

Registered number: 5819262 (England & Wales)

Kemble Water Holdings Limited
Annual report and financial statements
For the year ended 31 March 2010

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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 2010

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Kemble Water Holdings Limited

Chairman's Introduction

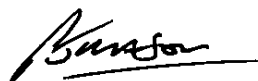
I am pleased to report further significant improvements in the operational and financial performance of Thames Water. Last year's 'best-ever' operational results have been surpassed by a considerable margin and earnings before interest, tax, depreciation and amortisation ("EBITDA") are up by 7.4%. The management team has done particularly well to meet the agreed leakage target for the fourth successive year, overcoming the difficulties presented by one of the coldest winters in recent memory.

There have been significant improvements in the services provided to customers. Drinking water quality remains among the best in the country, fewer properties than ever before are at risk of receiving low pressure and good progress has been made in reducing the number of properties at risk of sewer flooding. These and other improvements to customer service have resulted in a reduction in written complaints. The recent opening of the new Operations Management Centre, bringing together the company's water and sewerage operational control teams for the first time, will lead to further improvements and efficiencies.

The year has also seen important new infrastructure commissioned to ensure the Group can meet customers' requirements for water. The Thames Gateway Water Treatment Plant will provide significant additional supplies of water from the tidal River Thames during droughts or emergencies, and two extensions to the London Ring Main will improve the company's ability to move water around the capital. These developments, together with reductions in leakage that now total more than 27% over the last five years, have improved the current water supply position. But the impact of climate change and population growth, combined with the likely requirement to reduce some of the existing abstractions on environmental grounds, means that the 25 year Water Resource Management Plan is of critical importance to the group and its customers. It is essential that the outcome of the forthcoming public inquiry into the draft plan provides a clear and sustainable way ahead.

The 2009 Price Review by the Water Services Regulation Authority ("Ofwat") was concluded in January. The regulator's final determination (FD) provided for less investment over the next five years than the group judged to be necessary, and allowed a lower Weighted Average Cost of Capital than the group believed appropriate. The Group will make £4.9 billion of capital expenditure during the period, as a result of which customers' bills will rise by 3.1% above inflation. It is perhaps inevitable that the group and its economic regulator will have a different view of the investment required to maintain and improve the group's infrastructure, and of the cost of raising the necessary finance. There were, nevertheless, some welcome improvements from the draft determination.

The final determination sets a tough challenge for the group and the decision to accept it without recourse to an appeal to the Competition Commission was finely balanced. After careful consideration the Group chose to accept the regulator's challenge and look forward positively. In the longer term, however, greater thought needs to be given to the balance between the need to make further investment in the group's ageing infrastructure, in order to maintain and improve the service the Group provides to its customers, the amount customers pay and the appetite among investors for providing the necessary finance.



Sir Peter Mason

Chairman

10 June 2010

Kemble Water Holdings Limited

Directors' Report

Business review

Introduction

Unless otherwise stated, all current year data included in this review is for the year ended 31 March 2010 ("2009/10")

Throughout these financial statements any references made to the Kemble group of companies means the Thames Water Group

Nature of business

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

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 10 companies currently holding appointments as water and sewerage undertakers¹ in England and Wales, with a further 11 companies holding appointments as water only undertakers.

In total, the area served by TWUL occupies approximately 13,331 km² and encompasses more than 9% of the area of England and Wales. This includes London and extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. This area has a population of about 13.6m people, which represents nearly a quarter of the total population of England and Wales. In approximate terms, TWUL supplies 3.6m properties (approximately 8.6m people) with water, and collects sewage from 5.3m properties, including 97% of households in its sewerage region.

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

Kemble Water Holdings Limited

Directors' Report (continued)

Highlights

Over the last three years the Group has delivered a step change in both operational performance and efficiency, meeting and beating the targets agreed with its regulators. This has been achieved by its "back to basics" approach and by setting clear corporate objectives.

The Group reported its best ever performance in 2008/09 across many areas of the business. The Group is pleased to report that it has beaten this performance in 2009/10 whilst delivering the largest investment programme in the industry and improving EBITDA by 7.4%.

Other achievements include:

- Reduced operational expenditure despite the disruption from the cold weather experienced this winter and the increase in contractor costs as we close out an Asset Management Period ("AMP")
- Delivery of nearly £800m of investment in the year
- The opening of the Operations Management Centre. This will mean that, for the first time, the Group's water and sewerage operational control teams will be under one roof. This will deliver improved service to customers through increased operational synergies.
- A reduction in written complaints
- Hitting the leakage target for the fourth successive year (a 27% reduction in the level of leakage from five years ago)
- Completion of the UK's first desalination plant (and other supply based initiatives), which has enabled the Group to exceed its security of supply target for the year
- A reduction in the risk of sewer flooding for a further 1,334 properties, and the Group remains committed to reducing the risk of customer flooding further
- A high performance for sewerage treatment work compliance has continued, and the Group has put 100% of sludge to beneficial use
- A significant reduction in interruptions to supply, and the Group's drinking water quality remaining amongst the best in the country

In total, the Group has achieved its best ever overall performance assessment ("OPA") score of 416.8² compared to 405.6 in 2008/09 (out of a maximum of 437.5). The OPA score is an important measure determined by Ofwat to assess the performance of the water and sewerage undertakers.

² The OPA score is still subject to ratification by Ofwat.

Kemble Water Holdings Limited

Directors' Report (continued)

Financial results

Financial Key Performance Indicators (KPIs)

Performance Measure	Year to 31 March 2010 £m	Year to 31 March 2009 £m	% Movement
Turnover	1,659.5	1,579.3	5.1%
Operating expenditure ³	602.3	573.2	5.1%
EBITDA ⁴	1,096.0	1,020.5	7.4%
Total Capex Spend (see note 13) ⁵	782.5	990.0	(18.9%)

Turnover

Turnover increased by £80.2m, up 5.1%, to £1,659.5m reflecting real increases in price ('K'), as agreed with Ofwat, together with increases linked to the Retail Price Index (RPI). Turnover was £86.5m lower than assumed by Ofwat in the AMP 4 Final Determination ("FD"), reflecting lower volumes due to weather conditions and changes in customer behaviour following the economic downturn.

Operating expenditure

Operating expenditure for the year ended 31 March 2010 was slightly above the prior year. This is mainly a result of continued emphasis on driving operating efficiencies, whilst ensuring the delivery of the Group's regulatory outputs. The Group suffered in the prior year as it increased the level of bad debt provisioning resulting from the impact of the economic downturn. No additional provisioning in respect of the economic downturn has been deemed necessary in the current year.

EBITDA

The increase in turnover offset by the small increase in operating costs has contributed to the 7.4% improvement in EBITDA compared to the prior year. The increase in turnover is detailed above. A further significant contributor to the increase in EBITDA has been the increase in the activity in the property market leading to an increase in profit on disposal of property fixed assets of £23.6m against the prior year.

³ Operating expenditure: Operating costs, excluding depreciation and the Infrastructure Renewals Charge ("IRC")

⁴ EBITDA: Earnings before interest and taxation excluding depreciation, amortisation and Infrastructure Renewals Charge.

⁵ 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 (continued)

Financial results (continued)

Capital expenditure

2009/10 has been a successful year for capital delivery with nearly £800m spent on capital expenditure. This follows two years of annual expenditure of nearly £1bn and shows the significant level of investment in the Group's infrastructure. Despite this large programme, the Group has delivered outputs efficiently. Over the course of the Asset Management Period ("AMP") 4 expenditure was £7m below the Final Determination. Looking forward, the Group is already well advanced in the planning of the ("AMP") 5 programme with a cutting edge capital delivery strategy firmly in place to ensure we deliver all regulatory outputs at minimum cost. With a clear focus, tight contracts and streamlined delivery process we enter AMP5 with the capability to become the benchmark capital delivery Group.

Treasury policy

The Group's treasury operations are managed centrally by a small specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors. The treasury function does not act as a profit centre and does not undertake any speculative trading activity. The key objectives of the funding strategy are defined by the regulatory regime within which the Group operates and are to ensure that it meets all funding related requirements under the terms of its Licence. This includes maintaining cash reserves and access to undrawn committed bank facilities in order to fund at least 12 months net cash flow and to maintain an investment grade credit rating (see Debt Financing below) as set out in the terms of condition F of the Licence.

A key objective of treasury policy is to ensure compliance with financial covenants, including interest cover and gearing ratios, with the requirements to maintain liquidity and a balanced debt maturity profile, and to ensure that at least 85% of the interest cost within the Securitisation Group being Thames Water Utilities Holdings, Thames Water Utilities Limited and its wholly owned subsidiaries, is calculated on the basis of either fixed or RPI-linked interest rates.

Financial risk management

The Group's principal risks and uncertainties are fully disclosed in the Directors' Report on pages 11 and 12.

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

Directors' Report (continued)

Financing

As at 31 March 2010, the Group had access, through its wholly owned subsidiary Thames Water Utilities Cayman Finance Limited, to committed facilities in place with a syndicate of relationship banks to the value of £1,105bn, these facilities were undrawn at 31 March 2010. In addition, due to pre-funding activity undertaken in the final quarter of the year, the Group had £666m of cash on short-term deposit. This cash balance together with undrawn facilities will provide the Group with the necessary liquidity to fund the operation of the business for at least the next twelve months.

Debt financing

Debt financing is raised by the Group or through the Group's wholly owned subsidiary, Thames Water Utilities Cayman Finance Limited. Previously, debt had been raised through Thames Water Utilities Finance Limited, another wholly owned subsidiary.

Moody's Investor Service rates Class A debt as issued by Thames Water Utilities Cayman Finance Limited A3 long term with stable outlook. Moody's also issues a Corporate Family Rating for the securitisation group of companies, which stands at Baa1, reflecting the ability to issue Class B debt beyond 31 March 2010. The Standard and Poor's rating was upgraded from BBB+ to A- on 19 April 2010 reflecting an improvement in the operating performance of the Group. Accordingly, the Group maintains an investment grade issuer credit rating in accordance with the requirements of its Licence.

Capital structure

Key features of the Group's capital structure are as follows:

- All debt issued by the securitisation group will be documented pursuant to a Common Terms Agreement as part of the Whole Business Securitisation entered into in August 2007.
- Until March 2010, all debt issued by the Securitisation Group was ranked in the same class ("Class A"). The ratio of Class A net debt to Regulated Capital Value ("RCV") within the securitisation group is limited to 75 per cent.
- From 1 April 2010, the securitisation group now has the option to issue Subordinated Debt ("Class B"). At the same time there is an increase in the combined Class A and Class B (together "Senior") net Debt/RCV ratio to a limit of 85 per cent.
- Each Obligor (the companies within the Securitisation Group) has entered into the Security Trust and Inter-creditor Deed ("STID") with the Security Trustee pursuant to which Thames Water Utilities Holdings Limited guarantees the obligations of each other Obligor under the finance documents and the Group and its wholly owned subsidiaries guarantees the obligations of each other under the finance documents, in each case to the Security Trustee.
- Following an event of default, the documents provide for an automatic 18 month standstill of the claims of the creditors that have entered into the STID.

Covenant compliance

Under the terms of its finance documents, the Group is required to comply with various covenants such as interest cover and net debt to RCV. These covenants are measured and submitted to the Security Trustee semi-annually and involve both actual data and forecasts and two main ratios relating to the Securitisation Group are discussed further below.

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Directors' Report (continued)

Adjusted interest cover ratio (trigger: 1.3x): For the year to 31 March 2010 the ratio was 2.1x (2008/09: 3.2x). The movement in the ratio is due to an increased level of debt and resulting cash interest on that debt.

Class A/ Senior Debt/RCV ratio (trigger: 75%)⁶: At 31 March 2010 the ratio was 68.3% (2008/09: 72.0%). The decrease in the ratio is due to a combination of reduced debt drawdown as a result of the smaller capital expenditure programme in the final year of the AMP, the impact of higher inflation on the RCV.

Regulatory KPIs

The performance measures below are an internal split to enable management of the various components of regulatory performance as discussed below. The Group has seen continuous improvement in the past 3 years and this year achieved its best ever OPA score.

Performance Measure	Components	Maximum OPA Score (as defined by Ofwat)	Year to 31 March 2010	Year to 31 March 2009	Year to 31 March 2008
Water service	DG2 & Water quality	125.0	122.2	120.9	122.1
Sewerage service	DG5, Flooding incident	75.0	57.8	54.0	44.7
Security of supply	DG4, Leakage and security of supply	50.0	50.0	45.1	45.0
Customer services	DG6,7,8,9	75.0	74.3	74.6	72.7
Environmental performance - water	Pollution incidents	12.5	12.5	11.7	12.5
Environmental performance - waste	Pollution incidents & sludge disposal	100.0	100.0	99.3	100.0
Overall Performance Assessment ("OPA")		437.5	416.8	405.6	397.0
Incidence Rate – accidents per 1,000 employees	N/a	N/a	5.9	6.7	8.3

⁶ A trigger event would lead to lock up which would mean nil distributions outside of the securitisation group until resolved to the Security Trustee's satisfaction. Adjusted Interest Cover Ratio is calculated as operating cashflow adjusted for expenditure on depreciation and infrastructure renewals divided by interest paid.

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Directors' Report (continued)

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". The Group has seen continuous improvement in the past 3 years and this year has achieved its best ever OPA 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 and Environmental Performance

- The Group has achieved its regulatory leakage target for a fourth successive year with annual average leakage for 2009/10 of 670 MI/d, against the target of 685 MI/d. This is 29 MI/d below the level reported for 2008/09 despite another challenging winter with temperatures well below those for last year.
- The Groups' drinking water quality performance remains high at 99.98%. Whilst it aims to achieve 100% compliance, the Group knows that many of the failures it records at customers' taps are caused by the condition or maintenance of customers' pipe work and fittings. To that extent, 100% compliance is not within the Groups' control. However, it continues to strive to achieve this target and is one of the best performing companies in the industry.
- There was an event in February 2010 in the North East London area, in which minute traces of two chemicals used in manufacturing were found in drinking water abstracted from the River Lee. These substances were enough for a small number of customers (relative to the population served) to notice an odd smell and taste. Advice from the Health Protection Agency was that the levels of these chemicals in the water did not present a significant risk to public health. The Environment Agency also confirmed that there has not been any environmental impact on the river. The Company's actions were to suspend abstraction from the River Lee while investigations were ongoing, using the River Thames instead, and to adjust our treatment processes at Coppermills AWTW in order to eliminate the traces of the substances in question. However, there is an ongoing Drinking Water Inspectorate investigation which could possibly lead to a criminal prosecution.

Sewerage Service and Environmental Performance

- Sewerage treatment works continue to perform well and have achieved 100% compliance with Urban Waste Water Treatment Directive (UWWTD) standards and are 99.4% compliant with their Water Resource Act (WRA) consents. This achievement should be seen in the context of the Thames region having some of the most stringent effluent quality standards in the UK.
- The Group had only two significant incidents arising from its sewerage assets.
- The Group has continued to deliver a reduction in the occurrence of sewer collapses. Collapses can cause flooding and pollution incidents. The Group has carried out a programme of sewer rehabilitation in AMP4 to deal with sewers in poor condition before the collapses occur. This year it has inspected some 930km of sewers as part of its proactive inspection programme and as a result renewed or renovated a total of 11km of sewers.
- With regard to sewer flooding, 1,334 properties had risks reduced or mitigated by the Group's actions during 2009/10. This comprised of 867 internal properties alleviated (with 57 mitigated) and 345 external properties alleviated (with 65 mitigated).

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Directors' Report (continued)

Security of Supply

- The Group has again achieved its Security of Supply Index ("SoSI") target for 2010
- Of the 4 elements that make up the SoSI score (Hosepipe bans, Leakage, SoSI - Absolute, SoSI - Performance against target), the Group scored 100 in the performance against target, surpassing its target of 85 and therefore closing the supply demand gap in London for the first time. This means that the Group can now deliver to its customers the target levels of service for security of supply

Customer Service

- The Group has delivered another year of high performance against the customer services measures which is reflective of the hard work that it has put in to improve customers' overall experience of the Group
- The Group's performance in responding promptly to customers regarding their queries remained at a high level, with 99.9% resolved within five working days. This is well above Ofwat's 'Good' performance assessment of 95% and this maintains performance ahead of the regulatory target. This was despite the fact that during this year the Group received 15% more billing enquiries than in the previous year. This was mainly due to an increased number of enquiries regarding ways of paying water services charges which may be indicative of the effect of the economic downturn
- Despite an increase in the overall metered customer base of c70,000 accounts, the Group has produced its best ever performance with 99.87% of metered bills issued during the year based on an actual reading

Incidence Rate – accidents per 1,000 employees

Management continue to focus on health and safety. The headlines for 2009/10 show a significant improvement in the Group's processes and compliance capability.

- The Group has achieved a 12% reduction in reportable accidents across the business
- Safeguard (the Group's online Health, Safety and Environment Management System) was rolled out to all operating contractors. This allows better reporting and recording of health and safety performance data
- During October 2009, the Group again ran a successful European Health & Safety Week campaign, including a series of road-shows on over 20 sites, focused on risk assessment and hazard identification
- In May 2009, Thames Water was awarded the Royal Society for the Prevention of Accidents (RoSPA) Industry Sector Award for Occupational Safety & Health

Kemble Water Holdings Limited

Directors' Report (continued)

Principal risks and uncertainties

Risk overview

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") and ultimately the Board of Directors.

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:

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 deliver cost and efficiency savings in line with a challenging Final Determination, while maintaining and improving operational performance. Performance against these is the subject of frequent management review.

Employee pension scheme funding – The Group operates two Final Salary pension schemes. In March 2010, the Group agreed a deficit repair plan, including increased employer contributions backdated to April 2008 and increased employee contributions from April 2009 for the Thames Water Pension Scheme, combined with a review of benefits. Movement in economic factors (such as inflation and interest rates) 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 2010, the Group has adequate cash at bank and short term deposits of £666.0m and undrawn committed bank facilities (£1.1bn) in place to provide liquidity as required. The Group will renew £355m of committed facilities before August 2010. The Group has been successful in raising new debt financing in difficult market conditions, with £455m raised in the financial year to 31st March 2010. However, due to continuing 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 the Groups' capital structure). Significant falls in RPI could reduce the RCV growth which creates further pressure on financial covenant headroom, specifically the ratio of net debt to RCV ("Senior RAR").

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 or Corporation tax without recourse to Ofwat. However, changes that are specific to, or are more material for, the water industry may be funded by Ofwat as a relevant change of circumstance.

Failure of a major asset – A failure at one of the Group's major assets could significantly impact the safety of its 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.

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Directors' Report (continued)

Principal risks and uncertainties (continued)

Risk overview (continued)

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 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 in which the Group must compete with other organisations for staff with the necessary skills, particularly engineering, in order to deliver the capital programme agreed in the Final Determination and additional major planned projects. Failure to deliver agreed targets may result in fines, intervention by Ofwat and less favourable future determinations.

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 which could result in increased costs to the customer. Consequently, the Group has engaged with Ofwat in the consultation process and the discussion of potential competition models.

Impact of low inflation or deflation – In return for their capital investment in assets, regulated water companies earn a return on their Regulated Capital Value, which is adjusted by the RPI. In times of low inflation or deflation, the return on this investment will decrease relative to the cost of funding, reducing cash flow and shareholder value.

Delivery of the Thames Tideway Tunnel – As an innovative solution to the challenge of reducing sewage discharges into the Thames, the design and construction of the Thames Tideway Tunnel presents a number of technical, logistical and financial challenges. These include the need to identify and secure a number of construction sites in central London, to obtain the planning consents needed from London boroughs, to manage the inevitable disruption and to secure funding for the project.

Transfer of private sewers – The proposed transfer of private sewers to the Group will give rise to additional capital and operational costs which have not been funded in the Final Determination. Full details of the Groups' obligations and the funding mechanism have yet to be clarified by Ofwat.

FD ("Final Determination") and AMP 5

The key features

In November 2009 the Group was given its final determination by Ofwat for the 5 year period from 1 April 2010 to 31 March 2015 and the FD has been accepted by the Group. The key features are as follows:

- 3.1% above inflation increase in average customer bills over the 5 year period,
- An allowed Weighted Average Cost of Capital of 4.5% post-tax,
- Operating expenditure funding of £3,136m,
- £4,912m of funded Capital expenditure,
- A Capital Incentive Scheme baseline ratio of 125 for water and 108 for waste,
- £631m of funding for the Lee Tunnel, and
- Thames Tideway Tunnel funding of £256m

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Directors' Report (continued)

FD ("Final Determination") and AMP 5 (continued)

The Group will invest over £4.9bn on essential work to improve assets over the next five years. Despite this significant investment, customers' bills will rise by a total of only 3.1% above inflation by 2015 with the average bill remaining under £1 a day.

The plan to deliver

As an infrastructure business with a requirement for investment estimated to be £4.9bn during AMP 5, the Group recognised that, to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business as well as the challenges presented in Ofwat's FD, it would need to implement a new business model focused on Asset Management. This Asset Management model was implemented at the start of the 2009/10 year and management believes that the Group is now set up as it enters AMP 5 to deliver the significant capital programme that was agreed by Ofwat in the Final Determination.

Alongside the development of this business model, 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. On 28 September 2009 the Finance and Supply Chain work package of SAP went live and it has been a very successful implementation. The Human Resources work package went live on 12 April 2010 and the early signs are very promising.

Over the next five years the Group must develop increasingly sophisticated approaches to running the business as the scope for efficiency improvement decreases. Information Services is a core support function within the Group and underpins all of the business processes and resulting operational performance.

Throughout AMP5 the Group will embed SAP software into all parts of the business. SAP will continue to introduce new processes that will improve the way the Group works, and will replace a range of different systems with just one, making data more reliable and easily accessible across the Group.

The Group currently uses Supervisory Control and Data Acquisition (SCADA) in a number of ways to remotely monitor and control asset performance on networks and process plants for water networks and treatment works. SCADA is an enabler of the current operational efficiency and is part of the Group's wider plans for managing health and safety and operational risks. The Group is currently in the process of replacing and enhancing legacy systems, which will enable it to become even more efficient going forward.

In addition, the Group is starting work on a long term project called WAMI (Work Asset Management and Information). This is a far reaching project that will transform the Group's asset management and operation planning process.

One of the most important components for WAMI is a business-wide asset register which will be integrated with a geographical interface. This means that for the first time the Group will be able to see its assets in one place – enabling it to record cost, risk and performance data against its assets. For Operations, it will provide the Group with an end-to-end work management process, giving joined-up planning, greater visibility of other teams' planned work and better assessments of how proposed changes might affect other parts of the business.

WAMI will be looking at the capture of data from the field, through to making robust risk-based investment decisions, improving the way the Group schedules work for its customers and communicating progress whilst keeping customers informed every step of the way.

Kemble Water Holdings Limited

Directors' Report (continued)

FD ("Final Determination") and AMP 5 (continued)

AMP5 Contracts

Following a fundamental review of the Group's strategy, in AMP 5 the majority of capital schemes will be procured and delivered as programmes of projects, rather than by letting an individual contracts for each project. This enables greater efficiency to be realised through the optimisation of the programme, as well as increasing the accountability of the contractors for delivery of the desired outputs. Contracts have been awarded following rigorous market competition.

For Network Repair and Maintenance Services the Group has challenged the market to determine the optimum delivery model, and have awarded contracts for the whole five year period which will enable the Group to reduce costs and improve operational flexibility and performance.

Conclusion

The Group believes that these improvements will deliver significant benefits for customers and help achieve the vision "If customers had a choice, they would choose Thames Water".

In its FD, Ofwat has set the Group a particularly tough challenge but there were some welcome changes from the draft determination and the Group will now focus on the delivery of the agreed plan. Operational performance is currently at its best ever level and the Group's priority is to maintain this level of performance over the next five years and beyond.

Looking further ahead

The review contains a number of forward-looking statements that the Group believes to be reasonable based on the knowledge and information available to the directors at the date of preparation, but about which it is unable to give any assurance that they will prove to be correct. Such forward-looking statements involve a number of risks and uncertainties and are subject to change at any time. In the event that such risks or uncertainties materialise, the Group's results could be materially affected. These risks and uncertainties include, but are not limited to, risks associated with the Group's operational performance, the regulatory regimes under which it operates and the need to obtain planning consents and other authorisations for capital works.

Strategic Direction Statement

In 2007 the Group published its Strategic Direction Statement (SDS), setting out the plans for the next 25 years. Whilst these plans remain adaptive to changes in legislation and environmental needs, the Group stands by its key aims of delivering a high quality, efficient, sustainable, and affordable service to customers.

Regulatory and market reform

The Group recognises that there is a major change agenda for the water industry, and wishes to work in partnership with Ofwat to deliver cost effective solutions for customers whilst taking a long term approach to the environment and industry financeability. It is crucial that water and sewerage services remain affordable, deliver a step change in customer service, secure the services for future generations, and that the sector remains attractive to investors to ensure access to low cost, sustainable finance.

The Group looks forward to engaging with Ofwat and its stakeholders on how best to deliver benefits to its customers through market reform.

Kemble Water Holdings Limited

Directors' Report (continued)

Relationships and resources

Climate change

Climate change is perhaps the greatest risk to the water industry in years to come. As well as hotter, drier summers, the Group expects to experience more extreme weather events such as flooding.

Climate change will reduce the period when the Group's groundwater sources can refill and will reduce summer rainfall. As a result, managing demand for water through activities like wider water metering and water efficiency programmes to encourage people to use water wisely will be increasingly important in adapting to the impacts of climate change. New sources of water will also need to be developed along with leakage being more strictly managed.

The increase in severe weather events will require the Group to adapt its sewerage system, increase its flood resilience, along with building greater capacity into pipes, tanks and treatment works.

The Group looks forward to engaging with its regulators in assessing future scenarios and ensuring that it has the necessary investments in place to meet these future demands.

Water resources

In August 2009 Defra called for a public inquiry into the Group's draft Water Resources Management Plan.

The draft plan sets out how the Group will provide water for its customers between 2010 and 2035. The Group considers that it has produced the best possible plan, and balanced the sometimes conflicting requirements of statutory duties and of economic and environmental regulation in the best interests of customers and the environment. However, the Group recognises that the plan raises a number of important issues, which will be examined at the public inquiry.

Employees

The Group's employees have continued to demonstrate high commitment and increased engagement levels during a challenging year and most notably during the severe winter weather events of 2009/10.

The People Strategy is now in its third year of implementation and continues to support the transformation of Thames Water in developing a positive working environment that celebrates diversity and inclusion. During 2009/10, the Group has delivered the following key interventions to support the business strategy:

- Implementation of SAP HR post year end
- Graduate and Apprentice Programmes have continued with new intakes and a new bursaries scheme has been introduced to support the talent pipeline
- Implementation of performance related pay for employee grades, linked to 2009/10 Performance and Development Review ratings implemented with first pay award made in July 2009
- New executive reward package launched for Extended Leadership Team with design of a new 5 year Long Term Incentive Plan linked to AMP5
- Review of Equal Pay
- Delivery of new working patterns in the Customer Services Business Unit
- TUPE arrangements for the outsourcing of Legal and for the transfer of Capital Delivery Design to contractors
- Introduction of a new Operations Management Centre in Reading bringing together existing and new employees

Kemble Water Holdings Limited

Directors' Report (continued)

Relationships and resources (continued)

Employees (continued)

Having a diverse workforce is crucial to enable the Group to reach its diverse customer base. As part of this strategy the Group has developed a Diversity & Inclusion Strategic Framework. This is to be launched in June 2010.

The Chief Executive Officer ("CEO") and EMT continue to hold quarterly management briefings with managers and in addition, these meetings provide the opportunity to discuss performance and how the Group can continue to move forward.

Overall staff turnover increased from 8.4% in 2008/09 to 9.8% in 2009/10. However, resignation levels were lower in 2009/10. The decrease in resignations can likely be attributed to a more engaged working environment following continued focus on employee engagement, the change in Group ownership and also given the job market and economic uncertainty. The increase in overall staff turnover is due to the redundancies that have taken place in 2009/10 to support the business restructuring.

In 2009/10 the Group sickness rate was 3.20% (2008/09 3.04%). The increase can be attributed to the swine flu epidemic. The Group has an absence management policy in place with the overall aim of reducing and managing sickness absence.

The Group is committed to the training and development of all of its employees and employees undertook 4,387 formal training days in 2009/10 (2008/09 5,708).

Stakeholders

Establishing and maintaining good working relationships with stakeholders is of vital importance to the Group. Stakeholders represent important constituencies and can have considerable influence over the Group's operations and, ultimately, business success. In addition, the Group's activities often have a significant impact on its stakeholders.

Much of the Group's work with stakeholders throughout the year centred on securing the best outcome for its customers and stakeholders from the Price Review. This included briefings with many of the 145 MPs and 106 local authorities whose areas the Group serves, in addition to London Assembly Members, environmental Non-Governmental Organisations ("NGO") and the Consumer Council for Water, the consumer champion. By consulting and working in partnership with stakeholders the Group was able to ensure its proposals better reflected their needs.

Kemble Water Holdings Limited

Directors' Report (continued)

Relationships and resources (continued)

Stakeholders (continued)

The passage through Parliament of the Flood and Water Management Bill – now the Flood and Water Management Act – represented the first major piece of legislation for the industry in many years, changing roles and responsibilities for flooding as well as addressing a variety of wider issues. The Group worked with Government and opposition MPs and The Department for Environmental, Food and Rural Affairs (“Defra”)’ Bill team, to help them ensure the Bill reflected the needs of its customers, the environment and the industry itself. The Group also gave evidence to the Environmental, Food and Rural Affairs (“Efra”) Committee which was given responsibility for pre-legislative scrutiny of the Bill. The Group welcomes the introduction within the Act of a social tariff for the water industry, which the Group has strongly advocated for the last two years. This will form an essential part of the package of affordability measures the Group plans to introduce to help customers least able to pay for their bills, particularly as a result of a move to increased metering.

The Group is also pleased to see new measures to address customer debt in tenanted properties, which it worked with Water UK to prepare and whose introduction will help reduce the £12 currently paid each year by customers who do pay their bills to subsidise those who do not pay their bills.

Key suppliers and contractors

In 2009/10, the Group spent in excess of £1.1bn on construction, goods and services with a range of suppliers and contractors (2008/09 in excess of £1.2bn). Approximately 23 key suppliers (2008/09 24) were engaged with a spend greater than £10m each (2008/09. £10m). The Group’s policy is to establish trading arrangements, which are made following an open non-discriminatory, competitive bidding process. Procurement processes reflect the Group’s corporate responsibility commitments and, where applicable, comply with the requirements of the Utilities Contracts Regulations 2006 (as amended).

Research and development

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. R&D deliver innovative technical solutions through a research programme aligned with business needs to address challenges for AMP4 and now AMP 5 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.5m for the year (2008/09 £3.5m).

Intellectual property

The Group protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Kemble Water Holdings Limited

Directors' Report (continued)

Relationships and resources (continued)

Energy efficiency and renewable energy

The Group's total emissions (Scope 1, 2 and 3) reported for the year 2009/10 were 757,218 Tonnes (2008/09 851,546 Tonnes) of carbon emissions ("CO₂") The reported figure is compatible with the new DEEC/Defra guidance and Ofwat reporting requirements

However, the majority of this reduction is associated with changes to accounting guidance from DEEC and Defra In particular, carbon reduction benefit associated with self-generated renewable energy can be counted where backed by Renewable Energy Guarantees of Origin (REGO) as a reduction this year and emissions associated with sludge to land are no longer reported The Group's calculations do not include 'short-cycle' carbon dioxide in line with Ofwat guidance

The Group focuses its efforts on the most energy consumptive areas of the business, namely operations (particularly the pumping of water and sewage) During the year the Group has upgraded a further three pumping systems, returning them to their original efficiency This work, which included improvements at Lockwood and Kew Bridge, saved 888,759 KWh in 2010 Including the sustained energy savings from previous years pumping efficiency cumulative energy savings of 7,046,559 KWh in 2009/10 (equivalent of 3,833 Tonnes CO₂ per year) have been achieved

A critical factor in managing energy is the need for better metering, so that the Group can measure how much gas or power it is using The Group's programme has installed automatic remote meters at 2,566 sites in 2010, providing accurate energy consumption data to manage energy efficiency This project aligns with the introduction of the Carbon Reduction Commitment ("CRC") - a mandatory UK-wide scheme promoting energy efficiency among large businesses and public sector organisations which started on 1 April 2010

Throughout 2010 the Group continued to deliver its energy efficiency programme, which includes improvements in lighting and pumping Through the lighting efficiency project the Group has installed controls at a further three sites to turn lights off when buildings are unoccupied These have been installed at Little Marlow Sewerage Treatment Works ("STW"), Ashford Water Treatment Works ("WTW") and Kempton WTW

The lighting efficiency project this year saved approximately 546,520 KWh When added to sustained energy savings from previous year's programme of 1,641,237 KWh in 2008/09, this is a cumulative energy saving of 2,187,757 KWh in 2010 This is equivalent to 1,190 Tonnes CO₂ per year

Kemble Water Holdings Limited

Directors' Report (continued)

Social and community

Corporate responsibility

The Group continues to be committed to operating in a socially responsible way and to engaging with stakeholders and communities. Full details of the Groups Corporate Responsibility (CR) performance is included in the annual CR report available on the dedicated website www.thameswater.co.uk/cr

The Group was pleased to have achieved a 'Platinum' ranking in this year's Business in the Community Corporate Responsibility Index. The overall score was 95.2%, meeting the target set for the year and improving the Groups' performance on the previous year where Thames Water was ranked 'Gold' and scored 93.0%

Some of the key outputs from the Groups' community investment programme and its Ten for Ten programme are set out below

Community Investment and Support

The Groups' Community Investment strategy continues to focus on giving time and giving money to support charities, schools and the community. The programme connects employees to the community they serve, delivering business benefits such as developing skills and improving the Group's reputation, as well as benefits to the community.

The Group ran a series of employee volunteering events throughout the year, including its established volunteering partnerships with Reading RESCUE, a major environmental clean-up in Reading and working with the charity Thames 21 on a series of clean-ups for London's waterways. The Group also joined forces with its principal charity, WaterAid, to form part of the world's longest toilet queue, highlighting water and sanitation issues in developing nations.

Through these events and individual volunteering activities, the Group achieved a volunteer rate of around 10% of employees. The Groups "Time to Give" scheme allows each employee two days in addition to their annual leave entitlement in which they can volunteer for community investment projects in the Groups' area.

Charities

The Group and its employees were also heavily involved with raising money for charities during the year. More than 900 employees took part in or assisted with fundraising activities to raise nearly £70,000 for a variety of charities, which also qualified under the Groups scheme for more than £50,000 of matched funding by Thames Water.

The Group also supported its principal charity, WaterAid, through staging the Love Water Ball. A record-breaking £636,000 was raised at the 2009 ball, the biggest single donation ever made to WaterAid. It will help provide a lasting supply of safe water, sanitation and hygiene education to over 40,000 people in impoverished areas of East Africa and India.

To support the relief effort following the devastating earthquake in Haiti, the Group pledged £30,000 through the charity RedR – who are providing technical support for the water, sanitation and hygiene (WASH) cluster in Haiti. As well as providing funding, the Group is working in partnership with RedR to provide technical support.

Kemble Water Holdings Limited

Directors' Report (continued)

Social and community (continued)

Charities (continued)

Closer to home the Group strengthened its well established partnership with Thames 21 by committing £100,000 over 3 years to fund Thames 21's East London Waterways Project. Focused in Newham and Tower Hamlets and working with seldom heard communities the project aims to raise the profile and local ownership of the network of waterways in East London.

Ten for Ten

The Group has continued to implement its £10m Ten for Ten programme to benefit customers and communities across the Group's service area. This year the Group has donated £2.5m to the Thames Water Trust Fund – which during the year has helped over 2,200 disadvantaged customers who were unable to pay their water bills. The Group has also made payments totalling £307,500 to help support 205 customers who have suffered from the most serious sewer flooding incidents.

The Group has provided £275,000 to complete a project to build a pontoon giving disabled sailors improved access to the Farmoor Reservoir near Oxford. The scheme has provided a wheelchair-friendly ramp, enabling the provision of hoists and safer handling facilities. As part of its commitment to improve the educational value of key water-related visitor attractions the Group has been working with the London Wetland Centre to redevelop their popular pond zone exhibit and Crossness Engines Trust to build an access road to the museum. Donations towards these educational projects total over £125,000.

The Group has also been working to improve key wildlife and recreation sites outside London – working with Wiltshire Wildlife Trust to create a nature reserve adjacent to Swindon Sewerage Treatment Works, assisting the National Trust in improving the natural environment at 'The Chase' near Newbury, funding a community project at Goldsworth Park Lake in Woking, assisting in the planning of Reading's Fobney Island community project and supporting the Environment Agency with their national Otter Survey. This year, the Group has donated over £68,000 towards these projects.

In September 2009, the Group launched the Thames Water Engineering Bursary, designed to support students from the London Borough of Newham (and surrounding boroughs) studying engineering at the University of East London. In the first year of the scheme, the Group supported two students – assisting with their tuition fees and will be offering them work placements within the organisation in summer 2010.

In December 2008, the winning carafe design was announced for the London on Tap campaign that the Group ran jointly with the Mayor of London. To give the 'Carafe for London' the best possible start, the Group donated over £3,500 to deserving causes this year and will donate a further £6,500 over the course of the next year. To enhance the campaign, the Group has also funded the manufacture of the first two Hydrachill tap water dispensing machines, due to be installed in London by summer 2010.

The Group continues to work with a variety of partners and stakeholders to progress the Ten for Ten projects.

Kemble Water Holdings Limited

Directors' Report (continued)

Principal activities and likely future developments

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

The Company's registered number is 5819262 (England and Wales)

Results and dividends

The profit and loss account on page 28 gives the Group's financial results for the year

The Group paid interim dividends totalling £156.4m during the year (2008/09 £187.2m)

The Group's dividend policy is

- To pay a progressive dividend commensurate with the long-term returns and business performance, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants

Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that

- Sufficient liquidity is maintained to enable the business to meet its financial obligations for 15 months
- Post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis

The board does not recommend a final dividend (2008/09 £Nil), however, the Board has proposed a further interim dividend, see note 10 page 46

Directors

The directors who held office during the year ended 31 March 2010 and to the date of signing were

Sir Peter Mason KBE – Chairman
L Abaira (appointed 1 January 2010)
M W Baggs
E Beckley
R Blomfield-Smith
C R Deacon
Dr P Dyer
S Kolenc (resigned 1 January 2010)
C Lynam
K Roseke (appointed 1 January 2010)
A F C DeP Santos (resigned 1 January 2010)
D J Shah
M S W Stanley

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 31 to the accounts

Kemble Water Holdings Limited

Directors' Report (continued)

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

Director	Alternate Director
L Abraira	P Gomez (appointed 1 January 2010, resigned 31 March 2010) D Mora (appointed 31 March 2010)
R Blomfield-Smith	K Boesenberg
C R Deacon	R D Israel
S Kolenc (resigned 1 January 2010)	L Webb (resigned 1 January 2010)
C Lynam	M W Baggs
K Roseke (appointed 1 January 2010)	S Kolenc (appointed 1 January 2010)
A F C DeP Santos (resigned 1 January 2010)	S Batey (resigned 1 January 2010)
D J Shah	C van Heijningen (resigned 1 January 2010) R Verrion (appointed 1 January 2010)

Employees

Employee involvement

Updates on operational and financial performance are available to all employees through briefings by the CEO, Group-wide emails and team briefings

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

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

All employees are involved in an annual PDR ("Performance and Development Review") process where the corporate and Business Unit objectives are agreed by the EMT, communicated and cascaded through the Group and included on the annual PDR for all employees. In addition, relevant department or team objectives are cascaded and inform employees personal objectives which are agreed with their manager and reviewed regularly. This process ensures that all employees are aligned to Group objectives

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

Kemble Water Holdings Limited

Directors' Report (continued)

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 67 days' (2008/09 70 days') purchases received from these creditors.

Market value of land and buildings

In the opinion of the directors, the market value of the land and buildings of the Group does not exceed the book value at 31 March 2010.

Political and charitable donations and expenditure

No political donations were made by the Group (2008/09 £Nil). The Group made charitable donations totalling £471,500 (2008/09 £744,085). Details of these charitable donations are:

- £154,054 (2008/09 £152,385) to the Charities Aid Foundation
- £Nil (2008/09 £7,800) to WaterAid
- £60,000 (2008/09 £60,000) to Thames 21, a range of charities which assists in cleaning rivers and streams within the Thames Valley
- £Nil (2008/09 £43,500) to improve the River Wandle in South London
- £197,446 (2008/09 £Nil) of donations to educational and recreational Ten for Ten projects
- £60,000 (2008/09 £2,500) of other donations including a £30,000 donation to the Haiti relief effort

Going concern

The directors believe, after due and careful enquiry, that the Group has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2010 financial statements. Further information is set out in note 1 'Basis of preparation' on page 32.

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 they ought to have taken as a director to make themselves 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 and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report.

Kemble Water Holdings Limited

Directors' Report (continued)

Auditors

Pursuant to Section 487 of the Companies Act 2006, the auditors will be deemed to be reappointed and KPMG Audit Plc will therefore continue in office

Approved by the Board of Directors on 10 June 2010 and signed on its behalf by


J Hanson
Company Secretary

Kemble Water Holdings Limited

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

The directors are responsible for preparing the Directors' 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)

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent company and of their profit or loss for that period

In preparing each of the Group and Parent company financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgments and estimates that are reasonable and prudent,
- state whether applicable 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 adequate accounting records that are sufficient to show and explain the parent Company's transactions and 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 2006. 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 financial statements of Kemble Water Holdings Limited for the year ended 31 March 2010 set out on pages 28 to 68. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As explained more fully in the Directors' Responsibilities Statement set out on page 25, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org/apb/scope/UKNP.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and Parent company's affairs as at 31 March 2010 and of the group's profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

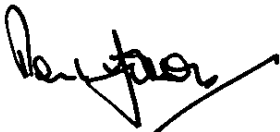
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us, or
- the parent company financial statements are not in agreement with the accounting records or returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



Paul Johnson (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

 June 2010

Kemble Water Holdings Limited

Consolidated profit and loss account for the year ended 31 March

		2010	2009
	Note	£m	£m
Turnover	2	1,659.5	1,579.3
Operating costs		(1,011.6)	(1,003.7)
Exceptional item	4	-	25.9
Total operating costs	3	(1,011.6)	(977.8)
Group operating profit		647.9	601.5
Share of operating loss in joint ventures		(0.4)	(1.3)
Total operating profit group and share of joint venture and associates		647.5	600.2
Profit on sale of fixed assets		38.9	15.3
- Interest receivable and similar income	7	7.9	105.9
- Interest payable and similar charges	8	(436.4)	(478.4)
Profit on ordinary activities before taxation		257.9	243.0
Taxation charge on profit on ordinary activities	9	(94.4)	(102.9)
Profit for the year	23	163.5	140.1

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

Kemble Water Holdings Limited

Balance sheets as at 31 March

	Note	Group		Company	
		31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Fixed assets					
Intangible assets	12	1,626.5	1,670.9	-	-
Tangible assets	13	9,472.2	9,085.9	-	-
Investment in joint ventures					
Share of gross assets	1(c)	3.5	3.9	-	-
Share of gross liabilities		(3.5)	(3.9)	-	-
Other fixed asset investments	14	0.1	2.1	1.0	1.0
		11,098.8	10,758.9	1.0	1.0
Current assets					
Stocks	15	11.3	6.7	-	-
Debtors	16	634.4	506.4	2,652.0	2,423.4
Investments	17	666.0	338.8	-	-
Cash at bank and in hand		48.5	271.3	-	-
		1,360.2	1,123.2	2,652.0	2,423.4
Creditors amounts falling due within one year	18	(1,308.8)	(1,021.1)	(344.0)	(100.4)
Net current assets		51.4	102.1	2,308.0	2,323.0
Total assets less current liabilities		11,150.2	10,861.0	2,309.0	2,324.0
Creditors amounts falling due after more than one year	19	(8,022.1)	(7,778.5)	-	-
Provisions for liabilities and charges	21	(1,074.2)	(1,021.4)	-	-
Net assets excluding pension liability		2,053.9	2,061.1	2,309.0	2,324.0
Net pension liability	27	(104.7)	(44.3)	-	-
Net assets including pension liability		1,949.2	2,016.8	2,309.0	2,324.0
Capital and reserves					
Called up share capital	22	1,991.6	1,991.6	1,991.6	1,991.6
Profit and loss account	23	(42.4)	25.2	317.4	332.4
Total shareholders' funds		1,949.2	2,016.8	2,309.0	2,324.0

The notes on pages 32 to 68 form part of these accounts

The financial statements on pages 28 to 68 were approved by the Board of directors on 10 June 2010 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 2010 £m	31 March 2009 £m
Net cash inflow from operating activities	28(a)	1,001.9	924 1
Returns on investments and servicing of finance	28(b)	(367.2)	(294 2)
Taxation		(17.8)	(3 0)
Net cash outflow for capital expenditure and financial investment	28(c)	(707.1)	(960 4)
Equity dividends paid to shareholders	10	(156.4)	(187 2)
Net cash outflow before management of liquid resources and financing		(246 6)	(520 7)
Net cash outflow from management of liquid resources		(327.2)	(285 0)
Financing			
Cash inflow from increase in debt and lease financing	28(d)	351.0	957 9
(Decrease)/increase in net cash		(222.8)	152 2

Reconciliation of net cash flow to movement in net debt

(Decrease)/increase in net cash	(222.8)	152 2
Cash (outflow)/inflow from (decrease)/increase in debt and lease financing		
- loans due within one year	(190.4)	75 0
- loans due after more than one year	(166 1)	(1,028 3)
- capital repayment of finance leases	5.5	(4 6)
Cash outflow from decrease in liquid resources	327.2	285 0
Increase in net debt resulting from cash flows	(246 6)	(520 7)
Other non-cash movements		
- RPI uplift on index-linked bond and debt issue cost amortisation	(48.5)	(64 1)
- Fair value amortisation on loans at acquisition	0 5	18 0
Increase in net debt	(294.6)	(566 8)
Net debt at 31 March 2010 and 1 April 2009	(7,209.5)	(6,642 7)
Net debt at 31 March 2010	(7,504.1)	(7,209 5)

Kemble Water Holdings Limited

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

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Group profit for the financial year	163.5	140.1
Exchange adjustments	0.9	(3.4)
Actuarial loss on pension scheme (see note 26)	(105.1)	(136.4)
Deferred tax relating to actuarial loss	29.5	39.6
Total recognised gains relating to the year	88.8	39.9

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

Reconciliation of movements in shareholders' funds

	Group		Company	
	Year end 31 March 2010 £m	Year end 31 March 2009 £m	Year end 31 March 2010 £m*	Year end 31 March 2009 £m
Profit for the financial year	163.5	140.1	141.4	257.8
Exchange adjustments	0.9	(3.4)	-	-
Actuarial loss on pension scheme (see note 27)	(105.1)	(136.4)	-	-
Deferred tax relating to actuarial loss	29.5	39.6	-	-
Dividend	(156.4)	(187.2)	(156.4)	(187.2)
Net change in shareholder's funds	(67.6)	(147.3)	(15.0)	70.6
Opening shareholders' funds	2,016.8	2,164.1	2,324.0	2,253.4
Closing shareholders' funds	1,949.2	2,016.8	2,309.0	2,324.0

* The profit of Kemble Water Holdings includes an impairment of £116.6m (2009 £Nil)

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 2006. An explanation of this departure from the requirements of the Act is given in accounting policy (f) below

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 3 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report

The Group meets its capital programme requirements by raising new debt. Day to day working capital requirements are funded by the business. During the year, £455bn of new facilities were secured and there is no requirement to raise additional finance to meet future project obligations. There are also additional committed facilities with a group of banks of £1,105m, which is rarely used. Of the £1,105m, £355m 364 day facilities is due for renewal by 30 August 2010 with the remainder maturing in September 2012. 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 will be able to operate within the level of its current facility

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

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the 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 2010, 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

Kemble Water Holdings Limited

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

Summary of significant accounting policies (continued)

(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 basis. The joint venture disclosed is in relation to a property development company.

(d) Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided and are 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, revenue includes an estimate of the sales value of water supplied and waste water charges to customers between the date of the last meter reading and the period end, exclusive of value added tax. The estimated usage is based upon historical data, judgement and assumptions, actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors fees, are recognised as negative operating costs when payment is received in both the statutory and regulatory accounts. All water and sewerage charges billed to customers are recognised as income at the time they are billed and apportioned over the period to which they relate. For consumption by measured customers which has not yet been billed an accrual is estimated.

Where there is a change of customer in an Unmeasured property but the Company cannot confirm the name, then in this instance a bill is raised in the name of "The Occupier". The Company does not raise billing in the name of the Occupier for metered accounts. However, an Unmeasured bill in the name of "The Occupier" will be cancelled and rebilled once the Company has confirmation of the customer's name. If confirmation is not received the bill is cancelled and the property is classified as empty.

Where a property is classified as empty, an empty property process is followed to verify when the property becomes occupied and/or obtain the name of the customer (a domestic property must be unoccupied and unfurnished to be classified as empty). The empty property process comprises a number of steps. If these steps confirm that a property appears to be empty then the supply may be turned off. The property will only cease to be classified as empty when a named customer is identified and billed. The Company does not recognise income in respect of empty properties. If the Company has turned off the supply of water at the mains to a property at a customer's request then water supply charges are not payable.

Kemble Water Holdings Limited

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

1 Principal accounting policies (continued)

(d) Revenue recognition (continued)

With regard to new properties, an estimate of the sales value of water supplied and waste water charges to customers between the date of connection and the period end is made

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.

Property revenue is recognised on completion of the sale.

(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 a 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 licences and concessions. 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).

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. Interest costs are not capitalised.

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 its regulatory and statutory accounts for 2008/09 and 2009/10 an infrastructure renewals charge consistent with its expenditure plans for the AMP5 to AMP7 (2010-2025) periods.

Kemble Water Holdings Limited

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

1 Principal accounting policies (continued)

(f) Tangible fixed assets (continued)

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 1 to the Companies Act 2006 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.

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.

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.

Kemble Water Holdings Limited

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

1 Principal accounting policies (continued)

(f) Tangible fixed assets (continued)

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) 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.

(h) Pre-contract costs

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

(i) Taxation

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

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date. Taxable profit differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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)

(j) Leased assets

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

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.

(k) Pension and other post retirement benefits

Pension obligations

The Group operates two large defined benefit pension schemes. The Group accounts for these schemes in accordance with FRS 17 'Retirement Benefits'. The schemes are the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), which are independently administered funds, for the substantial majority of its employees. Actuarial valuations are carried out as determined by the pension scheme trustees using the projected unit credit method for both pension schemes 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. The Group believes that the assumptions utilised in recording obligations under the two schemes are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates (a complete actuarial valuation is performed every three years). 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 the 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 are 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.

(l) 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 in the prior year is as a result of the disposal of Thames Water Turkiye. In 2009/10 the movement is as a result of revaluation of certain balance sheet accounts.

Kemble Water Holdings Limited

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

1 Principal accounting policies (continued)

(l) Foreign currencies (continued)

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 as shown in the Statement of Total Recognised Gains and Losses.

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

(m) 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.

(n) Debtors

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

(o) Creditors

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

(p) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

(q) Borrowings

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

(r) Financial instruments and derivatives

Interest rate swap agreements and financial futures are used to manage interest rate exposure. While the Group enters into currency swaps to manage its exposure to fluctuations in exchange rates, the Group does not use derivative financial instruments for speculative purposes.

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. 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'. Swaps are included in the appropriate caption in notes 18 and 19.

Kemble Water Holdings Limited

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

1 Principal accounting policies (continued)

(s) Accruals and deferred income

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

(t) Research and development

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

(u) Provisions

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

(v) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that 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

Dividend income is recognised when there is a legal right to receive

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 and financing arrangements in the holding companies

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 2010			Year end 31 March 2009		
	Regulated £m	Other/non -regulated £m	Total £m	Regulated £m	Other/non -regulated £m	Total £m
Turnover	1,623.8	35.7	1,659.5	1,558.2	21.1	1,579.3
Group turnover	1,623.8	35.7	1,659.5	1,558.2	21.1	1,579.3
Operating profit/(loss)	671.1	(23.2)	647.9	605.3	(3.8)	601.5
Add share of joint ventures	-	(0.4)	(0.4)	-	(1.3)	(1.3)
Group operating profit/(loss)	671.1	(23.6)	647.5	605.3	(5.1)	600.2
Profit on sale of fixed asset	37.9	1.0	38.9	8.2	7.1	15.3
Group profit on sale of fixed assets	37.9	1.0	38.9	8.2	7.1	15.3
Net interest payable	(255.4)	(173.1)*	(428.5)	(178.4)	(194.1)*	(372.5)
Group net interest payable	(255.4)	(173.1)*	(428.5)	(178.4)	(194.1)*	(372.5)
Taxation	(122.6)	28.2	(94.4)	(120.3)	17.4	(102.9)
Group taxation	(122.6)	28.2	(94.4)	(120.3)	17.4	(102.9)
Profit/(loss) after tax	331.0	(167.5)	163.5	314.8	(174.7)	140.1
Group profit/(loss) after tax	331.0	(167.5)	163.5	314.8	(174.7)	140.1

* Interest payable relates to the funding required for the acquisition of 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 2010			31 March 2009		
	Regulated £m	Other/non- regulated £m	Total £m	Regulated £m	Other/non- regulated £m	Total £m
Fixed assets						
Intangible assets	1,625.5	1.0	1,626.5	1,669.9	1.0	1,670.9
Tangible assets	9,467.2	5.0	9,472.2	9,085.9	-	9,085.9
Investment in joint ventures						
Share of gross assets	-	3.5	3.5	-	3.9	3.9
Share of gross liabilities	-	(3.5)	(3.5)	-	(3.9)	(3.9)
Other fixed asset investments	-	0.1	0.1	0.1	2.0	2.1
	11,092.7	6.1	11,098.8	10,755.9	3.0	10,758.9
Current assets						
Stocks	7.7	3.6	11.3	6.1	0.6	6.7
Debtors amounts falling due within one year	603.0	31.4	634.4	606.0	(99.6)	506.4
Debtors amounts falling due after one year (inter group loan)	1,180.0	(1,180.0)	-	1,180.0	(1,180.0)	-
Current asset investments	573.2	92.8	666.0	321.6	17.2	338.8
Cash at bank and in hand	5.9	42.6	48.5	204.2	67.1	271.3
	2,369.8	(1,009.6)	1,360.2	2,317.9	(1,194.7)	1,123.2
Creditors amounts falling due within one year	(1,350.5)	41.7	(1,308.8)	(1,110.7)	89.6	(1,021.1)
Net current assets/(liabilities)	1,019.3	(967.9)	51.4	1,207.2	(1,105.1)	102.1
Total assets less current liabilities	12,112.0	(961.8)	11,150.2	11,963.1	(1,102.1)	10,861.0
Creditors amounts falling due after more than one year	(5,789.7)	(2,232.4)	(8,022.1)	(5,663.1)	(2,115.4)	(7,778.5)
Provisions for liabilities and charges	(1,098.3)	24.1	(1,074.2)	(958.2)	(63.2)	(1,021.4)
Net assets excluding pension assets	5,224.0	(3,170.1)	2,053.9	5,341.8	(3,280.7)	2,061.1
Net pension (liabilities)/assets	(107.4)	2.7	(104.7)	(44.3)	-	(44.3)
Net assets including pension (liabilities)/ assets	5,116.6	(3,167.4)	1,949.2	5,297.5	(3,280.7)	2,016.8

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 £1,625.6m (2009 £1,669.9m), fair value adjustments to tangible assets of £1,954.2m (2009 £1,975.8m) and financial instruments included in creditors falling due after more than one year of £278.3m (2009 £278.8m). The non-regulated business has a goodwill apportionment of £Nil (2009 £Nil).

3 Operating costs

	Year end 31 March 2010	Year end 31 March 2009*
	£m	£m
Staff costs (note 6)	208.3	223.4
Materials and consumables	133.7	85.9
Other operating charges	416.6	433.2
Exceptional item (see note 4)	-	(25.9)
Amortisation of goodwill and intangibles	44.4	44.9
Depreciation		
- owned assets	241.3	236.6
- infrastructure assets renewal charge	114.0	113.9
- assets held under finance leases	9.6	9.6
Rentals under operating leases		
- hire of plant and machinery	3.1	3.9
- other	7.2	6.9
Research and development	3.5	3.5
Auditors' remuneration	0.5	0.7
Foreign currency losses/(gains)	0.6	(0.3)
	1,182.8	1,136.3
Own work capitalised	(171.2)	(158.5)
	1,011.6	977.8

*The Group has restated other operating charges and own work capitalised for the year ended 31 March 2009 (£27.5m) to reflect the change in accounting treatment of intra-group maintenance costs, which is now treated gross. This reclassification does not affect operating profit.

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 2010 £'000	Year end 31 March 2009 £'000
Fees payable to current auditors.		
Amounts receivable by auditors and their associates in respect of		
Audit of these financial statements:	30	28
Audit of financial statements of subsidiaries pursuant to legislation	294	283
Assurance services	110	-
Other services pursuant to such legislation	66	133
Other services relating to taxation	4	35
All other services	110	70
	614	549
	Year end 31 March 2010 £'000	Year end 31 March 2009 £'000
Fees payable to previous auditors.		
Amounts receivable by auditors and their associates in respect of		
Audit of financial statements of subsidiaries pursuant to legislation	-	49
Other services pursuant to such legislation	-	65
All other services	-	43
Audit fees in respect of the Thames Water Limited pension schemes	-	59
	-	216

4 Exceptional items

The exceptional item relates to a net sum received during the year ended 31 March 2009 in settlement of a claim made by the Group

5 Information regarding directors

Aggregate directors' emoluments.

	Year end 31 March 2010 £'000	Year end 31 March 2009 £'000
Salary	455	420
Bonus	589	-
Total	1,044	420

Highest paid director:

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid director in respect of work done for the Group during the year was £623,877 (2009 £275,000) and accrued pension under the Group's defined benefit scheme was £Nil (2009 £Nil)

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 were as follows:

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
- Wages and salaries	178.6	186.4
- Social security costs	18.9	15.3
- Other pension costs (note 27)	11.8	15.3
- Severance costs	0.9	8.4
	210.2	225.4
Employment costs included within research and development	(1.9)	(2.0)
Net employment costs	208.3	223.4

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

	Year end 31 March 2010 Number	Year end 31 March 2009 Number
Operations	4,803	4,674
Support	292	467
	5,095	5,141

7 Interest receivable and similar income

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Interest receivable and similar charges		
Interest receivable	7.9	105.9

Kemble Water Holdings Limited

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

8 Interest payable and similar charges	Year end 31 March 2010 £m	Year end 31 March 2009 £m
On bank loans and overdrafts	(15.4)	(26 7)
Swaps	(16.5)	34 6
Amortisation of issue costs of loans	(6.7)	(5 7)
On all other loans	(373 0)	(460 3)
Finance charges payable in respect of finance leases	(9.8)	(10 6)
Pension interest (note 27)	(14.8)	(2 8)
Other finance charges	(0.2)	(6 9)
Interest payable and similar charges	(436.4)	(478 4)

Amounts payable on swaps relate to interest rate swaps taken out to hedge rates on external borrowings. Refer to note 20. The net interest payable on swaps (2009 receivable) is the aggregate effect of all swaps held in the Group.

9 Taxation on profit on ordinary activities

Analysis of charge in year	Year end 31 March 2010 £m	Year end 31 March 2009 £m
UK corporation tax - amounts payable in respect of corporation tax for the year	(15.7)	(12 3)
Adjustments in respect of previous years	(4 1)	14 5
Total current tax	(19.8)	2 2
Origination and reversal of timing differences	(57.4)	(59 7)
Adjustment in respect of previous year	(11.3)	(36 5)
Pension cost charge lower than pension cost relief	(5.9)	(8 9)
Total deferred tax	(74.6)	(105 1)
Tax charge on profit on ordinary activities	(94.4)	(102 9)

Kemble Water Holdings Limited

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

9 Taxation on profit on ordinary activities (continued)

Factors affecting tax (charge)/credit for year

The current tax charge for the year is lower than (2009 lower than) the standard rate of corporation tax in the UK of 28% (2009 28%) The differences are explained below

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Profit on ordinary activities before taxation	257.9	243 0
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	(72.2)	(68 0)
Effects of		
Capital allowances in excess of depreciation and other timing differences	57.4	59 7
Disallowable expenditure and other permanent differences	(6.8)	(12 9)
Net pension cost charge lower than pension cost relief	5.9	8 9
Adjustments to tax charge in respect of previous years	(4.1)	14 5
Current tax (charge)/credit for the year	(19.8)	2 2

The tax charge attributable to the profit on sale of fixed assets is £4 9m (2009: £2 4m)

Of the deferred tax charge as at 31 March 2010 of £74 6m (2009 £105 1m charge), a deferred tax charge for the year ended 31 March 2010 of £68 7m (2009 £96 2m charge) is shown as a movement within note 21 provisions for liabilities and charges, and a deferred tax charge for the year ended 31 March 2010 of £5 9m (2009 £8 9m) is shown within note 27 (Pension schemes) Deferred tax not recognised in respect of tax losses is £97 7m (2009 £85 1m)

10 Dividends

	31 March 2010 £m	31 March 2009 £m
First interim paid 78 52p (2009 93 99p) per £1 00 ordinary share	156.4	187.2
	156.4	187.2

As a post balance sheet event, on 10 June 2010 the directors approved a second interim dividend of £75 0m (26 5p per ordinary share) in respect of the year ended 31 March 2010

11 Profit of holding company

A profit of £141 4m (2009 profit £257 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 408 of the Companies Act 2006

Kemble Water Holdings Limited

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

12 Intangible assets

	Group		
	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 April 2009 and 31 March 2010	1,773.4	1.6	1,775.0
Amortisation			
At 1 April 2009	103.5	0.6	104.1
Charge for the year	44.3	0.1	44.4
At 31 March 2010	147.8	0.7	148.5
Net book value			
At 31 March 2010	1,625.6	0.9	1,626.5
At 1 April 2009	1,669.9	1.0	1,670.9

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				
	Plant and equipment £m	Land and buildings £m	Infra- structure assets £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2009	3,015.7	2,174.7	4,713.8	-	9,904.2
Reclassification 1	(611.4)	(221.8)	(820.0)	1,653.2	-
Reclassification 2	108.2	(108.2)	-	-	-
At 1 April 2009 (restated*)	2,512.5	1,844.7	3,893.8	1,653.2	9,904.2
Additions	-	-	-	782.5	782.5
Transfers between items	627.9	139.3	492.2	(1,259.4)	-
Disposals	(2.3)	(1.5)	(0.5)	-	(4.3)
At 31 March 2010	3,138.1	1,982.5	4,385.5	1,176.3	10,682.4
Capital contributions					
At 1 April 2009	-	-	(70.5)	-	(70.5)
Additions	-	-	(28.4)	-	(28.4)
At 31 March 2010	-	-	(98.9)	-	(98.9)
Depreciation					
At 1 April 2009	(385.4)	(106.3)	(256.1)	-	(747.8)
Reclassification	68.0	(68.0)	-	-	-
At 1 April 2009 (restated*)	(317.4)	(174.3)	(256.1)	-	(747.8)
Provided during the year	(197.2)	(53.7)	(114.0)	-	(364.9)
Disposals	1.1	0.3	-	-	1.4
At 31 March 2010	(513.5)	(227.7)	(370.1)	-	(1,111.3)
Net book value					
At 31 March 2010	2,624.6	1,754.8	3,916.5	1,176.3	9,472.2
At 1 April 2009 (restated*)	2,173.7	1,670.4	3,588.6	1,653.2	9,085.9

Reclassification 1 The Group has reclassified assets in course of construction as a separate disclosure within the above table. Previously these assets in course of construction were shown within other asset categories.

Reclassification 2 The Group has also undertaken a substantive review of its assets as part of the implementation of the Group's new Electronic Reporting system ("ERP"), SAP, with the result that certain assets were previously reported within an incorrect category. The gross book values and associated depreciation have therefore been reclassified accordingly.

The net book values have been unaffected as a result of the above two events as all assets were depreciated over the correct useful economic life.

Depreciation has not been charged on freehold land stated in the financial statements at cost of £34.9m (2009 £34.4m).

The Company has no tangible fixed assets.

Kemble Water Holdings Limited

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

13 Tangible fixed assets (continued)

The net book value of land and buildings comprises.

	31 March 2010 £m	31 March 2009 £m
Group		
Freehold	1,749.3	1,664.4
Long Leasehold	2.7	2.9
Short Leasehold	2.8	3.1
	1,754.8	1,670.4

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

	Plant and equipment total £m
Cost	
At 31 March 2010 and 1 April 2009	272.5
Depreciation	
At 1 April 2009	(126.9)
Charge for the year	(9.6)
At 31 March 2010	(136.5)
Net book value	
At 31 March 2010	136.0
At 1 April 2009	145.6

14 Fixed asset investments

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 2010 amounted to £3.5m (2009 £3.1m).

The associated undertakings and joint ventures are all unlisted. The Company has no (2009 £Nil) investments in joint ventures or associates.

Kemble Water Holdings Limited

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

14 Fixed asset investments (continued)

Group

Interests in investments	£m
Cost	
At 1 April 2009 and 31 March 2010	2.1
Repayment	(2.0)
At 31 March 2010	0.1
Impairment at 1 April 2009 and 31 March 2010	-
Net book value	
At 31 March 2010	0.1
At 1 April 2009	2.1

Company

	Investment in subsidiary undertakings £m
Cost	
At 1 April 2009 and 31 March 2010	1.0

The investment relates to Kemble Water Eurobond Plc

See note 30 for a list of principal subsidiaries

15 Stocks

	31 March 2010 £m	31 March 2009 £m
Group		
Raw materials and consumables	5.8	5.8
Work in progress	3.6	0.5
Finished goods and goods for resale	1.9	0.4
	11.3	6.7

The Company had no stocks (2009: £Nil)

Kemble Water Holdings Limited

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

16 Debtors

	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Due within one year:				
Trade debtors	251.4	222.3	-	-
Amounts owed by group undertakings	-	-	2,652.0	2,423.4
Amounts owed by joint venture undertakings	-	2.4	-	-
Corporation tax receivable	20.1	22.2	-	-
Other debtors	112.5	94.0	-	-
Deferred tax asset	-	-	-	-
Prepayments and accrued income	250.4	165.5	-	-
	634.4	506.4	2,652.0	2,423.4
	£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	-	-	778.1	432.8
	-	-	2,768.7	2,423.4

A loan of £1,990.6m (2009 £1,990.6m) which incurs interest at 18% (2009 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.

17 Investments

	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Short term deposits	666.0	338.8	-	-

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 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Secured bank loans and overdrafts	395.5	205.1	-	-
Trade creditors – operating	247.4	149.1	-	-
Trade creditors – capital	201.6	208.3	-	-
Obligations under finance leases	8.3	5.8	-	-
Corporation tax payable	-	-	100.3	100.4
Taxation and social security	11.2	4.8	-	-
Other creditors	136.3	143.1	-	-
Interest creditors	168.1	159.8	-	-
Amounts owed by group undertakings	-	-	243.7	-
Accruals and deferred income	140.4	145.1	-	-
	1,308.8	1,021.1	344.0	100.4

The Group had a contractual agreement to receive compensation for incremental operating costs (over a 30 year period) resulting from the relocation of operational assets from land at Perry Oaks. During the year the Group received £37m as full and final settlement for the remaining amount. This is held in deferred income and released to turnover over the remaining term of the original contract (25 years).

19 Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Secured bank loans	2,581.5	2,274.6	-	-
Other loans	5,038.0	5,130.8	-	-
Obligations under finance leases	195.3	203.3	-	-
Deferred income	207.3	169.8	-	-
	8,022.1	7,778.5	-	-

Other loans are all secured except for a loan of £310.4m (2009: £310.4m). For further detail of security see note 29.

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	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %	2010 Years	2009 Years
Current asset investment												
- £ Sterling	666 0	338 8	-	-	-	-	666 0	338 8	-	-	-	-
	666 0	338 8	-	-	-	-	666 0	338 8	-	-	-	-
Cash at bank/hand												
- £ Sterling	48 5	271 3	-	-	-	-	48 5	271 3	-	-	-	-
- \$ US	-	-	-	-	-	-	-	-	-	-	-	-
- Other	-	-	-	-	-	-	-	-	-	-	-	-
	48 5	271 3	-	-	-	-	48 5	271 3	-	-	-	-
	714 5	610 1	-	-	-	-	714 5	610 1	-	-	-	-

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	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %	2010 Years	2009 Years
Bank loans and overdraft												
- £ Sterling	592 1	549 9	2,134 8	1,859 7	-	-	2,726 9	2,409 6	5 2	5 8	20 9	23 4
	592 1	549 9	2,134 8	1,859 7	-	-	2,726.9	2,409 6	5 2	5 8	20 9	23 4
Other loans and finance leases												
- £ Sterling	96 3	102 5	4,791 6	4,623 6	-	-	4,887 9	4,726 0	5 1	4 4	25.6	24 0
- \$ US	103 9	-	(93 6)	10 6	-	-	10 3	10 6	2 2	4 8	5 3	2 1
- Other	-	-	593 5	673 4	-	-	593 5	673 4	5 3	4 4	8 9	3 8
	200 2	102 5	5,291 5	5,307 6	-	-	5,491 7	5,410 0	5 2	4 4	23 2	24 0
	792 3	652 4	7,426.3	7,167 3	-	-	8,218 6	7,819 6	5 2	4 8	23.2	24 0

*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 £1,493.8m (2009 £1,499.2m) of floating to fixed interest rate swaps and £235.0m (2009 £261.9m) of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £707.7m (2009 £684.0m) of foreign currency borrowings.

The Company has no interest rate swaps nor cross-currency swaps (2009 £Nil).

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate borrowings of £7,408.6m (2009 £7,167.3m) equate to 90% (2009 91%) of gross borrowings and 99% (2009 92%) 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 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets				
Current asset investments	666.0	338.8	666.0	338.8
Cash at bank and in hand	48.5	271.3	48.5	271.3
Financial liabilities				
Bank loans and overdrafts	(2,656.4)	(2,394.5)	(2,716.9)	(2,447.2)
Other loans and finance leases	(5,491.7)	(5,410.1)	(5,553.3)	(5,189.6)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps, cross currency swaps and forward foreign currency contracts				
	(70.5)	(15.0)	(325.4)	(315.0)
	(7,504.1)	(7,209.5)	(7,881.1)	(7,341.7)

The Company does not have bonds.

Other loans include bonds, which are publicly traded. Fair values for these have been calculated using the 31 March 2010 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 pages 52, is as follows

	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Bank loans and overdrafts				
- Within one year	145.4	135.0	-	-
- Between one and two years	823.0	146.9	-	-
- Between two and five years	845.8	1,547.5	-	-
- After more than five years	912.9	580.2	-	-
	2,727.1	2,409.6	-	-
Other loans				
- Within one year	250.1	70.1	-	-
- Between one and two years	10.3	250.3	-	-
- Between two and five years	549.5	473.7	-	-
- after more than five years	4,478.0	4,406.8	-	-
	5,287.9	5,200.9	-	-
Finance leases				
- Within one year	8.3	5.8	-	-
- Between one and two years	9.4	8.3	-	-
- Between two and five years	138.5	95.6	-	-
- after more than five years	47.4	99.4	-	-
	203.6	209.1	-	-
Total borrowings	8,218.6	7,819.6	-	-

Loans are repayable between 2011 and 2062

Loans wholly repayable after more than five years are

	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Bank loans	912.9	580.2	-	-
Other loans	4,478.1	4,406.8	-	-
	5,391.0	4,987.0	-	-

Kemble Water Holdings Limited

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

20 Financial instruments (continued)

Other loans include

-	£250m 4 75% Secured bond due 2010	-	£50m 1 98% Index linked bond due 2042
-	£200m 4 90% Secured bond due 2015	-	£100m 1 85% Index linked bond due 2047
-	£200m 5 05% Secured bond due 2020	-	£200m 1 82% Index linked bond due 2049
-	£225m 6 59% Secured bond due 2021	-	£300m 1 68% Index linked bond due 2053
-	£330m 6 75% MTN Eurobond due 2028	-	£200m 1 77% Index linked bond due 2057
-	£200m 6 50% MTN Eurobond due 2032	-	£350m 1 76% Index linked bond due 2062
-	£600m 5 13% MTN Eurobond due 2037		

Loans repayable by instalments after more than five years are	Group		Company	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Other loans and finance leases	47.4	195.3	-	-

The range of interest rates on outstanding bank loans, other loans and finance leases are 1.23% to 11.0% (2009 1.68% to 11.0%) These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection

Borrowing facilities

At 31 March 2010 the Group has access to committed credit facilities of £1.1bn (2009 £1.1bn) of which £Nil (2009 £Nil) 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 £10.0bn multi-currency bond programme, of which £2.15bn (2009 £2.0bn) had been issued at the balance sheet date

Previously debt has been raised through its wholly owned subsidiary, Thames Water Utilities Finance Limited's £5.0bn debt issuance programme, of which £2.9bn (2009 £2.9bn) had been issued 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 2009	(855.6)	(49.1)	(116.7)	(1,021.4)
Charge to profit and loss for the year	(67.9)	(34.5)	-	(102.4)
Released during the year	-	-	49.6	49.6
At 31 March 2010	(923.5)	(83.6)	(67.1)	(1,074.2)

The elements of deferred taxation are as follows:

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

	£m
Accelerated capital allowances	999.9
Other timing differences	(76.4)
At 31 March 2010	923.5

Total deferred tax provision:

Included above	923.5
Deferred tax asset provided on pension surplus (see note 27)	(40.7)
	882.8

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% (2009 28%) is

	31 March 2010 £m	31 March 2009 £m
Deferred tax asset not recognised in respect of tax losses	97.7	85.1

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.

In December 2009, a liquidator was appointed to Metronet and the companies are in the process of being wound up. Any Trans4m 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. As a result of this £30m of the provision held for Metronet costs has been released during the year.

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.

22 Share capital

	31 March 2010 £m	31 March 2009 £m
Group and Company		
Allotted, called up and fully paid		
1,991,600,000 (2009: 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 2010 £m	Year end 31 March 2009 £m	Year end 31 March 2010 £m	Year end 31 March 2009 £m
At beginning of year	25.2	172.5	332.4	261.8
Profit for the year	163.5	140.1	141.4	257.8
Exchange adjustments	0.9	(3.4)	-	-
Actuarial loss recognised in the pension schemes	(105.1)	(136.4)	-	-
Deferred tax arising on losses in the pension schemes	29.5	39.6	-	-
Dividends paid	(156.4)	(187.2)	(156.4)	(187.2)
At end of year	(42.4)	25.2	317.4	332.4

Kemble Water Holdings Limited

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

24 Contingencies

There are claims arising in the normal course of business, which are in the process of negotiation. The Group has set aside amounts considered appropriate for all legal and similar claims as per note 21.

25 Operating leases

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

	31 March 2010		31 March 2009	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
- Within one year	0.2	0.2	1.8	1.1
- Between two and five years	0.2	4.6	0.4	0.8
- After more than five years	4.7	-	4.7	-
	5.1	4.8	6.9	1.9

The Company has no commitments in respect of non-cancellable operating leases (2009: £Nil).

26 Capital commitments

	31 March 2010 £m	31 March 2009 £m
Group		
Contracted for but not provided in the financial statements	1,045.3	296.3

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 (2009: £Nil).

27 Pension schemes

Pension arrangements for the majority of the Group's employees are of the defined benefit type, funded through two Group pension schemes, Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS") (see table below for details of each scheme's respective deficit or surplus), covering employees within the Group, whose assets are held separately from those of the group in independently administered funds.

The Group's pension arrangements are of the group multi-employer scheme nature, such that the Group's pension schemes' assets and liabilities are included with those of other companies in the Thames Water Group. The Group contributes the vast majority of the contributions into the schemes and any consequence of there being a surplus or deficit in the schemes is felt by the Group. Accordingly, the directors have decided it is appropriate to recognise the net deficit of the two Group pension schemes within these consolidated financial statements.

The service cost of the Group, as included in the profit and loss account, represents the net of the total service cost of the Group schemes and the pension contributions made by the other group companies into the schemes in the financial period.

In addition to the ongoing cost of the UK Pension arrangements, the Group 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 2010 payments amounted to £3.3m (2009: £2.1m).

Kemble Water Holdings Limited

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

27 Pension schemes (continued)

Defined benefit scheme

The latest full actuarial valuation was undertaken as at December 2007. This valuation has been updated at 31 March 2010 by Mercer Limited (Mercer) (2009 Hewitt Associates Limited) (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 recent exceptional volatility on the credit markets has impacted the pension valuation as calculated under the requirements of FRS 17.

The Group has taken advice from Mercer in respect of the funding position of the Group's pension schemes.

Reconciliation of funded status to balance sheet	31 March 2010 £m	31 March 2009 £m
Fair value of scheme assets	1,327.0	1,048.8
Present value of scheme liabilities	(1,472.4)	(1,110.3)
Deficit in scheme	(145.4)	(61.5)
Liability recognised on the balance sheet	(145.4)	(61.5)
Deferred tax asset	40.7	17.2
Net pension liability	(104.7)	(44.3)

Movement in the present value of scheme liabilities

	31 March 2010 £m	31 March 2009 £m
Opening present value of scheme liabilities	1,110.3	1,098.9
Current service cost	19.1	15.9
Interest cost	73.0	74.8
Contribution by scheme participants	0.2	5.4
Actuarial losses/(gains) on scheme liabilities	326.8	(37.6)
Net benefit paid out	(60.3)	(54.0)
Adjustment in respect of prior year	-	4.8
Termination pension cost	3.3	2.1
Closing present value of scheme liabilities	1,472.4	1,110.3

Kemble Water Holdings Limited

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

27 Pension schemes (continued)

Movement in fair value of scheme assets

	31 March 2010 £m	31 March 2009 £m
Opening fair value of scheme assets	1,048.8	1,214.8
Expected return on scheme assets	58.2	72.0
Actuarial gains/(losses) on scheme assets	221.7	(250.8)
Contributions by the employer	55.1	50.5
Contributions by scheme participants	0.2	5.4
Termination pension costs	3.3	2.1
Adjustment in respect of prior year	-	8.8
Net benefits paid out	(60.3)	(54.0)
Closing fair value of scheme assets	1,327.0	1,048.8

Expense recognised in the profit and loss account:

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Current service cost	19.1	15.3
Interest cost	73.0	74.8
Expected return on scheme assets	(58.2)	(72.0)
	33.9	18.1

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

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Operating costs staff costs	19.1	15.3
Other finance expense	14.8	2.8
Total expense charged in the profit and loss account	33.9	18.1

Kemble Water Holdings Limited

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

27 Pension schemes (continued)

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

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Actual return less expected return on pension scheme assets	220.9	(250.8)
Experience losses arising on the scheme liabilities	-	(44.4)
Changes in assumptions underlying the present value of scheme liabilities	(326.0)	82.0
Adjustment relating to irrecoverable surplus	-	76.8
Actuarial gain recognised in the statement of total recognised gains and losses	(105.1)	(136.4)
Cumulative amount of gains recognised in the statement of total recognised gains and losses	(200.0)	(94.9)

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 2010		31 March 2009	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	8.5%	435.9	8.0%	360.3
Bonds	5.5%	231.0	6.0%	219.3
Gilts	4.25-4.5%	530.9	4.0-4.2%	406.4
Property	7.5%	81.1	7.0%	59.5
Other assets	4.5%	38.5	4.0%	3.3
Average expected long-term rate of return/total fair value of assets	6.1%	1,317.4	5.8%	1,048.8

Kemble Water Holdings Limited

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

27 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 2010	31 March 2009
Price inflation	3.5%	4.6%
Salary increases	4.5%	4.0%
Pension increases	3.5%	4.6%
Discount rate for scheme liabilities	5.6%	6.7%

In valuing the liabilities of the pension schemes at 31 March 2010, 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 (2009: 26 years) after retirement if they are male and for a further 28 years (2009: 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 (2009: 28 years) after retirement if they are male and for a further 29 years (2009: 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 (2009: 24 years) if they are male and a further 26 years (2009: 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 (2009: 26 years) if they are male and for a further 28 years (2009: 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 2010 £m	31 March 2009 £m	31 March 2008 £m	31 Dec 2007 £m	31 Dec 2006 £m
Fair value of scheme assets	1,327.0	1,048.8	1,214.8	1,246.4	1,154.9
Present value of scheme liabilities	(1,472.3)	(1,110.3)	(1,098.9)	(1,205.9)	(1,229.1)
(Deficit)/surplus in scheme	(145.3)	(61.5)	115.9	40.5	(74.2)

Kemble Water Holdings Limited

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

27 Pension schemes (continued)

Experience adjustments:

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 Dec 2007 £m	31 Dec 2006 £m
Experience gains/(losses) on scheme assets:					
Amounts	214.1	(250.8)	(102.7)	7.1	98.4
Percentage of scheme assets	16.7%	24.1%	8.5%	0.6%	8.5%
Experience (losses)/gains on scheme liabilities:					
Amounts	-	(44.4)	(5.4)	11.9	24.7
Percentage of scheme liabilities	-	4.0%	0.5%	1.0%	2.0%
Total amount recognised in the Statement of total gains and losses:					
Amounts	(111.9)	(136.4)	3.9	81.2	34.9
Percentage of present value of scheme liabilities	7.2%	12.0%	0.4%	6.7%	2.8%

The Group expects to contribute approximately £60.2m (2009 £50.6m) to the defined benefit schemes in the next financial year

28 Analysis of cash flows

28(a) Net cash inflow from operating activities

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Reconciliation of operating profits to net cash flow from operating activities		
Group operating profit (after exceptional operating items)	647.5	600.2
Depreciation charges	364.9	360.1
Amortisation	44.4	44.9
(Increase)/decrease in stocks	(4.6)	2.9
(Increase)/decrease in debtors	(53.0)	62.6
Increase/(decrease) in creditors	100.4	(71.0)
Deferred income release	(14.6)	(14.9)
Decrease in provisions	(45.9)	(26.2)
Difference between pension charge and cash contributions	(37.2)	(34.5)
Net cash flow from operating activities	1,001.9	924.1

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)

28(b) Return on investment and servicing of finance

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Interest received	90.5	128.4
Interest paid	(447.3)	(409.9)
Interest element of finance lease rental payments	(10.4)	(12.7)
	(367.2)	(294.2)

28(c) Capital expenditure and financial investment

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Purchase of tangible fixed assets	(726.4)	(917.3)
Infrastructure renewals expenditure	(71.3)	(104.8)
Capital contributions received	44.8	32.2
Investment	2.0	8.0
Sale of tangible fixed assets	43.8	21.5
	(707.1)	(960.4)

28(d) Analysis of net debt

	At 1 April 2009 £m	Cash flow £m	Other non- cash movements £m	At 31 March 2010 £m
Cash at bank and in hand	271.3	(222.8)	-	48.5
	271.3	(222.8)	-	48.5
Loans due within one year	(205.1)	(190.4)	-	(395.5)
Loans due after more than one year	(7,405.4)	(166.1)	(48.0)	(7,619.5)
Finance leases	(209.1)	5.5	-	(203.6)
	(7,819.6)	(351.0)	(48.0)	(8,218.6)
Liquid resources	338.8	327.2	-	666.0
Total	(7,209.5)	(246.6)	(48.0)	(7,504.1)

The Group includes as liquid resources term deposits of less than one year, fixed and floating interest rate securities and managed funds

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)

29 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 Secured debt as at 31 March 2010 was £6 billion.

At 31 March 2010 the Group has Secured the overdrafts and loans of certain subsidiaries up to a maximum of £40m (2009 £40m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.6m (2009 £29.8m) at 31 March 2009 and certain non Thames Water group companies amounting to £5.4m (2009 £5.4m).

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 (2009 £1,670m), the amount outstanding at 31 March 2010 was £1,668m (2009 £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 £5.4m (2009 £6.6m), and £4.3m (2009 £9.9m) secured under a Security Trust Agreement. Security for the letters of credit is provided to the value of £5.9m (2009 £7.3m) by a charge over assets held within its Global Treasury Funds.

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

Kemble Water Holdings Limited

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

30 Group undertakings

At 31 March 2010, the Group held more than 10% of the allotted share capital of the following principal undertakings

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
UK						
Kemble Water Eurobond Plc	England & Wales	Ordinary	100%	-	Subsidiary	Investment holding company
Kemble Water Liberty Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Kemble Water Structure Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Kemble Water Finance Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Kemble Water Investments Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Kemble Water Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Thames Water Limited	England & Wales	Ordinary	-	100%	Subsidiary	Holding company
Thames Water Utilities Limited	England & Wales	Ordinary	-	100%	Subsidiary	Water and wastewater services
Thames Water Utilities Finance Limited	England & Wales	Ordinary	-	100%	Subsidiary	Finance Company
Thames Water Utilities Cayman Finance Limited	Cayman Islands	Ordinary	-	100%	Subsidiary	Finance Company
Isis Insurance Company Limited	Guernsey	Ordinary	-	100%	Subsidiary	Insurance
Kennet Properties Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Thames Water Investments Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Thames Water International Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Marketing of technical managerial services
Thames Water Property Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Trans4m Limited	England & Wales	Ordinary	-	25%	Investment	Contract management for stations and civil assets
*Metronet Rail SSL Holdings Limited	England & Wales	Ordinary	-	20%	Investment	Maintenance and upgrade of London Underground
*Metronet Rail BCV Holdings Limited	England & Wales	Ordinary	-	20%	Investment	Maintenance and upgrade of London Underground

* These companies are in liquidation

