overruns were largely projected and work ceased prior to completion. As a result it is unclear whether any residual liability by Trans4m up to the capped amount exists.

The contracts between Trans4m and TWIL contain a similar painshare / gainshare mechanism, with an overall liability cap of 22.5% of the initial target cost, indexed. Thames Water Limited has provided Parent Company Guarantees in respect of the four contracts between Trans4m and TWIL. No claim currently exists against TWIL, however should one be made it will be vigorously defended.

Veolia Water UK Plc

The disposal of the commercial businesses of Thames Water was completed on 28 November 2007. There is the possibility of claims under the indemnity and warranty provisions included in the Sale & Purchase Agreement.

Guarantees

Following the completion of the whole business securitisation, which included Thames Water Utilities Holdings, Thames Water Utilities Limited, along with its direct subsidiaries, each Obligor has entered into the Security Trust and Inter-creditor Deed. Under this document the above members will guarantee the obligations of each other Obligor. These companies have guaranteed their obligations with their future cash flows. The guaranteed debt as at 31 March 2008 was £4.8bn.

At 31 March 2008 the Group has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £40m (2007 £392.5m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £41.9m (2007 £32.7m) at 31 March 2008 and certain non Thames Water group companies amounting to £15.5m (2007 £17.4m).

Included within the balance of £41.9m for guarantees provided for contract bonding on behalf of subsidiaries are letters of credit provided in favour of Metronet Rail SSL Holdings Limited and Metronet Rail BCV Holdings Limited (together "Metronet") for £25m in respect of enhanced credit support for the Parent Company Guarantees provided to the two Metronet companies (refer to pages 54 and 55 for more details on the Groups position on Metronet).

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 £1,670m (2007 £3,800m), the amount outstanding at 31 March 2008 was £1,490m (2007 £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 £6.6m (2007 £12.9m), and £11.1m (2007 £15m) secured under a Security Trust Agreement. Security for the letters of credit is provided to the value of £6.9m (2007 £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 year ended 31 March 2008

32 Group undertakings

At 31 March 2008, 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
Thames Water Utilities Finance Limited	England & Wales	Ordinary	-	100%	Subsidiary	Finance Company
Thames Water Utilities Cayman Finance Limited	Cayman Islands	Ordinary	-	100%	Subsidiary	Finance Company
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
Trans4m Limited	England & Wales	Ordinary	-	25%	Investment	Contract management for stations and civil assets
*Metronet Rail SSL Holdings Limited	England & Wales	Ordinary	-	20%	Investment	Maintenance and upgrade of London Underground
*Metronet Rail BCV Holdings Limited	England & Wales	Ordinary	-	20%	Investment	Maintenance and upgrade of London Underground
Europe						
Izmit Su As	Turkey	Ordinary	-	55%	See note 13	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 year ended 31 March 2008

33 Immediate and 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.