

Registered number: 5819262 (England & Wales)

**Kemble Water Holdings Limited**  
Annual report and financial statements  
For the year ended 31 March 2009



# **Kemble Water Holdings Limited**

## **Annual report and financial statements for the year ended 31 March**

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# **Kemble Water Holdings Limited**

## **Directors and advisors at 31 March 2009**

### **Directors**

Sir Peter Mason KBE  
M W Baggs  
E Beckley  
R Blomfield-Smith  
C R Deacon  
Dr P Dyer  
S Kolenc  
C Lynam  
A F C DeP Santos  
D J Shah  
M S W Stanley

### **Independent auditors**

KPMG Audit Plc  
Chartered Accountants  
8 Salisbury Square  
London  
EC4Y 8BB

### **Registered office**

Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

# Kemble Water Holdings Limited

## Directors' Report for the year ended 31 March 2009

The directors present their report and the audited financial statements for the year ended 31 March 2009.

### *Performance highlights*

Over the last two years the Kemble Water Holdings Limited group of companies ("the Group") has delivered a step change in both operational performance and efficiency, meeting and beating the targets agreed with our regulators. This has been achieved by its straightforward "back to basics" approach and by establishing and following clear corporate objectives.

The Group reported its best ever performance in 2007/08 and is pleased to report it has beaten this in 2008/09 across many areas of the business whilst delivering the largest investment programme in the industry and improving Earning before Interest, Tax, Depreciation and Amortisation ("EBITDA") by 3.4%.

- The Group have maintained a consistent level of operational expenditure despite an increase in power costs and an increased level of bad debt as a result of the economic downturn.
- The Group has delivered £1billion of investment this year, whilst still improving its EBITDA.
- Output delivery is on target or ahead of its Monitoring Plan in all key areas ensuring delivery of all outputs by the end of AMP4.
- Leakage of 698 Ml/d means that, for the third successive year, the Group has beaten its leakage target.
- The Group achieved a Security of Supply Index score of 56 compared with a target of 11.
- The Group achieved 99.99% compliance with drinking water standards at the customer's tap, its best ever result.
- Less than 50 properties are suffering from low water pressure, another Group record.
- The customer impact of increased burst mains during the cold spell was mitigated by prompt operational response allowing the Group to meet its target for interruptions to supply.
- 99.92% of the Group's customers are served by sewage works compliant with effluent consent standards maintaining the high standard set last year.
- The Group's pollution avoidance process continues to deliver reductions in wastewater pollution incidents with no incidents in category one (the most serious impact) in 2008 (assessed on a calendar year) and only two pollution incidents in category two, another best ever performance for the Group.
- Stable serviceability attained across all four asset classes for the first time since these assessments were introduced.
- Improvements across customer service measures allowing the Group to meet or beat the targets set by the Water Services Regulation Authority ("Ofwat") and producing its best ever composite customer contacts score.
- The Group has also won a RoSPA award (Royal Society for the Prevention of Accidents) for its health and safety performance. This is a highly respected award within the industry.
- The Group has reorganised for the future by introducing an Asset Owner, service provider business model. This restructuring of the business will provide clear accountability, introduce commercially-based Key Performance Indicators and simplify the Group's business processes.

# Kemble Water Holdings Limited

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

### *Performance highlights (continued)*

- The Group has achieved a "Gold" ranking in this year's Business in the Community Corporate Responsibility Index, up from "Silver" in the previous year (this is an independent benchmark, which assesses how well companies manage their impacts on society and the environment).
- In 2008, Thames Water Utilities Limited ("TWUL"), a subsidiary company, became the first utility to be awarded the Carbon Trust Standard, which recognises "real and sustained emissions reductions".
- In total, the Group achieved its best ever result for the overall performance assessment score ("OPA") of 405.6 compared to 397.0 in 2007/08 (out of a maximum of 437.5).

### *Principal activities*

The principal activity of the Group is the provision of water and wastewater services.

### *Dividend*

As a post balance sheet event, on 3 April 2009 the directors approved a further interim dividend of £60.0m (56.94p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid on 29 May 2009. The Group paid interim dividends totalling £187.2m during the year (2008: £72.6m).

### *Business review*

#### *i) 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 undertakers<sup>1</sup> 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 km<sup>2</sup> 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.

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<sup>1</sup> 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

# Kemble Water Holdings Limited

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

### Financial performance

Performance Measure	Year end 31 March 2009 £m	Year end 31 March 2008 £m (Restated)*	% Movement
EBITDA (2)	1,020.5	986.8	3.4%
Total Capex spend (excluding intangibles) (3)	990.0	1,001.6	(1.2%)
Net cash inflow from operating activities	924.1	907.9	1.8%
Operating expenditure (1)	572.8	678.6	(15.6%)

\*The restatement is explained in note 1 to the accounts.

### b) Financial results

#### - Financial Performance

Group turnover (excluding turnover from share of joint ventures) was £1,579.3m (2008: £1,611.9m (restated)). The Group derives 99% (2008: 94%) of its turnover from the regulated business. Turnover of the regulated business increased by 4.7% compared to the previous regulatory year. Although turnover in the regulated entity increased by 4.7% year on year, Group turnover has reduced due to continued divestment of non-core activity.

Group operating expenditure for the year, from continuing operations, excluding amortisation, depreciation and IRC was £572.8m (2008: £678.6m restated). The regulated business has maintained the level of operating costs despite seeing a significant rise in power costs by focusing on driving operational efficiencies whilst ensuring the delivery of its regulatory outputs.

During the year the Group disposed of fixed assets for a profit of £15.3m (2008: £73.7m) reflecting the slow down in the property market and therefore the decreased level of activity compared to the prior year.

Net interest for the year was £372.5m (2008: £379.7m), including £26.7m (2008: £50.2m) payable on bank loans, and £478.3m (2008: £243.3m) payable on other loans.

Profit on ordinary activities before taxation for the year was £243.0m (2008: £212.9m). The profit for the financial year after charging taxation was £140.1m (2008: £254.3m).

#### - Financial Position (at year end)

The Group's fixed asset net book value at the year-end 31 March 2009 is 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 £608.1m is largely due to the following:

<sup>1</sup> Operating expenditure: Operating costs, excluding depreciation and the Infrastructure Renewals Charge.

<sup>2</sup> EBITDA: Earnings before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge ("IRC").

<sup>3</sup> Total Capex Spend: Total expenditure on tangible fixed assets excluding contributions received, see note 13 to the financial statements.

# Kemble Water Holdings Limited

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

### b) Financial results (continued)

- Total gross capital investment for the year was £990.0m (2008: £1,001.6m). 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.
- Total amortisation and depreciation, including IRC for the year was £405.3m (2008 £394.1m).

### c) 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 ("KPIs") 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.

Performance Measure	Components	Maximum OPA Score	Year to 31 March 2009	Year to 31 March 2008	Year to 31 March 2007
Water Supply	DG2 & Water quality	125.0	120.9	122.1	111.8
Sewerage service	DG5, Flooding incident	75.0	54.0	44.7	37.1
Security of supply	DG4, Leakage and security of supply	50.0	45.1	45.0	42.7
Customer services	DG6,7,8,9	75.0	74.6	72.7	69.8
Environmental performance-Water	Pollution incidents	12.5	11.7	12.5	11.7
Environmental performance-Waste	Pollution incidents & sludge disposal	100.0	99.3	100.0	69.8
<b>Overall Performance Assessment ("OPA")</b>		<b>437.5</b>	<b>405.6</b>	<b>397.0</b>	<b>342.9</b>
Incidence Rate – accidents per 1,000 employees	N/a	N/a	6.7	8.3	8.1

# **Kemble Water Holdings Limited**

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

### ***c) Non-financial performance measures (continued)***

The above performance measures are an internal split to enable management of the various components of regulatory performance.

#### **OPA**

The OPA score is an important measure used by Ofwat to assess the performance of the water and sewerage undertakers. It incorporates all of the performance criteria that the Group needs to measure to ensure that it will meet the needs and priorities of its customers in line with the Group vision "If customers had a choice, they would choose Thames Water". In the prior year the Group saw a significant increase in the OPA score (being the first full year that the current management team was in office) and through continued focus on the various components of the OPA the Group has delivered further improvement to this score.

#### ***Regulatory KPI highlights***

Below is a summary of some of the key changes in the business that the Group has used to drive its OPA improvement.

#### ***Water Service***

- The Group has beaten its leakage target for the third successive year and mitigated the impact of burst mains supply interruptions to customers whilst dealing with the coldest winter for 12 years.
- The Group has again improved security of water supplies to customers above the target level and reduced the number of customers affected by low pressure to an all-time low of just 34 properties.
- The Group has delivered its best-ever result for drinking water standards at the customer's tap at 99.99%.

#### ***Sewerage Service***

- The Group has maintained its previous sewerage works performance with 99.92% of its customers served by compliant works.
- The Group has further reduced pollution incidents with no incidents in category one (the most serious impact) in 2008 (based on a calendar year) and only two pollution incidents in category two. This is another best ever performance for the Group.

#### ***Customer Service***

- Improvements have been made across customer service measures allowing the Group to meet or beat Ofwat targets and producing its best ever, composite customer contacts score.
- The refurbished Customer Centre at Swindon includes a new telephony system to enable it to respond to customer calls more effectively.
- Through the "Ten for Ten" initiative the Group has committed £10m to benefit disadvantaged customers and fund community projects. Half the money is being endowed to the Thames Water Trust Fund. This independent charity launched in February 2009 and has already provided assistance to hundreds of disadvantaged customers in the Thames Water service area. The Group is working with a variety of partners and stakeholders in developing other Ten for Ten initiatives.



# **Kemble Water Holdings Limited**

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

### ***Customer Service (continued)***

- The Group has increased the level of guarantee payments to customers in the event that it fails to meet its Customer Service Standards. The Group has also introduced discretionary payments for customers whose properties have been flooded more than once.
- By clarifying and upgrading its customer side leakage policy the Group hopes to reduce the previously high level of complaints on this issue.

The Group's improvements mean that it has seen a 30% reduction in complaint volumes this year.

### ***Capital programme delivery***

- Output delivery is on target or ahead of the Group's Monitoring Plan in all key areas ensuring delivery by the end of AMP4.
- Key projects are in progress such as the Tideway Tunnel. The London Borough of Newham and the London Gateway Development Corporation granted planning permission on 11 June 2009 for the Lee Tunnel. Meanwhile the Group is progressing well with enabling works at its Beckton site and it has short listed the contractors from its tender evaluation. The Group continues to select sites for the route of the Thames Tunnel and has just issued a revised consultation document based on the feedback from its first consultation.
- The Government's decision to proceed with the Tideway Tunnel meant changes to the original requirements for the Group's Tideway sewage works. Improvements at five major sites are planned and the Group is currently out to tender for the work.
- The Victorian Mains Replacement Programme was accelerated to offset delays to the planning approval for the Thames Gateway Water Treatment Plant. The programme is proving successful in reducing leakage and Ofwat have agreed to extend the programme in AMP4 by a further 300km.
- With the withdrawal of the challenge to the planning approval on the Thames Gateway Water Treatment Plant, the construction phase has now commenced.

### ***Incidence Rate – accidents per 1,000 employees***

Management continue to focus on health and safety. The headlines for 2008/09 show a significant improvement in our processes and compliance capability:

- The Group has achieved a significant reduction in reportable accidents across the business.
- The new Thames Water online Health Safety and Environment Management System (Safeguard) has been rolled-out to Waste Water Services and Water Services allowing remote, electronic reporting of accidents.
- During European Week for Health & Safety the Health, Safety and Environment Group ran a successful campaign focusing on risk assessment and hazard identification and received 89% of the required responses, making it the most successful campaign in recent years.

# **Kemble Water Holdings Limited**

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

### ***Incidence Rate – accidents per 1,000 employees (continued)***

The Health, Safety & Environment Training section has achieved accreditation from the Institute of Occupational Safety and Health to run the Managing Safely course and the programme of courses began in October 2008. It has also achieved Health and Safety Executive accreditation to run First Aid Training courses.

### ***Transforming Thames***

The Group has recently undertaken a number of business led initiatives, the cornerstone of which is to organise Thames Water with the aspiration to become 'the best utility by far in the UK'. Underpinning these initiatives are two major projects:

- The establishment of an Asset Owner/Service Provider organisation.
- The implementation of SAP's Enterprise Business Application suite.

As an infrastructure business with a requirement for investment estimated to be £5.5 billion within the next AMP, the Group recognises that to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business, it will need to implement a new business model based on an Asset Owner and Service Provider organisation where the Asset Owner will agree the Plan and the Service Provider will attempt to beat that Plan by continuously driving efficiencies throughout the AMP. This restructuring of the business will provide clear accountability, introduce commercially based Key Performance Indicators and simplify the Group's business processes. It will also provide the catalyst and visibility to build an excellent asset management capability.

Alongside the development of an Asset Owner and Service Provider organisation, the implementation of SAP will enable the Group to deploy best practice, end-to-end, business processes across its operations and provide further operating efficiencies. Both of these initiatives will be substantially delivered in 2009 and significant progress has been made since the half-year accounts were published.

In January 2009, a group-wide re-organisation was announced as part of the implementation of the new operating model, as well as being in response to the current downturn in the external economic environment. Consultation with the recognised Trade Unions has continued throughout the re-organisation process and it is anticipated that approximately 150 voluntary and compulsory redundancies will take place as a result of the re-organisation which is due to conclude by the end of June 2009. In addition, the group has negotiated changes to working patterns for employees within parts of Customer Service to ensure that the needs of our customers are met.

# Kemble Water Holdings Limited

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

### *Risk Overview (continued)*

#### **d) Principal risks and uncertainties**

The Group's Risk Management process is integrated within the business, and is designed both to identify emerging risks and to minimise the adverse impact of emerging and existing risks. Each business area is responsible for managing its risks, and maintains a risk register, which is reviewed regularly. Significant risks are escalated and reviewed by the Executive Management Team ("EMT").

The Group is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These include:

- **PR09 Determination** – The PR09 process determines the level of expenditure authorised over the coming 5-year Asset Management Period, and accordingly the revenue available to the Group. Although the Group has engaged fully with Ofwat and other stakeholders through the process to date, and continue to do so, there remains a risk that sufficient funding will not be received to fully finance the Group and maintain and upgrade its assets in order to provide the service expected by its customers.
- **Employee pension scheme funding** – The Group operates two Final Salary pension schemes. In March 2009, the Group agreed a deficit repair plan, including increased employer contributions backdated to April 2008 and increased employee contributions from April 2009, combined with a review of benefits. Falling asset values over the financial year have increased the potential pension deficit, and there is a risk that the Group may be required to make further employer contributions to safeguard members' benefits.
- **Failure to maintain adequate funding arrangements** – As at 31 March 2009, the Group has adequate cash at bank and short-term deposits (circa £500m) and undrawn committed bank facilities (£1.1billion) in place to provide liquidity as required. The Group will need to renew committed facilities before August 2010. The Group has been extremely successful in raising new debt financing in difficult market conditions, with circa £1.2billion raised in the financial year to 31st March 2009. However, due to on-going difficulties in credit markets there is a risk that the cost of raising new debt and refinancing bank facilities will put pressure on key financial covenants (as defined by our capital structure). Falling RPI and the impact on the Regulated Capital Value ("RCV") creates further pressure on financial covenant headroom, specifically the ratio of net debt to RCV ("Senior RAR").
- **Failure to meet regulatory targets** – The Group is required to meet targets set by Ofwat, the Environment Agency, the Drinking Water Inspectorate and other regulators. In order to achieve this, the Group must continue to improve operational performance whilst at the same time controlling the cost base. Performance against regulatory targets is the subject of frequent management review.
- **Impact of the economic downturn** – Aside from the potential difficulties in obtaining finance, the Group is exposed to the risk of failure by external counterparties (banks, insurers and contracted service providers) and to increased risk of customer defaults on payments and reduced consumption.
- **Future changes in laws or regulations** – 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.

# Kemble Water Holdings Limited

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

### *Risk Overview (continued)*

- **Failure of a major asset** – A failure at one of the Group's major assets could significantly impact the safety of the Group's workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets. The impact would be both financial and reputational, and as a result the Group has a specific process to manage the identified risks.
- **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 its 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.
- **Shortage of skilled labour** – The shortage of available skilled labour in London and the South East creates an environment where 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.
- **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. Consequently, the Group has engaged with Ofwat in the consultation process and the discussion of potential competition models.
- **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 (y) of the Accounting policies on page 30.

### *e) Looking further ahead*

The Group delivered its final Business Plan to Ofwat for 2010 to 2015 in 2009. This Plan is consistent with its strategy for the next 25 years, which the Group set out in its Strategic Direction Statement in 2007 'Taking care of water' and is built on the largest stakeholder consultation exercise the Group has ever undertaken.

In discussion with customer groups the Group has received the clear direction that, if the work is really needed, then customers are prepared to pay for it to be done – as efficiently as possible. It is on this basis that the Plan has been prepared.

It also responds to the constructive feedback received from Ofwat, the Consumer Council for Water and others on the draft Plan published in August 2008, demonstrating that the Group has listened and taken on board the comments raised.

The Group's final Plan proposes £5.5 billion of capital investment. This is essential investment that the Group must undertake if it is to maintain stable serviceability, achieved during AMP4, manage unacceptable failure risk at the critical infrastructure assets and deliver the priorities that customers want addressed. To delay investment in this essential work would inevitably lead to a deterioration in service and larger bills at some stage in the future.

### *Economic Outlook*

Since the summer of 2008, the economic outlook has changed markedly and the Group finds itself operating in very different conditions. There has been a prolonged period of instability in financial markets, resulting in a sharp increase in the cost of finance. The economy has entered a recession with the immediate reality of deflation.

# **Kemble Water Holdings Limited**

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

### **e) Looking further ahead (continued)**

#### ***Economic Outlook (continued)***

These events have had a direct impact on the business and have brought:

- An increase in the cost of borrowing money to finance the necessary investment in the Group's assets.
- Further rises in levels of customer bad debt as tightening household financial circumstances and increased unemployment challenges the ability of the Group's customers to pay.
- Lower revenues as a result of a sharp decline in the metered demand for water.

These risks to the business mean the Group faces a challenging final 12 months of this five-year period, and difficult economic conditions well into the next. In view of the economic downturn, which is affecting both the Group's customers and the business, the Group has re-examined every aspect of the Plan to ensure that all the work the Group intends to undertake continues to be essential in current circumstances. This has led the Group to take on substantially more operational, financial and reputational risk in the final Business Plan and to reduce the investment proposals in order to ensure that the proposals remain affordable.

#### ***Implications for our investment proposals and Capital Incentive Scheme ('CIS') Baseline***

The Group has only been able to make the significant reductions to the investment plan by taking tough decisions. This has increased the level of risk the Group will have to bear from 2010 to 2015. The Group has accepted Ofwat's challenges levelled at non-cost beneficial projects and complied with their request to remove £400m of climate change driven investment on the basis that Ofwat will develop an adapted change mechanism to reflect additional funding required to meet the updated climate change scenarios. The Group believes this is the right approach in the current economic climate in order to ensure that the Group can provide the service that our customers want at an affordable price.

The Group's Business Plan received positive feedback from Ofwat who ranked the Group third in the industry in terms of their CIS assessment of planned capital expenditure. The Group recognises that this was a good result – but it does not believe it was good enough.

The Group strongly believes that the much-improved demonstration of the asset planning approach it has undertaken responds to challenges Ofwat levelled at the Group's Plan and provides strong justification for the capital maintenance expenditure.

The Group expects all of the confirmed new legal obligations it faces to be reflected in the final price limits, and believe that the scale of additional risk the Group is prepared to face over the next five years will be recognised by Ofwat when it sets the scale of its efficiency challenge.

In recognition of the rigorous scrutiny and challenge the Group has applied to its proposals, it firmly believes that the capital expenditure in its final Business Plan will be fully funded by Ofwat.

#### ***Implications for the Costs of Capital***

For the Group to deliver its investment programme it will need to raise an unprecedented level of funding of around £3.0billion from lenders and investors in a financial market that is likely to remain both highly volatile and limited in capacity. The Group's ability to secure this funding will depend on its ability to provide returns that reflect the risks taken by those capital providers.

# **Kemble Water Holdings Limited**

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

### **e) *Looking further ahead (continued)***

Economic conditions will be more challenging than assumed at the time of the last Price Review in 2004, and the Group is facing higher relative risk on this larger capital expenditure programme. The AMP5 WACC (Weighted Average Cost of Capital) contains significant cost challenges but also passes on the relatively competitive debt terms obtained for the debt already raised in the early part of AMP4 to customers.

#### ***Implications for Customers Bills***

It is understandable that many customers would prefer that their bills were kept steady or even reduced. The problem is that this could only be achieved by delaying essential work and would inevitably lead to deterioration in service and higher bills at some stage in the future. The Group's research and consultation demonstrates that customers, in the main, recognise this, continue to offer the Group strong support, and are willing to pay for the proposed investment plans.

The Group has a responsibility to invest sensibly and consistently, and not only in the good times. In discussion with customer groups the Group has received the clear preference that if the work really needs to be done, then customers are prepared to pay for it to be done – as efficiently as possible. That is the Group's view too, and it is on that basis that the Group has prepared the final Business Plan. In addition, the Group has adjusted the balance of risk between customers and the Group. The Group's shareholders will now bear a greater proportion of the total risk from increases in operating costs and the capital programme, leading to a reduction in the level of bill rises.

#### ***Conclusions on the Strategic Business Plan***

Over the last two years the Group has delivered a step-change in operational performance and efficiency, meeting and beating the targets agreed with the Group's regulators. The Group's Plan will continue that progress, driving further cost savings throughout the next five years, with the benefits being shared with customers.

But that alone will not be sufficient to achieve the Group's vision. That is why the Group will focus its investment on tackling the root causes of the areas where customers are dissatisfied. In doing that, it can reduce the cost of dealing with complaints, provide a better service and release funds to pay for further improvements.

The Group's final Business Plan has been developed by the Executive Management Team ("EMT"), with the full engagement and support of the Board and shareholders.

The Group's recent experience gives it confidence that it can deliver this large and important programme of improvements over the next five years.

However, the Group fully expects to be held accountable by its customers, by its regulators, and by its shareholders for ensuring that it delivers the Plan efficiently in every respect.

# Kemble Water Holdings Limited

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

### iii) The Non-Regulated Business

#### a) Activity

Consistent with its strategy to focus on core regulated activities, during the year the Group disposed of its commercial interests in Turkey. This is discussed further in note 3 to the financial statements.

#### b) Metronet and Trans4m

Please refer to note 21 'Provisions for liabilities and charges'.

### **Directors**

The directors who held office during the year ended 31 March 2009 and to the date of signing were:

Sir Peter Mason KBE - Chairman  
L F Abraira (resigned 1 January 2009)  
M W Baggs  
E Beckley (appointed 19 January 2009)  
R Blomfield-Smith  
C R Deacon  
Dr P Dyer  
S Kolenc (appointed 9 February 2009)  
C Lynam  
G I W Parsons (resigned 19 January 2009)  
A F C DeP Santos (appointed 1 January 2009)  
D J Shah  
M S W Stanley  
L Webb (resigned 9 February 2009)

During the year under review, none of the directors had significant contracts with the Company or any other body corporate within the Group, other than their contracts of service, except as disclosed in note 30 to the accounts.

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

Director	Alternate Director
L F Abraira (resigned 1 January 2009)	P Gomez (resigned 1 January 2009)
R Blomfield-Smith	P E D Crone (resigned 6 March 2009)
	K Boesenberg (appointed 1 April 2009)
C R Deacon	R D Israel
S Kolenc (appointed 9 February 2009)	L Webb (appointed 9 February 2009)
G I W Parsons (resigned 19 January 2009)	E Beckley (resigned 19 January 2009)
A F C DeP Santos (appointed 1 January 2009)	S Batey (appointed 1 January 2009)
D J Shah	W R McKenzie (resigned 9 February 2009)
	C van Heijningen (appointed 9 February 2009)
L Webb (resigned 9 February 2009)	S Kolenc (resigned 9 February 2009)
C Lynam	M W Baggs (appointed 21 January 2009)

### **Research and development**

Expenditure on research and development of £3.5m (2008: £4.1m) 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.

# **Kemble Water Holdings Limited**

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

### ***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 the 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.

#### ***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 (2008: 70 days) purchases received from these creditors.

#### ***Political and charitable donations***

No political donations were made by the Group. The Group made charitable donations totalling £1,121,511 (2008: £344,619) Details of these charitable donations are:

- £377,426 (2008: £235,879) 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.
- £477,900 (2008: nil) to Thames Water Trust fund and Aruiga Services
- £152,385 (2008: £9,740) to the Charities Aid Foundation.
- £7,800 (2008: £29,000) to Wateraid.
- £60,000 (2008: £60,000) to Thames 21, a range of charities who assist in cleaning rivers and streams within the Thames Valley.
- £43,500 (2008: nil) to improve the River Wandle in South London.
- £2,500 (2008: nil) to a variety of small charities.



# Kemble Water Holdings Limited

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

### *Political and charitable donations and expenditure (continued)*

No charitable or political donations were made by the Group during the year (2008: £nil).

### *Disclosure of information to auditors*

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Group's auditors are unaware; and each director has taken all the steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Group's auditors are aware of that information.

### *Directors' indemnities*

The Group has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report.

### *Auditors*

During the year, Pricewaterhouse Coopers LLP resigned as auditors and KPMG Audit Plc were appointed. A resolution to reappoint KPMG Audit Plc as the Group's auditors will be proposed at a General Meeting.

By order of the Board



J Hanson

Company Secretary

Clearwater Court  
Vastern Road  
Reading  
Berkshire RG1 8DB

17 June 2009

# **Kemble Water Holdings Limited**

## **Statement of directors' responsibilities in respect of the annual report and the financial statements**

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 year. Under that law they have elected to prepare the group and parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

The Group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the Group and the parent company and of the profit or loss for that year.

In preparing these financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently.
- Make judgements and estimates that are reasonable and prudent.
- State whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.



## KPMG Audit Plc

8 Salisbury Square  
London  
EC4Y 8BB  
United Kingdom

### **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 2009 which comprise the Group Profit and Loss Account, the Group and Company Balance Sheets, the Group Cash Flow Statement, the Group Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the company's members, as a body, in accordance with section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

#### **Respective responsibilities of directors and auditors**

The directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities on page 16.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

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

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

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **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

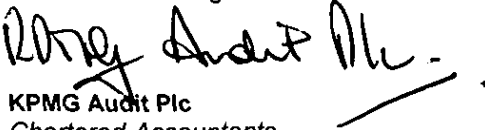
## **Independent auditors' report to the members of Kemble Water Holdings Limited (continued)**

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 UK Generally Accepted Accounting Practice, of the state of the group's and the parent company's affairs as at 31 March 2009 and of the group's profit 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.



KPMG Audit Plc  
Chartered Accountants  
Registered Auditor

17 June 2009

# Kemble Water Holdings Limited

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

	Note	Year end 31 March 2009 £m	Year end 31 March 2008 (Restated*) £m
Turnover (including share of joint ventures)		1,579.3	1,611.9
Less: share of turnover of joint ventures		-	(20.9)
<b>Group turnover</b>	2	<b>1,579.3</b>	<b>1,591.0</b>
Operating costs		(1,003.7)	(1,072.7)
Exceptional item	4	25.9	-
<b>Total operating costs</b>	3	<b>(977.8)</b>	<b>(1,072.7)</b>
<b>Group operating profit</b>		<b>601.5</b>	<b>518.3</b>
Share of operating (loss)/profit in:			
- Joint ventures		(1.3)	0.6
<b>Total operating profit: group and share of joint venture and associates</b>		<b>600.2</b>	<b>518.9</b>
Profit on sale of fixed assets		15.3	73.7
- Interest receivable and similar income	7	183.7	125.5
- Interest payable and similar charges	8	(556.2)	(503.3)
- Share in joint ventures		-	(1.9)
		<b>(372.5)</b>	<b>(379.7)</b>
<b>Profit on ordinary activities before taxation</b>		<b>243.0</b>	<b>212.9</b>
Taxation (charge)/credit on profit on ordinary activities	9	(102.9)	41.4
<b>Profit for the year</b>	23	<b>140.1</b>	<b>254.3</b>

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

All amounts relate to continuing operations.

\*The restatement is explained in note 1 to the accounts.

# Kemble Water Holdings Limited

## Balance sheets as at 31 March

	Note	Group		Company	
		31 March 2009 £m	31 March 2008 (Restated*) £m	31 March 2009 £m	31 March 2008 £m
<b>Fixed assets</b>					
Intangible assets	12	1,670.9	1,715.8	-	-
Tangible assets	13	9,085.9	8,477.8	-	-
Investment in joint ventures:					
Share of gross assets		3.9	2.6	-	-
Share of gross liabilities		(3.9)	(2.6)	-	-
		-	-	-	-
Other fixed asset investments	14(b)	2.1	0.1	1.0	1.0
		<b>10,758.9</b>	<b>10,193.7</b>	<b>1.0</b>	<b>1.0</b>
<b>Current assets</b>					
Stocks	15	6.7	9.6	-	-
Debtors	16	506.4	554.0	2,423.4	2,395.7
Current asset investments	17	338.8	53.8	-	-
Cash at bank and in hand		271.3	119.1	-	-
		<b>1,123.2</b>	<b>736.5</b>	<b>2,423.4</b>	<b>2,395.7</b>
Creditors: amounts falling due within one year	18	(1,021.1)	(1,134.2)	(100.4)	(143.3)
<b>Net current assets/(liabilities)</b>		<b>102.1</b>	<b>(397.7)</b>	<b>2,323.0</b>	<b>2,252.4</b>
<b>Total assets less current liabilities</b>		<b>10,861.0</b>	<b>9,796.0</b>	<b>2,324.0</b>	<b>2,253.4</b>
Creditors: amounts falling due after more than one year	19	(7,778.5)	(6,708.6)	-	-
Provisions for liabilities and charges	21	(1,021.4)	(949.4)	-	-
<b>Net assets excluding pension (liability)/asset</b>		<b>2,061.1</b>	<b>2,138.0</b>	<b>2,324.0</b>	<b>2,253.4</b>
Net pension (liability)/asset	26	(44.3)	26.1	-	-
<b>Net assets including pension (liability)/ asset</b>		<b>2,016.8</b>	<b>2,164.1</b>	<b>2,324.0</b>	<b>2,253.4</b>
<b>Capital and reserves</b>					
Called up share capital	22	1,991.6	1,991.6	1,991.6	1,991.6
Profit and loss account	23	25.2	172.5	332.4	261.8
<b>Total shareholder's funds</b>		<b>2,016.8</b>	<b>2,164.1</b>	<b>2,324.0</b>	<b>2,253.4</b>

\*The restatement is explained in note 1 to the accounts. The notes on pages 23 to 60 form part of these accounts.

The financial statements on pages 19 to 60 were approved by the Board of directors on 17 June 2009 and signed on its behalf by



**Sir Peter Mason KBE**  
Chairman

# Kemble Water Holdings Limited

## Consolidated cash flow statement for the year ended 31 March

Cash flow statement	Note	31 March 2009 £m	31 March 2008 £m
<b>Net cash inflow from operating activities</b>	27(a)	<b>924.1</b>	907.9
<b>Returns on investments and servicing of finance</b>	27(b)	<b>(294.2)</b>	(338.4)
<b>Taxation</b>		<b>(3.0)</b>	(4.4)
<b>Net cash outflow for capital expenditure and financial investment</b>	27(c)	<b>(960.4)</b>	(803.1)
<b>Acquisitions and disposals</b>			
Sale of subsidiary undertakings		-	77.9
Cash disposed of with subsidiary undertakings		-	(12.4)
<b>Equity dividends paid to shareholder's</b>	10	<b>(187.2)</b>	(72.6)
<b>Net cash outflow before management of liquid resources and financing</b>		<b>(520.7)</b>	(245.1)
Net cash (outflow)/inflow from management of liquid resources		<b>(285.0)</b>	225.0
<b>Financing</b>			
Cash inflow/(outflow) from increase/(decrease) in debt and lease financing	27(d)	<b>957.9</b>	(58.8)
<b>Increase/(decrease) in net cash</b>		<b>152.2</b>	(78.9)

### Reconciliation of net cash flow to movement in net debt

<b>Increase /(decrease) in net cash</b>	<b>152.2</b>	(78.9)
Cash inflow/(outflow) from increase/(decrease) in debt and lease financing:		
- loans due within one year	<b>75.0</b>	(270.3)
- loans due after more than one year	<b>(1,028.3)</b>	318.0
- capital repayment of finance leases	<b>(4.6)</b>	11.1
Cash outflow/(inflow) from decrease/(increase) in liquid resources	<b>285.0</b>	(225.0)
<b>Increase in net debt resulting from cash flows</b>	<b>(520.7)</b>	(245.1)
Other non-cash movements:		
- RPI uplift on index-linked bond and debt issue cost amortisation	<b>(55.8)</b>	(77.7)
- Amortised bond fees	<b>(8.3)</b>	-
- Fair value amortisation on loans at acquisition	<b>18.0</b>	24.6
<b>Increase in net debt</b>	<b>(566.8)</b>	(298.2)
Net debt at 1 April 2008	<b>(6,642.7)</b>	(6,344.5)
<b>Net debt at 31 March 2009</b>	<b>(7,209.5)</b>	(6,642.7)

# Kemble Water Holdings Limited

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

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Group profit for the financial year	140.1	254.3
Exchange adjustments	(3.4)	3.3
Actuarial (loss)/gain on pension scheme (see note 26)	(136.4)	3.9
Deferred tax relating to actuarial (loss)/gain	39.6	(1.1)
<b>Total recognised gains relating to the year</b>	<b>39.9</b>	<b>260.4</b>

No items relating to joint ventures went through the statement of total recognised gains and losses.

## Reconciliation of movements in shareholder's funds

	Group		Company	
	Year end 31 March 2009 £m	Year end 31 March 2008 £m	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Profit for the financial year	140.1	254.3	257.8	250.8
Exchange adjustments	(3.4)	3.3	-	-
Actuarial (loss)/gain on pension scheme (see note 26)	(136.4)	3.9	-	-
Deferred tax relating to actuarial (loss)/gain	39.6	(1.1)	-	-
Dividend	(187.2)	(72.6)	(187.2)	(72.6)
<b>Net change in shareholder's funds</b>	<b>(147.3)</b>	<b>187.8</b>	<b>70.6</b>	<b>178.2</b>
Opening shareholder's funds	2,164.1	1,976.3	2,253.4	2,075.2
<b>Closing shareholder's funds</b>	<b>2,016.8</b>	<b>2,164.1</b>	<b>2,324.0</b>	<b>2,253.4</b>



# Kemble Water Holdings Limited

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

### 1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Group considered material in relation to the financial statements, except as noted below.

#### Basis of preparation

The financial statements are prepared 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 in accounting policy (g) below.

In accordance with the requirements of FRS 18, the directors review the Group'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.

#### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Directors Report on pages 2 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors Report. In addition note 1 to the financial statements includes the Group's approach to financial risk management.

The Group meets its day to day working capital and capital programme requirements by raising new debt. There is an additional committed revolving credit facility with a group of 9 banks of £750m which is rarely used and is due for renewal by 30 August 2010. The current economic conditions create uncertainty particularly over (a) the level of revenue earned from regulatory activities; (b) the increased occurrence of bad debts ; and (c) the availability of bank finance in the foreseeable future. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Group should be able to operate within the level of its current facility.

The Group will open renewal negotiations with the banks in due course and has at this stage not sought any written commitment that the facility will be renewed. However, the Group has held informal discussions with its bankers about its future borrowing needs and no matters have been drawn to its attention to suggest that renewal may not be forthcoming on acceptable terms.

After making enquiries, the directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

#### Restatements

The Group has restated turnover (page 19) and operating costs (page 19) for the year ended 31 March 2008 to reflect the change in treatment of income from energy generation and the national grid reserve service, which is now treated as other operating income within operating costs (£6.6m). Previously this income was included within turnover. This reclassification does not affect operating profit.

The Group has restated Creditors: amounts falling due within one year (see note 18, page 43) and Debtors (see note 16, page 42) as at 31 March 2008 (£42.8m) to correctly reflect the liability of future insurance obligations. This was a gross up of Insurance liabilities in a subsidiary company which should have been eliminated on consolidation. This does not affect the net assets of the group.

# **Kemble Water Holdings Limited**

## **Notes to the financial statements for the year ended 31 March (continued)**

### **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 2009, and incorporate the results of its share of joint ventures using equity accounting.

The results of subsidiaries disposed of during the year are included in the consolidated profit and loss account from the effective date of disposal. 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.

#### **(b) 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 assets and 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.

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

#### **(c) 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.

#### **(d) 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'. No adjustment is made to reduce revenue by an estimated bad debt charge to reflect the fair value as it is not deemed material. Where relevant, this includes an estimate of the sales value of water supplied to customers between the date of the last meter reading and the period end together with unbilled waste water charges, exclusive of value added tax.

The Group recognises all revenue at the time of delivery. 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.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 1 Principal accounting policies (continued)

#### (e) Intangible assets

##### Goodwill

Purchased goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary, is capitalised and amortised to nil using the straight line method over its estimated useful economic life, of 40 years. Impairment tests on the carrying value are undertaken on an annual basis as 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 wastewater 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.

#### (f) Tangible fixed assets

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

Directly attributable costs are capitalised within fixed assets. These costs include employee costs and other internal costs that are incremental to the business due to the scale and nature of the capital implementation programme of the Group.

##### Infrastructure assets

Infrastructure assets comprise a network of systems. In the UK water regulated business, all expenditure on infrastructure assets is capitalised at cost and not depreciated, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as depreciation.

Following the completion of the Group's assessment of the infrastructure renewals expenditure requirement to the end of AMP7 for the Final Business Plan the Group now considers that it would be appropriate to reflect in the Group's regulatory and statutory accounts for 2008/09 and 2009/10 an infrastructure renewals charge consistent with our expenditure plans for the AMP5 to AMP7 (2010-2025) periods. On this basis we have included a charge of £114.0m in the Thames Water Utilities Limited statutory and regulatory accounts for 2008/09.

##### 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.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 1 Principal accounting policies (continued)

#### Other assets (continued)

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 by equal instalments over their estimated useful lives down to zero, based on management's judgement and experience, which are principally as follows:

Buildings	10-60 yrs
Operational structures	5-100 yrs
Other	20-60 yrs
Fixtures, fittings, vehicles and computers	3 - 40 yrs
Fixed and mobile plant	5 - 60 yrs

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 tangible fixed assets are assessed for impairment whenever there is an indication of such. 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.

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.

#### (g) 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 finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account. Refer to note 13.

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 (continued)

### 1 Principal accounting policies (continued)

#### (h) Stocks

Stock and work in progress 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.

#### (i) 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.

#### (j) 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.

##### Deferred taxation

Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

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 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.

# **Kemble Water Holdings Limited**

## **Notes to the financial statements for the year ended 31 March (continued)**

### **1 Principal accounting policies (continued)**

#### **(k) 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.

#### **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 to the first break clause.

#### **Operating leases**

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

### **(l) Pension and other post retirement benefits**

#### **Pension obligations**

The Group operates two large defined benefit pension schemes, Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Scheme ("TWMIPS"), 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 that 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 other finance income/expense in the profit and loss account.

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 two closed defined contribution pension schemes. The Group has no further payment obligations for these schemes; however, defined funds for individuals are held within these schemes.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 1 Principal accounting policies (continued)

#### (m) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the rate of exchange ruling at the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account. The foreign exchange loss shown in reserves is as a result of the disposal of Thames Water Turkiye.

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. Foreign currency borrowings are recorded at the hedged rate at the balance sheet date.

#### (n) Cash and cash equivalents

Cash comprises 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.

#### (o) Debtors

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

#### (p) Creditors

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

#### (q) 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.

#### (r) 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.

#### (s) 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.

The Group currently does not apply FRS 26 'Financial Instruments: Recognition and Measurement', and accordingly the disclosure requirements of FRS 29 'Financial Instruments: Disclosures' are not applicable. Therefore, the presentation requirements of FRS 25 'Financial Instruments: Presentation' have been applied.

# **Kemble Water Holdings Limited**

## **Notes to the financial statements for the year ended 31 March (continued)**

### **1 Principal accounting policies (continued)**

#### **(t) Financial instruments and derivatives (continued)**

However, certain voluntary disclosures have been prepared to aid understanding and ensure comparability with prior year.

Foreign currency and interest rate swaps are accounted for on an amortised cost basis in accordance with FRS 4 'Capital Instruments'.

#### **(u) 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.

#### **(v) Research and development**

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

#### **(w) Provisions**

Provisions, without discounting, 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.

#### **(x) Dividends**

Dividends unpaid at the balance sheet date are only recognised as a liability at the date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

#### **(y) Financial risk management**

The Group has an 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.

The Group's Treasury operations are managed centrally by a small specialist team, which operates 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.



# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 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 2009			Year end 31 March 2008		
	Regulated £m	Other/non -regulated £m	Total £m	Regulated £m (restated)	Other/non -regulated £m	Total £m (restated)
Turnover	1,558.2	21.1	1,579.3	1,487.6	124.3	1,611.9
Less: share of joint ventures	-	-	-	-	(20.9)	(20.9)
<b>Group turnover</b>	<b>1,558.2</b>	<b>21.1</b>	<b>1,579.3</b>	<b>1,487.6</b>	<b>103.4</b>	<b>1,591.0</b>
Operating profit/(loss)	605.3	(3.8)	601.5	503.5	14.8	518.3
Add: share of joint ventures	-	(1.3)	(1.3)	-	0.6	0.6
<b>Group operating profit/(loss)</b>	<b>605.3</b>	<b>(5.1)</b>	<b>600.2</b>	<b>503.5</b>	<b>15.4</b>	<b>518.9</b>
Profit on sale of fixed asset	8.2	7.1	15.3	45.1	28.6	73.7
Add: share of joint ventures	-	-	-	-	-	-
<b>Group profit on sale of fixed assets</b>	<b>8.2</b>	<b>7.1</b>	<b>15.3</b>	<b>45.1</b>	<b>28.6</b>	<b>73.7</b>
Net interest payable	(178.4)	(194.1)*	(372.5)	(146.3)	(231.5)*	(377.8)
Add: share of joint ventures	-	-	-	-	(1.9)	(1.9)
<b>Group net interest payable</b>	<b>(178.4)</b>	<b>(194.1)</b>	<b>(372.5)</b>	<b>(146.3)</b>	<b>(233.4)</b>	<b>(379.7)</b>
Taxation	(120.3)	17.4	(102.9)	(63.9)	105.5	41.6
Add: share of joint ventures	-	-	-	-	(0.2)	(0.2)
<b>Group taxation</b>	<b>(120.3)</b>	<b>17.4</b>	<b>(102.9)</b>	<b>(63.9)</b>	<b>105.3</b>	<b>41.4</b>
Profit/(loss) after tax	314.8	(174.7)	140.1	338.4	(82.6)	255.8
Add: share of joint ventures	-	-	-	-	(1.5)	(1.5)
<b>Group profit/(loss) after tax</b>	<b>314.8</b>	<b>(174.7)</b>	<b>140.1</b>	<b>338.4</b>	<b>(84.1)</b>	<b>254.3</b>

\* Interest payable relates to the funding required for the regulated group.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 2 Segmental analysis (continued)

#### Balance sheet by class of business:

	31 March 2009			31 March 2008		
	Regulated £m	Other/non -regulated £m	Total £m	Regulated £m (restated)	Other/non- regulated £m	Total £m (restated)
<b>Fixed assets</b>						
Intangible assets	1,669.9	1.0	1,670.9	1,714.3	1.5	1,715.8
Tangible assets	9,085.9	-	9,085.9	8,477.8	-	8,477.8
Investment in joint ventures:						
Share of gross assets	-	3.9	3.9	-	2.6	2.6
Share of gross liabilities	-	(3.9)	(3.9)	-	(2.6)	(2.6)
	-	-	-	-	-	-
Other fixed asset investments	0.1	2.0	2.1	0.1	-	0.1
	<b>10,755.9</b>	<b>3.0</b>	<b>10,758.9</b>	<b>10,192.2</b>	<b>1.5</b>	<b>10,193.7</b>
<b>Current assets</b>						
Stocks	6.1	0.6	6.7	7.0	2.6	9.6
Debtors: amounts falling due within one year	606.0	(99.6)	506.4	482.6	71.4	554.0
Debtors: amounts falling due after one year (inter group loan)	1,180.0	(1,180.0)	-	1,223.8	(1,223.8)	-
Current asset investments	321.6	17.2	338.8	15.6	38.2	53.8
Cash at bank and in hand	204.2	67.1	271.3	65.8	53.3	119.1
	<b>2,317.9</b>	<b>(1,194.7)</b>	<b>1,123.2</b>	<b>1,794.8</b>	<b>(1,058.3)</b>	<b>779.3</b>
Creditors: amounts falling due within one year	(1,110.7)	89.6	(1,021.1)	(1,489.5)	355.3	(1,134.2)
<b>Net current assets/(liabilities)</b>	<b>1,207.2</b>	<b>(1,105.1)</b>	<b>102.1</b>	<b>305.3</b>	<b>(703.0)</b>	<b>(397.7)</b>
<b>Total assets less current liabilities</b>	<b>11,963.1</b>	<b>(1,102.1)</b>	<b>10,861.0</b>	<b>10,497.5</b>	<b>(701.5)</b>	<b>9,796.0</b>
Creditors: amounts falling due after more than one year	(5,663.1)	(2,115.4)	(7,778.5)	(4,634.7)	(2,073.9)	(6,708.6)
Provisions for liabilities and charges	(958.2)	(63.2)	(1,021.4)	(794.2)	(155.2)	(949.4)
<b>Net assets excluding pension assets</b>	<b>5,341.8</b>	<b>(3,280.7)</b>	<b>2,061.1</b>	<b>5,068.6</b>	<b>(2,930.6)</b>	<b>2,138.0</b>
Net pension (liabilities)/assets	(44.3)	-	(44.3)	26.1	-	26.1
<b>Net assets including pension (liabilities)/ assets</b>	<b>5,297.5</b>	<b>(3,280.7)</b>	<b>2,016.8</b>	<b>5,094.7</b>	<b>(2,930.6)</b>	<b>2,164.1</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 2 Segmental analysis (continued)

The Regulated business net assets above include the net book values of goodwill of £1,669.9m (2008: £1,714.3m), fair value adjustments to tangible assets of £1,975.8m (2008: £1997.2m) and financial instruments included in creditors falling due after more than one year of £278.8m (2008: £296.8m). The non-regulated business has a goodwill apportionment of £Nil (2008: £Nil).

### 3 Operating costs

	Year end 31 March 2009	Year end 31 March 2008 (Restated)
	£m	£m
Staff costs (note 6)	223.4	237.0
Materials and consumables	85.9	85.5
Other operating charges	406.8	463.1
Exceptional item (see note 4)	(25.9)	-
Amortisation of goodwill and intangibles	44.9	44.9
Depreciation:		
- owned assets	236.6	232.7
- infrastructure assets	113.9	106.9
- assets held under finance leases	9.6	9.6
Rentals under operating leases:		
- hire of plant and machinery	3.9	4.1
- other	6.9	7.4
Research and development	3.5	4.1
Auditors' remuneration	0.7	1.4
Foreign currency (gains)/loss	(0.3)	3.7
	<b>1,109.9</b>	<b>1,200.4</b>
Own work capitalised	(132.1)	(127.7)
	<b>977.8</b>	<b>1,072.7</b>

Included within other operating charges is £3.8m of profit on disposal of Thames Water Turkiye. This was a 100% owned subsidiary of Thames Water Limited, another Group company.

Other operating income comprises income from energy generation and the national grid reserve service, which is now treated as a reduction in operating costs, previously included in turnover. Prior year comparatives have been restated accordingly.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 3 Operating costs (continued)

Further analysis of auditors' remuneration	Year end 31 March 2009 £'000	Year end 31 March 2008 £'000
<b>Fees payable to current auditors:</b>		
Amounts receivable by auditors and their associates in respect of:		
Audit of these financial statements:	28	-
Audit of financial statements of subsidiaries pursuant to legislation	283	-
Other services pursuant to such legislation	133	-
Other services relating to taxation	35	-
All other services	70	-
	<b>549</b>	<b>-</b>
<b>Fees payable to previous auditors:</b>		
Amounts receivable by auditors and their associates in respect of:		
Audit of company and consolidated accounts	-	4
Audit of financial statements of subsidiaries pursuant to legislation	49	420
Other services pursuant to such legislation	65	107
Other services relating to taxation	-	162
All other services	43	617
Audit fees in respect of the Thames Water Limited pension schemes	59	-
	<b>216</b>	<b>1,310</b>

### 4 Exceptional items

The exceptional item relates to a net sum received during the year in settlement of a claim made by the Group.

### 5 Information regarding directors

Aggregate directors' emoluments:	Year end 31 March 2009 £'000	Year end 31 March 2008 £'000
Salary	420	380
Total	<b>420</b>	<b>380</b>

#### Highest paid director:

Total emoluments in respect of the highest paid director in respect of work done for the Kemble Water Holdings Group of companies during the year was £275,000 (2008: £250,000).

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 6 Staff numbers and costs

The aggregate payroll costs of these persons were as follows:

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
- Wages and salaries	186.4	188.7
- Social security costs	15.3	15.9
- Other pension costs (note 26)	15.3	22.6
- Severance costs	8.4	11.9
	<b>225.4</b>	<b>239.1</b>
Employment costs included within research and development	(2.0)	(2.1)
<b>Net employment costs</b>	<b>223.4</b>	<b>237.0</b>

The average number of persons employed by the Group (including directors) during the year, analysed by category was as follows:

	Year end 31 March 2009 Number	Year end 31 March 2008 Number
Operations	4,674	5,597
Support	467	377
	<b>5,141</b>	<b>5,974</b>

The Company had no employees during the year (2008: Nil).

### 7 Interest receivable and similar income

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
<b>Interest receivable and similar charges</b>		
Interest receivable	105.9	40.2
Amortisation of fair value	18.0	24.6
Swaps	59.8	48.4
Pension interest (note 26)	-	12.3
<b>Interest receivable and similar charges</b>	<b>183.7</b>	<b>125.5</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

<b>8 Interest payable and similar charges</b>	<b>Year end 31 March 2009 £m</b>	<b>Year end 31 March 2008 £m</b>
On bank loans and overdrafts	(26.7)	(50.2)
Swaps	(25.2)	(175.6)
Amortisation of issue costs of loans	(5.7)	(19.9)
On all other loans	(478.3)	(243.3)
Finance charges payable in respect of finance leases	(10.6)	(10.0)
Pension interest (note 26)	(2.8)	-
Other finance charges	(6.9)	(4.3)
<b>Interest payable and similar charges</b>	<b>(556.2)</b>	<b>(503.3)</b>

Amounts receivable and payable on swaps relate to interest rate swaps taken out to hedge rates on external borrowings. Refer to note 20.

### 9 Taxation on profit on ordinary activities

<b>Analysis of (charge)/credit in year</b>	<b>Year end 31 March 2009 £m</b>	<b>Year end 31 March 2008 £m</b>
UK corporation tax - amounts payable in respect of group relief for the year	(12.3)	(0.1)
Share of associates and joint venture tax	-	(0.2)
Adjustments in respect of previous years	14.5	11.5
<b>Total current tax</b>	<b>2.2</b>	<b>11.2</b>
Origination and reversal of timing differences	(59.7)	(48.8)
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 year	(36.5)	9.1
Pension cost charge lower than pension cost relief	(8.9)	(4.2)
<b>Total deferred tax</b>	<b>(105.1)</b>	<b>30.2</b>
<b>Tax (charge)/credit on loss on ordinary activities</b>	<b>(102.9)</b>	<b>41.4</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 9 Taxation on profit/(loss) on ordinary activities (continued)

#### Factors affecting tax credit for year

The current tax credit for the year is different to (2008: different to) the standard rate of corporation tax in the UK of 28% (2008: 30%). The differences are explained below:

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Profit on ordinary activities before taxation	243.0	212.9
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	(68.0)	(63.9)
Effects of:		
Capital allowances in excess of depreciation and other timing differences	59.7	48.8
Disallowable expenditure and other permanent differences	(12.9)	10.1
Net pension cost charge lower than pension cost relief	8.9	4.9
Adjustments to tax charge in respect of previous years	14.5	11.5
Share of associates and joint venture tax	-	(0.2)
Current tax credit for the year	2.2	11.2

The tax charge attributable to the profit on sale of fixed assets is £2.4m (2008: £19.0m).

Of the deferred tax charge as at 31 March 2009 of £105.0m (2008: £30.2m credit), a deferred tax charge for the year ended 31 March 2009 of £96.1m (2008: £34.4m credit) is shown as a movement within note 21 provisions for liabilities and charges, and a deferred tax charge for the year ended 31 March 2009 of £8.9m (2008: £4.2m) is shown within note 26 (Pension schemes).

### 10 Dividends

	31 March 2009 £m	31 March 2008 £m
First interim paid: 93.99p (2008: 36.45p) per £1.00 ordinary share	187.2	72.6
	187.2	72.6

As a post balance sheet event, on 3 April 2009 the directors approved a further interim dividend of £60.0m (56.94p per ordinary share) in respect of the year ended 31 March 2009. This interim dividend was paid on 30 May 2009.

### 11 Profit of holding company

A profit of £257.8m (2008: profit £250.8m) (pre-distribution) 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.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 12 Intangible assets

	Goodwill £m	Group Other intangible assets £m	Total £m
<b>Cost</b>			
At 1 April 2008 and 31 March 2009	1,773.4	1.6	1,775.0
<b>Amortisation</b>			
At 1 April 2008	59.1	0.1	59.2
Charge for the year	44.4	0.5	44.9
<b>At 31 March 2009</b>	<b>103.5</b>	<b>0.6</b>	<b>104.1</b>
<b>Net book value</b>			
<b>At 31 March 2009</b>	<b>1,669.9</b>	<b>1.0</b>	<b>1,670.9</b>
At 1 April 2008	1,714.3	1.5	1,715.8

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 (continued)

### 13 Tangible fixed assets

	Group			Total £m
	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	
<b>Cost</b>				
At 1 April 2008	2,018.5	4,267.0	2,650.0	8,935.5
Additions	160.6	446.8	382.6	990.0
Disposals	(4.4)	-	(16.9)	(21.3)
<b>At 31 March 2009</b>	<b>2,174.7</b>	<b>4,713.8</b>	<b>3,015.7</b>	<b>9,904.2</b>
<b>Capital contributions</b>				
At 1 April 2008	-	(54.9)	-	(54.9)
Additions	-	(15.6)	-	(15.6)
<b>At 31 March 2009</b>	<b>-</b>	<b>(70.5)</b>	<b>-</b>	<b>(70.5)</b>
<b>Depreciation</b>				
At 1 April 2008	(51.5)	(142.2)	(209.1)	(402.8)
Charge for the year	(54.8)	(113.9)	(191.4)	(360.1)
Disposals	-	-	15.1	15.1
<b>At 31 March 2009</b>	<b>(106.3)</b>	<b>(256.1)</b>	<b>(385.4)</b>	<b>(747.8)</b>
<b>Net book value</b>				
<b>At 31 March 2009</b>	<b>2,068.4</b>	<b>4,387.2</b>	<b>2,630.3</b>	<b>9,085.9</b>
At 1 April 2008	1,967.0	4,069.9	2,440.9	8,477.8

The Company has no fixed assets.

The net book value of land and buildings comprises:

	31 March 2009 £m	31 March 2008 £m
<b>Group</b>		
Freehold	2,062.4	1,963.6
Long Leasehold	2.9	0.9
Short Leasehold	3.1	2.5
	<b>2,068.4</b>	<b>1,967.0</b>

No depreciation has been charged on freehold land included at a cost of £30.6m (2008: £30.6m).

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 13 Tangible fixed assets (continued)

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

	Plant and equipment total £m
<b>Cost</b>	
At 1 April 2008	272.5
Additions	-
<b>At 31 March 2009</b>	<b>272.5</b>
<b>Depreciation</b>	
At 1 April 2008	(117.3)
Charge for the year	(9.6)
<b>At 31 March 2009</b>	<b>(126.9)</b>
<b>Net book value</b>	
<b>At 31 March 2009</b>	<b>145.6</b>
At 1 April 2008	155.2

Tangible fixed assets include £1,654.3m (2008: £1,503.6m) of assets in the course of construction.

### 14 Fixed asset investments

#### 14(a) Interests in joint ventures and associates

Group	31 March 2009 £m	31 March 2008 £m
Opening net assets	-	0.9
Loss for the year	-	(1.5)
Disposals	-	(0.6)
Transferred to provisions	-	1.2
<b>Net assets carried forward</b>	<b>-</b>	<b>-</b>

In accordance with FRS 9, where the carrying value of an individual investment is less than £nil, the negative carrying value has been disclosed in provisions for liabilities and charges within other provisions (note 21). The negative carrying value of the Group's interests in associated undertakings and joint ventures at 31 March 2009 amounted to £3.1m (2008: £1.8m).

The associated undertakings and joint ventures are all unlisted. The Company has no (2008: £nil) investments in joint ventures or associates.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 14(b) Other fixed asset investments (continued)

#### Group

Interests in investments	£m
<b>Cost</b>	
At 1 April 2008	10.1
Disposal	(8.0)
<b>At 31 March 2009</b>	<b>2.1</b>
<b>Impairment</b>	
At 1 April 2008	(10.0)
Reversal of impairment	2.0
Repayment	8.0
<b>At 31 March 2009</b>	<b>-</b>
<b>Net book value</b>	
At 1 April 2008	0.1
<b>At 31 March 2009</b>	<b>2.1</b>

#### Company

	Investment in subsidiary under- takings £m
<b>Cost</b>	
At 1 April 2008	1.0
<b>At 31 March 2009</b>	<b>1.0</b>

The investment relates to Kemble Water Eurobond Plc.

See note 29 for a list of principal subsidiaries.

#### 15 Stocks

	31 March 2009 £m	31 March 2008 £m
<b>Group</b>		
Raw materials and consumables	5.8	7.0
Work in progress	0.5	1.3
Finished goods and goods for resale	0.4	1.3
	<b>6.7</b>	<b>9.6</b>

The Company had no stocks (2008: £nil).

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 16 Debtors

	Group		Company	
	31 March 2009 £m	31 March 2008 (Restated) £m	31 March 2009 £m	31 March 2008 £m
<b>Due within one year:</b>				
Trade debtors	222.3	253.0	-	-
Amounts owed by group undertakings	-	-	2,423.4	2,395.7
Amounts owed by joint venture undertakings	2.4	2.9	-	-
Corporation tax receivable	22.2	9.1	-	-
Other debtors	94.0	98.4	-	-
Prepayments and accrued income	165.5	190.6	-	-
	<b>506.4</b>	<b>554.0</b>	<b>2,423.4</b>	<b>2,395.7</b>
	£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	-	-	432.8	405.1
	-	-	2,423.4	2,395.7

A loan of £1,990.6m (2008: £1,990.6m) which incurs interest at 18% (2008: 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.

The prior year restatement on the balance sheet relates to the grossing up of insurance liabilities and assets in the wholly owned subsidiary Thames Water Utilities Limited. This was an intercompany transaction that should have been eliminated on consolidation.

### 17 Investments (held as current assets)

	Group		Company	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Short term deposits	338.8	53.8	-	-

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 18 Creditors: amounts falling due within one year

	Group		Company	
	31 March 2009 £m	31 March 2008 (Restated) £m	31 March 2009 £m	31 March 2008 £m
Secured bank loans and overdrafts	205.1	280.1	-	-
Trade creditors – operating	149.1	183.5	-	-
Trade creditors – capital	208.3	245.8	-	-
Obligations under finance leases	5.8	-	-	-
Corporation tax payable	-	-	100.4	143.3
Taxation and social security	4.8	11.9	-	-
Other creditors	143.1	47.7	-	-
Interest creditors	159.8	90.4	-	-
Accruals and deferred income	145.1	274.8	-	-
	<b>1,021.1</b>	<b>1,134.2</b>	<b>100.4</b>	<b>143.3</b>

For an explanation of the restatement please see note 16.

### 19 Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Secured bank loans	2,274.6	1,932.7	-	-
Other loans	5,130.8	4,398.3	-	-
Obligations under finance leases	203.3	204.5	-	-
Deferred income	169.8	173.1	-	-
	<b>7,778.5</b>	<b>6,708.6</b>	-	-

Other loans are all secured except for a loan of £310.4m (2008: £310.4m). For further detail of security see note 28.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 20 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		Weighted average interest rate for fixed rate assets		Weighted average period until maturity for which rate is fixed	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 %	2008 %	2009 Years	2008 Years
Current asset investment												
- £ Sterling	338.8	53.8	-	-	-	-	338.8	53.8	-	-	-	-
	338.8	53.8	-	-	-	-	338.8	53.8	-	-	-	-
Cash at bank/hand												
- £ Sterling	271.3	118.0	-	-	-	-	271.3	118.0	-	-	-	-
- \$ US	-	0.8	-	-	-	-	-	0.8	-	-	-	-
- Other	-	0.3	-	-	-	-	-	0.3	-	-	-	-
	271.3	119.1	-	-	-	-	271.3	119.1	-	-	-	-
	610.1	172.9	-	-	-	-	610.1	172.9	-	-	-	-

LIBOR 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 at 31 March

	Total at floating rates		Total at fixed rates *		No interest		Total book value		Weighted average interest rate for fixed rate liabilities		Weighted average period until maturity for which rate is fixed	
	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 £m	2008 £m	2009 %	2008 %	2009 Years	2008 Years
Bank loans and overdraft												
- £ Sterling	549.9	294.6	1,859.7	1,918.2	-	-	2,409.6	2,212.8	5.8	7.1	23.4	4.1
	549.9	294.6	1,859.7	1,918.2	-	-	2,409.6	2,212.8	5.8	7.1	23.4	4.1
Other loans and finance leases												
- £ Sterling	102.5	103.1	4,623.6	4,442.0	-	-	4,726.0	4,545.1	4.4	6.5	24.0	27.6
- \$ US	-	-	10.6	7.9	-	-	10.6	7.9	4.8	6.3	2.1	3.1
- Other	-	-	673.4	49.8	-	-	673.4	49.8	4.4	5.6	3.8	1.3
	102.5	103.1	5,307.6	4,499.7	-	-	5,410.0	4,602.8	4.4	6.5	24.0	27.3
	652.4	397.7	7,167.3	6,417.9	-	-	7,819.6	6,815.6	4.8	6.7	24.0	20.3

\*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 (continued)

### 20 Financial instruments (continued)

The Group's interest rate and cross currency swaps are £1,499.2m (2008: £1,479.5m) of floating to fixed interest rate swaps and £261.9m (2008: £26.9m) of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £684.0m (2008: £62.4m) of foreign currency borrowings.

The Company has no interest rate swaps nor cross-currency swaps (2008: £nil).

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate borrowings of £7,167.3m (2008: £6,417.9m) equate to 91% (2008: 94%) of gross borrowings and 92% (2008: 97%) 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 in 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 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
<b>Primary financial instruments held or issued to finance the Group's operations:</b>				
Financial assets:				
Current asset investments	338.8	53.8	338.8	53.8
Cash at bank and in hand	271.3	119.1	271.3	119.1
Financial liabilities:				
Bank loans and overdrafts	(2,394.5)	(2,198.9)	(2,447.2)	(2,196.3)
Other loans and finance leases	(5,410.1)	(4,602.8)	(5,189.6)	(4,583.9)
<b>Derivative financial instruments held to manage the interest rate and currency profile:</b>				
Interest rate swaps, cross currency swaps and forward foreign currency contracts	(15.0)	(13.9)	(315.0)	(8.7)
	<b>(7,209.5)</b>	<b>(6,642.7)</b>	<b>(7,341.7)</b>	<b>(6,616.0)</b>

Kemble Water Holdings Limited does not have bonds. Other loans include bonds, which are publicly traded. Fair values for these have been calculated using the 31 March 2009 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 borrowing and all derivative financial instruments.

Book values of primary financial instruments include the effect of any hedging instrument. Therefore, the effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 20 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 44, is as follows:

	Group		Company	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
<b>Bank loans and overdrafts</b>				
- Within one year	135.0	280.1	-	-
- Between one and two years	146.9	157.4	-	-
- Between two and five years	1,547.5	796.4	-	-
- After more than five years	580.2	978.9	-	-
	<b>2,409.6</b>	<b>2,212.8</b>	-	-
<b>Other loans</b>				
- Within one year	70.1	-	-	-
- Between one and two years	250.3	49.8	-	-
- Between two and five years	473.7	258.6	-	-
- after more than five years	4,406.8	4,089.9	-	-
	<b>5,200.9</b>	<b>4,398.3</b>	-	-
<b>Finance leases</b>				
- Within one year	5.8	-	-	-
- Between one and two years	8.3	1.2	-	-
- Between two and five years	95.6	92.7	-	-
- after more than five years	99.4	110.6	-	-
	<b>209.1</b>	<b>204.5</b>	-	-
<b>Total borrowings</b>	<b>7,819.6</b>	<b>6,815.6</b>	-	-

Loans are repayable between 2009 and 2062.

Loans wholly repayable after more than five years are:

	Group		Company	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Bank loans	580.2	978.9	-	-
Other loans	4,406.8	4,089.9	-	-
	<b>4,987.0</b>	<b>5,068.8</b>	-	-



# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 20 Financial instruments (continued)

Other loans include:

-	£250m 6.00% Short term loan due 2009	-	£200m 6.50% MTN Eurobond due 2032
-	£250m 4.75% Guaranteed bond due 2010	-	£600m 5.13% MTN Eurobond due 2037
-	£835m 8.36% Bank loan due 2013	-	£50m 1.98% Index linked bond due 2042
-	£200m 4.90% Guaranteed bond due 2015	-	£100m 1.85% Index linked bond due 2047
-	£200m 5.05% Guaranteed bond due 2020	-	£200m 1.82% Index linked bond due 2049
-	£225m 6.59% Guaranteed bond due 2021	-	£300m 1.68% Index linked bond due 2053
-	£310.4m 11% Bond due 2021	-	£300m 1.68% Index linked bond due 2055
-	£175m 3.38% Index linked bond due 2021	-	£200m 1.77% Index linked bond due 2057
-	£330m 6.75% MTN Eurobond due 2028	-	£350m 1.76% Index linked bond due 2062

Loans repayable by instalments after more than five years are:

	Group		Company	
	31 March 2009 £m	31 March 2008 £m	31 March 2009 £m	31 March 2008 £m
Other loans and finance leases	195.3	110.6	-	-

The range of interest rates on outstanding bank loans, other loans and finance leases are 1.58% to 11.0% (2008: 1.7% to 18.0%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.

#### Borrowing facilities

At 31 March 2009 the Group has access to committed credit facilities of £1.1billion (2008: £1.1billion) of which £nil (2008: £0.3billion) had been drawn at the balance sheet date, through its subsidiary company Thames Water Utilities Cayman Finance Limited.

The Group has access to funding through its wholly owned subsidiary, Thames Water Utilities Cayman Finance Limited's £10.0billion multi-currency bond programme, of which £2.0billion (2008: £0.9billion) had been drawn at the balance sheet date.

Previously debt has been raised through its wholly owned subsidiary, Thames Water Utilities Finance Limited's £5.0billion debt issuance programme, of which £2.9billion (2008: £2.9billion) 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.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 21 Provisions for liabilities and charges

	Taxation including deferred tax £m	Insurance Liabilities £m	Other provisions £m	Total £m
At 1 April 2008	(759.5)	(58.3)	(131.6)	(949.4)
Charge to profit and loss for the year	(96.1)	-	(21.6)	(117.7)
Utilised during the year	-	9.2	21.3	30.5
Unused amounts reversed during the year	-	-	15.2	15.2
<b>At 31 March 2009</b>	<b>(855.6)</b>	<b>(49.1)</b>	<b>(116.7)</b>	<b>(1,021.4)</b>

The elements of deferred taxation are as follows:

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

	£m
Accelerated capital allowances	931.6
Other timing differences	(76.0)
<b>At 31 March 2009</b>	<b>855.6</b>

Total deferred tax provision:

Included above	855.6
Deferred tax asset provided on pension surplus (see note 26)	(17.2)
	<b>838.4</b>

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% (2008: 28%) is:

	31 March 2009 £m	31 March 2008 £m
Deferred tax asset not recognised in respect of tax losses	85.1	66.6

#### 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, and external providers.

#### Other provisions

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

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 21 Provisions for liabilities and charges (continued)

Other provisions include the following items:

#### Metronet and Trans4m

The Group holds a 20% interest in Metronet Rail SSL Limited and Metronet Rail BCV Limited (together "Metronet").

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.

As a result of significant projected cost overruns and insufficient liquidity, a PPP Administrator was appointed to Metronet in 2007. 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.

Trans4m have not yet submitted a final statement of account to the administrators of Metronet. Any costs which cannot be recovered from Metronet will be covered by the shareholders. It is unclear whether any residual liability by Trans4m up to the capped amount exists.

Each of Trans4m's shareholders has provided a Parent Company Guarantee, which holds them jointly and severally liable for cost overruns up to the overall liability cap at 22.5% of the initial target cost, indexed.

#### Veolia Water UK Plc

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

### 22 Share capital

	31 March 2009 £m	31 March 2008 £m
<b>Group and Company</b>		
Authorised, allotted, called up and fully paid		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6

### 23 Profit and loss account

	Group		Company	
	Year end 31 March 2009 £m	Year end 31 March 2008 £m	Year end 31 March 2009 £m	Year end 31 March 2008 £m
At beginning of year	172.5	(15.3)	261.8	83.6
Profit for the year	140.1	254.3	257.8	250.8
Exchange adjustments	(3.4)	3.3	-	-
Actuarial (loss)/gain recognised in the pension schemes	(136.4)	3.9	-	-
Deferred tax arising on (losses)/gains in the pension schemes	39.6	(1.1)	-	-
Dividend	(187.2)	(72.6)	(187.2)	(72.6)
<b>At end of year</b>	<b>25.2</b>	<b>172.5</b>	<b>332.4</b>	<b>261.8</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 24 Operating leases

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

	2009 Land and buildings £m	2009 Other £m	2008 Land and buildings £m	2008 Other £m
<b>Leases which expire:</b>				
- Within one year	1.8	1.1	0.2	1.1
- Between one and two years	0.2	0.8	1.8	0.7
- Between two and five years	0.2	-	1.1	0.5
- After more than five years	4.7	-	4.6	-
	<b>6.9</b>	<b>1.9</b>	<b>7.7</b>	<b>2.3</b>

The Company has no commitments to make payments in respect of non-cancellable operating leases (2008: £nil).

### 25 Capital commitments

	31 March 2009 £m	31 March 2008 £m
<b>Group</b>		
Contracted for but not provided in the financial statements	296.3	497.5

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 (2008: £Nil).

### 26 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 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 2009 such payments amounted to £2.1m (2008: £3.0m).

#### Defined benefit scheme

The latest full actuarial valuation was undertaken as at December 2007. This valuation has been updated at 31 March 2009 by Hewitt Associates Limited ("Hewitt") (independent and professionally qualified consulting actuaries) using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the 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.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 26 Pension schemes (continued)

Reconciliation of funded status to balance sheet	31 March 2009 £m	31 March 2008 £m
Fair value of scheme assets	1,048.8	1,214.8
Present value of scheme liabilities	(1,110.3)	(1,098.9)
(Deficit)/surplus in scheme	(61.5)	115.9
Impact of irrecoverable surplus	-	(79.7)
(Liability)/asset recognised on the balance sheet	(61.5)	36.2
Deferred tax asset/(liability)	17.2	(10.1)
<b>Net pension (liability)/asset</b>	<b>(44.3)</b>	<b>26.1</b>

There is a smaller surplus within the Thames Water Mirror Image Scheme compared to 2008 due to the reduction in asset values, which has reduced the irrecoverable surplus to a level below which it can be recognised. Consequently, the 2008 amount of £79.7m has been written off to reserves through the Statement of total recognised gains and losses in the year.

### Movement in the present value of scheme liabilities

	31 March 2009 £m	31 March 2008 £m
Opening present value of scheme liabilities	1098.9	1,205.9
Current service cost	15.9	25.6
Interest cost	74.8	64.7
Contribution by scheme participants	5.4	5.6
Actuarial gains on scheme liabilities	(37.6)	(157.9)
Net benefit paid out	(54.0)	(45.0)
Adjustment in respect of prior year	4.8	-
Termination pension cost	2.1	3.0
Gains on curtailments	-	(6.7)
Loss on settlements	-	3.7
<b>Closing present value of scheme liabilities</b>	<b>1,110.3</b>	<b>1,098.9</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 26 Pension schemes (continued)

#### Movement in fair value of scheme assets

	31 March 2009 £m	31 March 2008 £m
Opening fair value of scheme assets	1,214.8	1,246.4
Expected return on scheme assets	72.0	80.8
Actuarial losses on scheme assets	(250.8)	(102.7)
Contributions by the employer	50.5	26.7
Contributions by scheme participants	5.4	5.6
Termination pension costs	2.1	3.0
Adjustment in respect of prior year	8.8	-
Net benefits paid out	(54.0)	(45.0)
<b>Closing fair value of scheme assets</b>	<b>1,048.8</b>	<b>1,214.8</b>

#### Expense recognised in the profit and loss account:

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Current service cost	15.3	25.6
Curtailment gain	-	(6.7)
Settlement cost	-	3.7
Interest cost	74.8	64.7
Expected return on scheme assets	(72.0)	(80.8)
Impact of restriction on expected return on assets due to irrecoverable surplus	-	3.8
	<b>18.1</b>	<b>10.3</b>

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

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Operating costs: staff costs	15.3	22.6
Other finance expense/(income)	2.8	(12.3)
<b>Total expense charged in the profit and loss account</b>	<b>18.1</b>	<b>10.3</b>

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 26 Pension schemes (continued)

#### Analysis of amount recognised in the statement of total recognised gains and losses:

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Actual return less expected return on pension scheme assets	(250.8)	(102.7)
Experience losses arising on the scheme liabilities	(44.4)	(5.4)
Changes in assumptions underlying the present value of scheme liabilities	82.0	163.3
Adjustment relating to irrecoverable surplus	76.8	(51.3)
<b>Actuarial gain recognised in the statement of total recognised gains and losses</b>	<b>(136.4)</b>	<b>3.9</b>
Cumulative amount of gains recognised in the statement of total recognised gains and losses	(94.9)	41.5

#### 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 2009		31 March 2008	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	8.0%	360.3	8.5%	519.9
Bonds	6.0%	219.3	5.5%	70.9
Gilts	4.0-4.2%	406.4	4.3-4.5%	532.3
Property	7.0%	59.5	7.5%	82.9
Other assets	4.0%	3.3	6.0%	8.8
Average expected long-term rate of return/total fair value of assets	5.8%	1,048.8	6.4%	1,214.8

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 26 Pension schemes (continued)

The Group 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 2009	31 March 2008
Price inflation	4.6%	3.7%
Salary increases	4.0%	4.7%
Pension increases	4.6%	3.7%
Discount rate for scheme liabilities	6.7%	6.9%

In valuing the liabilities of the pension schemes at 31 March 2009, 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 TWMIPS members and TWPS members who joined the Scheme before 1 January 1995 who retire in 2028 at age 60 will live on average for a further 26 years after retirement if they are male and for a further 28 years after retirement if they are female. TWPS members who joined the Scheme after 1 January 1995 who retire in 2028 at age 60 are assumed to live on average for a further 28 years after retirement if they are male and for a further 29 years after retirement if they are female.

In addition, it is assumed that TWMIPS pensioners and TWPS pensioners who joined the Scheme before 1 January 1995 and are currently aged 60 will live on average for a further 24 years if they are male and a further 26 years if they are female. TWPS pensioners who joined the Scheme after 1 January 1995 and are currently aged 60 are assumed to live on average for a further 26 years if they are male and for a further 28 years if they are female.

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

	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 Dec 2005 £m	31 Dec 2004 £m
Fair value of scheme assets	1,048.8	1,214.8	1,246.4	1,154.9	1,009.0
Present value of scheme liabilities	(1,110.3)	(1,098.9)	(1,205.9)	(1,229.1)	(1,113.9)
<b>(Deficit)/Surplus in scheme</b>	<b>(61.5)</b>	<b>115.9</b>	<b>40.5</b>	<b>(74.2)</b>	<b>(104.9)</b>



# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 26 Pension schemes (continued)

#### Experience adjustments:

	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	31 Dec 2005 £m	31 Dec 2004 £m
<b>Experience (losses)/gains on scheme assets:</b>					
Amounts	(250.8)	(102.7)	7.1	98.4	37.0
Percentage of scheme assets	24.1%	8.5%	0.6%	8.5%	3.7%
<b>Experience (losses)/gains on scheme liabilities:</b>					
Amounts	(44.4)	(5.4)	11.9	24.7	(39.1)
Percentage of scheme liabilities	4.0%	0.5%	1.0%	2.0%	3.5%
<b>Total amount recognised in the Statement of total gains and losses:</b>					
Amounts	(136.4)	3.9	81.2	34.9	(80.2)
Percentage of present value of scheme liabilities	12.0%	0.4%	6.7%	2.8%	7.2%

The Group expects to contribute approximately £50.6m (2008: £32.1m) to the defined benefit schemes in the next financial year.

### 27 Analysis of cash flows

#### 27(a) Net cash inflow from operating activities

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
<b>Reconciliation of operating profits to net cash flow from operating activities</b>		
Group operating profit (after exceptional operating items)	600.2	518.3
Depreciation charges	360.1	349.2
Amortisation	44.9	44.9
Decrease /(increase) in stocks	2.9	(0.2)
Decrease /(increase) in debtors	62.6	(33.5)
(Decrease)/increase in creditors	(71.0)	20.5
Deferred income release	(14.9)	-
(Decrease) /Increase in provisions	(26.2)	12.9
Difference between pension charge and cash contributions	(34.5)	(4.2)
<b>Net cash flow from operating activities</b>	<b>924.1</b>	<b>907.9</b>

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

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 27(b) Return on investment and servicing of finance

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Interest received	128.4	76.8
Interest paid	(409.9)	(398.7)
Interest element of finance lease rental payments	(12.7)	(16.5)
	<b>(294.2)</b>	<b>(338.4)</b>

### 27(c) Capital expenditure and financial investment

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Purchase of tangible fixed assets	(917.3)	(804.6)
Purchase of intangible fixed assets	-	(0.7)
Infrastructure renewals expenditure	(104.8)	(160.4)
Capital contributions received	32.2	56.6
Investment	8.0	(10.0)
Sale of tangible fixed assets	21.5	116.0
	<b>(960.4)</b>	<b>(803.1)</b>

### 27(d) Analysis of net debt

	At 1 April 2008 £m	Cash flow £m	Other non- cash movements £m	At 31 March 2009 £m
Cash at bank and in hand	119.1	152.2	-	271.3
	119.1	152.2	-	271.3
Loans due within one year	(280.1)	75.0	-	(205.1)
Loans due after more than one year	(6331.0)	(1,028.3)	(46.1)	(7,405.4)
Finance leases	(204.5)	(4.6)	-	(209.1)
	(6,815.6)	(957.9)	(46.1)	(7,819.6)
Liquid resources	53.8	285.0	-	338.8
<b>Total</b>	<b>(6,642.7)</b>	<b>(520.7)</b>	<b>(46.1)</b>	<b>(7,209.5)</b>

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 17.

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

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 28 Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiaries are Obligors under the whole business securitisation entered into in 2007. The Obligors have all entered into a Security Trust and Intercreditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2009 was £5.7billion.

At 31 March 2009 the Group has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £40m (2008: £40.0m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £29.8m (2008: £41.9m) at 31 March 2009 and certain non Thames Water group companies amounting to £5.4m (2008: £15.5m).

Included within the balance of £29.8m 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.

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 (2008: £1,670m), the amount outstanding at 31 March 2009 was £1,490m (2008: £1,490m). 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 (2008: £6.6m), and £9.9m (2008: £11.1m) secured under a Security Trust Agreement. Security for the letters of credit is provided to the value of £7.3m (2008: £6.9m) 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.

The Company has provided security by way of a debenture over its assets in relation to monies owed by the Company under its credit facility agreement with Barclays Capital and other lenders. This facility amounted to £835m, the amount outstanding at 31 March 2009 was £700m. The chargee is Barclays Bank as security trustee to the secured creditors of the facility.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 29 Group undertakings

At 31 March 2009, 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
<b>UK:</b>						
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

\* These companies are in administration.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 29 Group undertakings (continued)

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.

### 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	Year end	Year end	31
			31 March 2009	31 March 2009	31 March 2008	March 2008
			Sale value £m	Amount due £m	Sale value £m	Amount due £m
*Metronet Rail SSL Limited	Investment	Technical service fee	-	-	1.0	-
*Metronet Rail BCV Limited	Investment	Technical service fee	-	-	0.4	-
Trans4m Limited (1)	Investment	Technical service fee	-	-	2.5	-
Stirling Water Seafield Holdings Limited	Joint Venture	Products and services	-	-	7.7	-
Stirling Water (2003) Limited	Associate	Products and services	-	-	2.2	-
Scottish Water Solutions Limited	Associate	Technical service fee	-	-	0.6	-
MUJV (Multi-Utility JV)	Joint Venture	General construction	-	-	0.3	-
			<b>Purchase value £m</b>	<b>Amount owing £m</b>	<b>Purchase value £m</b>	<b>Amount owing £m</b>
Macquarie Group Limited (2)		Management and other services	3.1	4.3	33.2	25.0

\* These companies are in administration.

The following items relating to financing are excluded from the table above:

Trans4m Limited had a £10.0m (2008: £10.0m) working capital advance, £8.0m of this has been repaid (see note 14).

During the year, an indirect subsidiary of the Company made a payment of £160,000 (2008: £106,540) to C R Deacon, a director, for consultancy services.

# Kemble Water Holdings Limited

## Notes to the financial statements for the year ended 31 March (continued)

### 31 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. Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Funds 1 and 2 ("MEIF 1 & 2"), wholesale investment funds that make long-term investments in infrastructure and related businesses located across Europe. The company's remaining shareholders are international pension funds and institutional investors. MEIF 1 & 2 invest in businesses which:

- Provide an essential service to the community.
- Have a strong competitive position.
- Generate stable cash flows over the long term.

MEIF 1 & 2 aim to deliver sustainable cash yields and moderate capital growth from their diversified portfolios of quality infrastructure investments.

MEIF 1 & 2 are managed by Macquarie Capital Funds (Europe) Limited ("MCFEL"). MCFEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Services Authority under the UK Financial Services and Markets Act 2000. MCFEL is resourced by executives of Macquarie Capital Funds.

These executives are:

Andrew Hunter, Executive director and Head of Macquarie Capital Europe, Ian Leamonth, Executive director, Macquarie Capital Products, Martin Stanley, Executive director, Macquarie Capital Funds, Robert Tallentire, Division director, Macquarie Group.

As manager of MEIF 1/2, MCFEL's role includes:

- Sourcing, assessing and negotiating potential investments.
- Managing the Fund's investments, including appointing representatives to the boards of portfolio companies where appropriate.
- Determining appropriate liquidity strategies for the fund.
- Identifying and assisting with strategic enhancements within portfolio companies.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.