

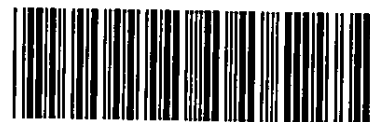
Registered number 5819262 (England & Wales)

Kemble Water Holdings Limited

Annual report and consolidated financial statements

For the year ended 31 March 2013

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Kemble Water Holdings Limited

Annual report and consolidated financial statements for the year ended 31 March 2013

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Kemble Water Holdings Limited

Introduction

Kemble Water Holdings Limited (the "Company") is the ultimate parent company of the Kemble Water Holdings Group (the "Group") The Company acts as the holding company for the Group and does not carry out any activities beyond this role

The Group's principal activity is the regulated supply of water and sewerage services through its wholly owned subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water") In addition the Group also has a property business, which manages the Group's property portfolio and the sale of property and land that is no longer required by the regulated business, and a water retail business, which has been set up to take advantage of the opening up of the water industry to competition

The Group's performance is therefore dependent largely upon the performance of TWUL, which in turn is largely dependent upon the regulated business This report makes reference to the performance of TWUL in order to provide appropriate explanations as to the performance of the Group The key financial performance indicators of both the Group and TWUL are presented in the Directors' report on page 6 and 7

The Group's management structure separates the management of the Group from the directors of the Company The Company's directors are all non-executives The executive directors of TWUL also work on behalf of the Group, in addition to their responsibilities to TWUL There are controls in place to ensure that the day to day management of the water retail business is separated from that of the regulated business

Directors and advisors

Directors

Sir Peter Mason KBE
E Beckley
C R Deacon
Dr P Dyer
S R Eaves
G I W Parsons
D J Shah OBE
L Webb
R Blomfield-Smith
D Xu

Registered auditor

KPMG Audit Plc
Chartered Accountants
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London
E14 5GL

Company Secretary and registered office

J E Hanson
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Vastern Road
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Kemble Water Holdings Limited

Chairman's statement

Review of the year ended 31 March 2013

This has been a challenging year for Thames Water and the Kemble Water Holdings Group. The exceptional weather aggravated a series of operational challenges and increased costs. The economic downturn caused customer bad debt to rise and standards of customer service, while now recovering, dipped during the year.

The early part of 2012 was marked by a drought, caused by the driest two-year period on record, whilst the end of the year saw widespread flooding resulting from record rainfall. In the intervening period the Company, in its official capacity of Water and Wastewater Services Provider, played a key role in the smooth running of the London Olympic Games.

A further £1bn of improvements to the Group's infrastructure took place, including a major expansion of west London's main sewage works and good progress on the £635m Lee Tunnel sewer. Another notable success was a further improvement in safety performance, with a 24% reduction in reportable injuries. A significant and unavoidable downside to our work to manage the impact of both floods and droughts, however, was an increase in operational costs.

Rising customer bad debt remains a concern for the Board, as is TWUL's Service Incentive Mechanism ("SIM") score. The Board is focussed on supporting the Chief Executive and his Executive team to deliver a fundamental review of the structure and operation of every part of the business.

The Board is also supporting the new Commercial Directorate to develop the Group's activities outside of the areas traditionally served by TWUL. These businesses aim to secure additional revenues by making better use of Thames Water's core assets and skills to the benefit of both the regulated and non-regulated businesses.

The challenges contributed to a fall in Group underlying operating profit* to £504.5m (2011/12 £536.7m), mainly as a result of increased bad debt in TWUL. The Group's net interest expense fell to £535.8m (2011/12 £587.2m) despite increased borrowing, as the interest charge on RPI linked debt reduced. The dip in financial performance led to the Board's decision to reduce dividends declared this year to £74.5m (2011/12 £165.1m), with no distributions to shareholders in the second half of the year. This resulted in total distributions (dividends plus interest payments on the bonds issued by Kemble Water Eurobond Plc) to the Group's shareholders dropping 54% to £92.0m (2011/12 £200.0m).

Regulatory developments

Working together with the wider industry, TWUL was able to agree to Ofwat's proposed changes to Thames Water's licence. These changes enable Ofwat to carry out two separate price-setting controls at the industry review of prices in 2014 ("PR14"). One would be for retail (customer services and account handling) and another for wholesale (pipes and treatment works). The Board welcomes these changes and their wider aim of expanding, over time, the competitive market within the water industry for the benefit of customers.

The draft Water Bill published in July 2012 takes the Government's competition agenda forward. The new bill aims to make it easier for commercial non-domestic customers in England and Wales to change their water suppliers. It will also open up the water and sewerage market to new companies. Competition for non-domestic customers in Scotland was introduced on 1 April 2008.

As a response to these changes in the Water Sector the Group has set up a new subsidiary, Thames Water Commercial Services Limited ("TWCSL") to look for commercial opportunities within these newly competitive markets. The Board were pleased to see that TWCSL gained Water Supply Licenses for both the English and Scottish markets in 2012/13 and that early in 2013/14 TWCSL won its first customer.

Kemble Water Holdings Limited

Chairman's statement (continued)

Future outlook

I do not expect the coming year to provide any less of a test for the Group. Preparations for PR14 will be a key area of focus. In December 2013, Thames Water will submit its business plan to Ofwat for the five years from 2015. Before this submission TWUL will complete a major consultation with its customers to ensure the plan meets their expectations whilst keeping bills as low as possible.

In addition to planning for the next five-year regulatory period, TWUL is defining its water resource plans for the period to 2040, by which time it expects to be supplying 1.4 million more people than today. Customers are also being asked for their views on these plans.

In the near term the Group will continue to work with Government and Ofwat to finalise a funding structure for the nationally important Thames Tideway Tunnel. The proposed structure envisages a separately regulated company will construct the Thames Tideway Tunnel, thus minimising the cost to Thames Water customers.

The tunnel is urgently needed to tackle major discharges of sewage into the River Thames for London's overstretched Victorian sewerage network. It is essential if the UK is to meet the requirements of the Urban Wastewater Treatment Directive.

We will also continue to support the Commercial Directorate as they look for the right opportunities to grow their businesses, ensuring that the Group and TWUL have the right governance structures in place as competition increases and regulation changes.

In taking forward these plans we will not lose sight of our essential purpose – delivering safe, reliable services, along with fair returns for shareholders, while continuing to protect the natural environment on which the Group's businesses depend.



Sir Peter Mason KBE
Chairman
6 June 2013

Kemble Water Holdings Limited

Directors' report

The Directors present their report and the audited financial statements of Kemble Water Holdings Limited and its consolidated subsidiaries for the year ended 31 March 2013. Unless otherwise stated, all current year data included in this review is for the year ended 31 March 2013 ("2012/13").

Business review

Principal Activities

The principal activity in the Group is the regulated supply of water and sewerage services by its wholly owned subsidiary, TWUL. The Company's principal activity is to act as the holding company for the Group.

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

In total, the area served by Thames Water 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 14m people, which represents nearly a quarter of the total population of England and Wales. In approximate terms, Thames Water supplies 3.6m properties (just over 8.8m people) with water, and collects sewage from 5.1m properties (about 14m people), representing 97% of households in its sewerage region.

Whilst the regulated supply of water and sewerage services provides over 97% of the Group's turnover, the Group also operates a commercial water retail business (TWCSL), a property business outside of TWUL and some non-regulated activities within TWUL.

Business strategy

The Group's strategy is two-fold. For the regulated business of TWUL, the aim is to deliver safe reliable services for customers while ensuring safe reliable returns for shareholders. This means keeping customers' bills as low as possible whilst investing efficiently in TWUL's assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they require and expect.

Outside of the regulated business, the Group aims to utilise its 400 years of experience delivering water and wastewater services in TWUL's home region of London and the Thames Valley, to offer expert insight that can help businesses cut costs, hit sustainability targets and simplify administration in the geographical areas where the retail market is opening up. In order to facilitate this, the Group has set up a new subsidiary, TWCSL. This entity will be used to enter into the competitive markets in the Water Industry as they are opened up and, in conjunction with the existing businesses within the Group's Commercial Directorate will look to benefit both the regulated and non-regulated going forward.

Kemble Water Holdings Limited

Directors' report (continued)

Financial Key Performance Indicators (KPIs)

	Group			Thames Water Utilities Limited (Regulated business)		
	2013	2012	% Change	2013	2012	% Change
Turnover	1,803.6	1,700.2	6.1	1,758.9	1,670.9	5.3
Underlying operating expenditure	(775.2)	(681.9)	13.7	(769.8)	(665.8)	15.6
Depreciation, infrastructure renewals charge and amortisation	(523.9)	(481.6)	8.8	(457.5)	(414.6)	10.3
Underlying operating profit	504.5	536.7	(6.0)	543.4	594.4	(8.6)
Net interest expense	(535.8)	(587.2)	(8.8)	(415.0)	(425.4)	(2.4)
Underlying (loss)/profit before tax	(20.1)	(7.0)	187.1	128.4	169.0	(24.0)
Total net capital expenditure	969.2	1,063.8	(8.9)	963.2	1,056.1	(8.8)

Underlying measures exclude the impact of exceptional items 2012/13 £nil (2011/12 £40m (before tax) pension curtailment gain)

As the Group's performance is largely dependent upon the regulated business within TWUL, pages 7 to 17 of this report are an extract from the business review contained within the TWUL annual report. That section explains the operating and financial performance of TWUL.

Group turnover

Turnover from the regulated business makes up over 97% of the Group's turnover. Turnover for the year was £103.4m (6.1%) higher than the prior year at £1,803.6m (2012 £1,700.2m), with the regulated turnover increasing 5.3%.

Non-regulated turnover increased by over 50% to £44.7m (2011/12 £29.3m). This was driven by increased activity in the property business, including 3 significant land sales which were completed in March 2013. The property searches business also performed well in 2012/13 generating £16.3m (2011/12 £11.0m) of turnover.

Group underlying operating expenditure

Underlying operating expenditure for the year has increased by £93.3m (13.7%) to £775.2m (2011/12 £681.9m) compared to the prior year. This increase was the result of increased bad debt expense, operating costs increases due mainly to exceptional weather and inflationary pressures impacting TWUL's operating expenditure. Non-regulated operating expenditure fell to £5.3m (2011/12 £16.1m). This year on year reduction included a number of provision releases, as the wind down of the operations the Group has exited from in previous years continued. It also reflects the final settlement with a third party of an overage payment on a property development site.

Depreciation, infrastructure renewals charge ("IRC") and amortisation

Depreciation, IRC and amortisation charges increased £42.3m reflecting the £3bn spent on the Group's regulated asset base so far in AMP 5. The amortisation of the Group's goodwill arising on the acquisition of the Thames Water Group by the Kemble Water Holdings Group was £44.9m (2011/12 £44.5m).

Group underlying operating profit

Operating profit has decreased by 6% to £504.5m (2012 £536.7m). Non-regulated operating loss declined to £38.9m (2011/12 £57.7m). Excluding the amortisation charge noted above, the operating profit of the non-regulated business was £6.1m (2011/12 operating loss of £13.2m). Looking at the operating profit, excluding the amortisation, gives an indication of the performance of the non-regulated businesses and the Group costs incurred outside of TWUL.

Group net interest expense

Net interest expense decreased to £535.8m (2012 £587.2m). This reflects the lower interest charge on index linked instruments resulting from the lower level of RPI of 3.1% in 2012/13 (2011/12 4.8%). The reduction is

Kemble Water Holdings Limited

Directors' report (continued)

partially offset by increased interest expense due to the increase in net debt to £9,606 4m at 31 March 2013 (£8,962 0m at 31 March 2012)

Capital expenditure

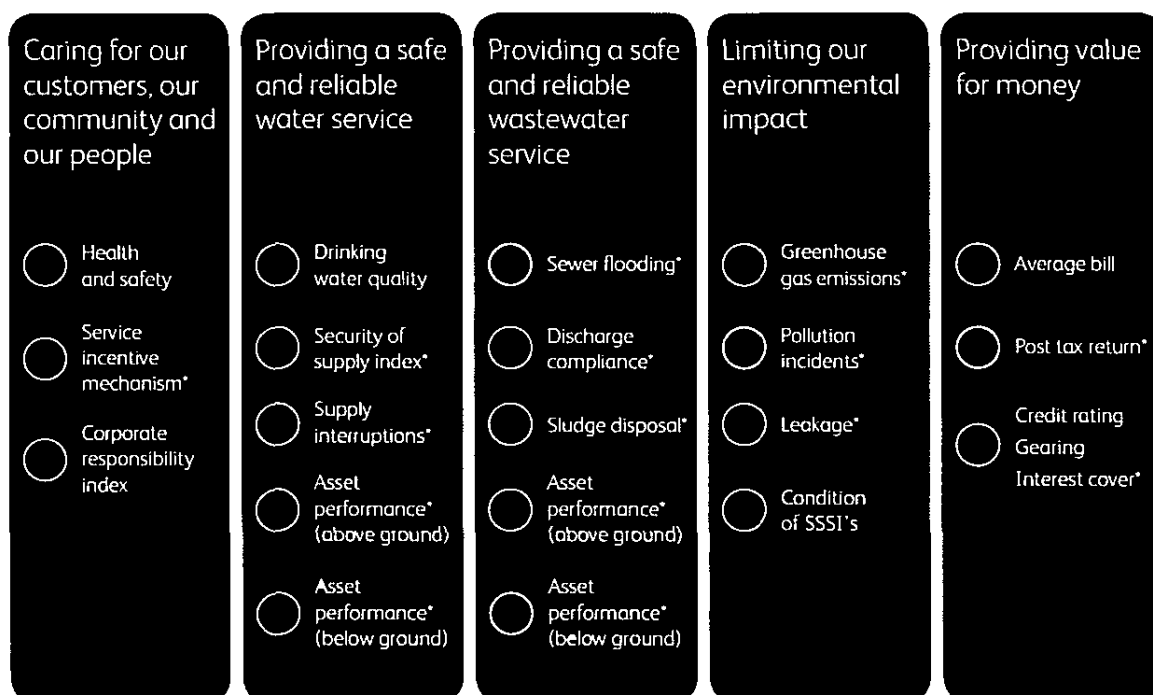
The Group has spent around £1bn during the third year of AMP5 in delivering capital regulatory outputs. The regulated business is on track to deliver the required investment programme of £4.9bn over this regulatory period.

TWUL's performance review

The following section is an extract from TWUL's annual report for the year ended 31 March 2013. In this section Thames Water is used to describe the regulated business of the group.

Key Performance Indicator summary - TWUL

The following Key Performance Indicators are considered crucial to measuring the success of our business and are monitored by the Board. They include the measures that Ofwat require us to report and others that are selected ourselves to align with Thames Water's proposed future outcomes for customers and other stakeholders. They provide a snapshot of performance during 2012/13.



*Ofwat KPIs

Most indicators are "green", but there are four areas with "amber",

- 1 sewer flooding due to the number of incidents,
- 2 asset performance (below ground) due to the downgrading of our waste water network from stable to marginal,
- 3 pollution incidents due to the number of incidents which exceeded the industry average for 2008 to 2010, and,
- 4 post tax return, which has fallen below the target mainly as a result of the rising levels of bad debt caused by customers not paying their bills due to the economic downturn.

In this performance review we discuss the KPIs and the impacts on the operational and financial results of TWUL.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

Caring for our customers

We are committed to delivering a good service and aim to put customers at the heart of everything that we do. We have made some big improvements over the year, but customer service remains a top priority and we realise that we have to keep doing better.

Providing a good service to our customers is really important to us. We aim to,

- do the right thing for our customers,
- deliver the basics and get things right first time,
- improve our services so that things go wrong less often and customers are pleased with the work that we do,
- invest in our people to build a stronger customer service culture.

Our commitment to providing a high-quality service is detailed in our Customer Guarantee Scheme, which sets out our standards and the compensation payments we will make if we fail to meet them. The Scheme is available on our website

(<http://www.thameswater.co.uk/tw/common/downloads/literature-customer-guarantee-scheme/customer-guarantee-scheme-detailed-version.pdf>)

How did we do?

KPI Service Incentive Mechanism ("SIM") 62.90 points (2011/12 62.61 points)
--

SIM is a mechanism used to measure the quality of service provided to customers, with both qualitative and quantitative elements.

We are disappointed with our customer service performance. Simply put, we did not do as well as

we wanted to. It was a challenging start to the year and the introduction of a new IT system, together with the heavy rainfall put a strain on our resources and the service we were able to provide.

We took steps to put things right, including developing and implementing a 10 point plan to improve customer service. As a result, the second half of the year has seen a significant drop in the number of written complaints we received and our call handling and follow up activities improved for customers.

Written complaints fell by 6% compared to 2011/12. In total, we received and responded to 32,000 written complaints (2011/12 34,000).

Based on quarterly Ofwat-commissioned customer satisfaction surveys, our overall score was 3.9 out of 5. This is a disappointing drop from the 4.1 achieved last year.

Our overall annual SIM performance has seen a small improvement, from 62.61 out of 100 to 62.90. Although under Ofwat's criteria, this level of performance is given a "green" status, we recognise that it is simply not good enough.

We have the plans in place to improve and recognise that we need to continue to improve our service to customers with this remaining a key focus of the Board into 2013/14 and beyond.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

Caring for our people

We aim to recruit and retain the best people, and help them reach their true potential. We want all our employees and contractors to be safe and healthy. Our vision is to achieve zero incidents and zero harm, to our staff, contractors and everyone affected by our work, by never compromising on health and safety.

KPI Reportable injuries 0.25 injuries per 1,000 employees (2011/12 0.33 injuries per 1,000 employees)
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Health, safety and wellbeing

This is our top priority. Our shared vision for our employees, contractors and visitors is zero accidents, zero harm and zero compromise.

Overall the position is good and during 2012/13 our health and safety performance has showed improvement, with a reduction in the number of significant incidents and a 24% decrease in the number of Reporting of Injuries, Diseases and Dangerous Occurrences Regulations ("RIDDOR") reportable injuries. Our KPI is therefore given a green status.

However, there is still more that can be done, for example, our lost time injuries have increased slightly in 2012/13 (from 0.91 to 0.95 injuries per 1,000 employees).

We have taken significant steps to help us improve our performance. These included,

- a 50% increase in health and safety site inspections compared to 2011/12, with 11,389 completed during the year,
- delivery of an extensive health and safety training programme with over 6,000 days of training delivered in 2012/13,
- working in partnership with our contractors through an established Health and Safety Leadership Team to set a series of essential standards for high risk activities.

During 2012/13, we developed a wellbeing and stress policy for our employees.

Training and guidance for managers was developed to help them recognise and manage employees with symptoms of stress related ill-health, and to help employees to recognise and manage their own stress levels.

However, we recognise that there is still some way to go to achieve the vision of zero accidents and zero harm.

Recruiting and retaining

Thames Water is committed to developing new talent. We have been operating a successful Apprenticeship Programme for many years. We currently have 47 apprentices in the business and are investing in another 15 apprentices in 2013/14, including for the first time, higher apprenticeships in our laboratories.

We also have a Graduate Programme which seeks to nurture future people managers and leaders. During 2012/13 we recruited 23 graduates onto this programme.

Providing support and opportunities

We realise the success of our business is highly dependent on the quality and performance of our employees. Learning and development is fundamental to ensuring we have capable, confident and skilled people throughout the business. We use our Talking Talent process to identify individuals' potential, retention risks and strengthen our succession planning.

During 2012/13, over 7,000 formal learning and development days were completed. In addition, 6,000 days of Health & Safety training were completed.

Employee involvement

The Chief Executive Officer ("CEO") and the Executive team hold quarterly management briefings with managers to provide the opportunity to discuss performance and how Thames Water can continue to move forward. There were also a series of "Roadshows" during the year when the executive team visited 40 of our sites to brief and engage with the site teams. We have also launched an "adopt a site" programme in which senior managers provide support to a specific operational site.

Internal publications ("Management toolkit" and "The Source") provide support for the changes and transformation happening across Thames Water. This is in addition to the further improvement of Thames Water's corporate and local

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

communication channels that deliver regular communication, information and updates to employees. Corporate communication include Thames Water-wide Team Talk briefings, a weekly e-brief containing a message from the CEO, Thames Water's internal portal web pages and specific priority news updates and managers' key information.

Formal consultation with 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 Thames Water-wide basis with employee representatives being elected for the relevant area.

Engaged and focused

We run an annual employee engagement survey, which gives our people the chance to confidentially provide their honest views on what it is like to work for Thames Water. During 2012/13 we saw a slight dip in the overall engagement survey results. The survey took place against a challenging business backdrop and it is our aim to address areas identified in the coming year.

We have a performance and development review process (PDR) that is core in setting expectations, performance objectives and development with our people every year, focussing employees on what is important in their roles.

Caring for our community and stakeholders

We aim to contribute positively to the community, to be a good neighbour and to act on the views of our stakeholders.

KPI Corporate responsibility index Platinum (2011/12 Platinum)

Listening to our stakeholders

Listening to and acting on the views of our stakeholders is really important to us and over the past year we did this in a number of ways,

- we consulted with our customers and other stakeholders on major projects such as the upgrade of Deephams sewage works,
- we consulted on our long-term business strategy,
- we held our annual stakeholder event to meet with key interest groups to discuss how we were doing and what we had planned,
- we also met regularly with our "Customer Challenge Group", made up of a range of stakeholders, to discuss and be challenged on our longer term plans.

The feedback provides extremely useful information to use which we are using to develop our plans for the future, including those for submission as part of the 2014 price review.

In October 2012, we contacted 2.2 million of our wastewater-only customers to highlight the impact of the Thames Tideway Tunnel on their future bills.

Being a good neighbour

One area in which we seek to contribute to our communities is our community speaker programme. Our employee volunteers gave over 100 talks to schools and community groups.

In addition we are developing education centres at our Slough, Walthamstow, Maple Lodge and Didcot sites and have completed the new angling academy at our Walthamstow Reservoirs fishery.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

A safe and reliable water service

We aim to provide a safe and reliable water service that is available when our customers require it

This means supplying our customers with water that meets all health and safety requirements, whilst making sure that water reaches our customers' taps all day, every day

Providing safe and clean drinking water

KPI Drinking water quality 99.97% (2011/12 99.98%)

Our drinking water quality remains among the best in the world. During the year ended 31 December 2012, we carried out more than 400,000 tests to ensure our water met stringent UK and European standards and achieved a compliance score of 99.97%. This is slightly lower than for the year ended 31 December 2011, but remains above the industry average.

The number of drinking water quality related contacts we received from customers remained very low at 0.69 per 1,000 people. This compares favourably to the industry average of 1.91.

Providing a reliable supply of water

KPI Supply interruptions 0.22 hours (2011/12 0.21 hours)

Reliability of supply is measured by the number of interruptions to supply which our customers experienced last year. On average, each property was without supply for 0.22 hours (13 minutes). This performance is slightly worse than last year due to teething troubles with a new IT system (which affected the speed at which we responded to such incidents), but continues to be assessed as good in comparison to other companies.

KPI Security of Supply Index 100 (2011/12 100)

Longer term reliability is measured by the security of supply index. This measures the balance between the amount of water available and the demand for water from our network. We have achieved an index of 100, the maximum, for the last three years which means that we should never have to introduce severe water use

restrictions, but may need to apply a (temporary use) hosepipe ban during a really dry year. This happened in April 2012. However, the following months were so wet that we were able to lift the restrictions in June 2012.

To encourage and support customers to use water wisely we have a metering and water efficiency programme.

About 30% of our domestic customers have water meters. Our customers can request a meter free of charge and in 2012/13 we installed 29,083 meters for customers who requested one.

As well as making sure that water is used wisely, we completed work at two water treatment works (Manor Road and Ashdown Park) to increase our available supplies by 4 million litres per day. These projects cost £1m and are required to serve the additional customers expected from population growth in our area.

Looking after our assets

KPI Asset performance (above ground) Stable (2011/12 Stable)

KPI Asset performance (below ground) Stable (2011/12 Stable)

The performance of our water mains, pumping stations and treatment works (serviceability) is measured by analysing trends in performance against a range of measures. This analysis shows that the performance of our assets has remained "Stable" this year. This means that we are investing the right amount.

Delivering our outputs

In 2012/13, we have successfully met all the key outputs required by our regulators for the water service. We invested £237m in maintaining existing water assets and £69m developing new ones.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

A safe and reliable wastewater service

We will provide a safe and reliable wastewater service that is available when our customers require it

This means disposing of our wastewater in a way that meets all health and environmental standards, whilst taking away customers' wastewater without inconvenience every day

Transporting wastewater from homes to treatment works safely

KPI Repeat sewer flooding 549 incidents (2011/12 355 incidents)

Most of the time we got this right, however when we get it wrong, this is extremely distressing for the customers affected as it can cause gardens and properties to flood

The sewer flooding KPI measures incidents of internal flooding at properties which have also flooded in previous years. This is because companies should take action to prevent repeat flooding. This year there were 549 such repeat incidents, an increase of 194 in comparison to the previous year.

The record rainfall in the year caused large quantities of groundwater and river water to enter our sewers. We deployed tankers around the clock to take away excess water from overloaded sewers to prevent the sewers from overflowing and flooding properties. However, in some areas the network could not cope and sewers overflowed causing flooding. We recognise, however, that regardless of these exceptional circumstances, we have not always provided the best service to our customers.

Preventing sewer flooding is one of our key priorities and we have a range of measures to help us to improve, including work to reduce blockages as well as work to increase the capacity of our sewers in pinch point areas.

Managing and treating wastewater reliably

KPI Discharge compliance 99.13, (2011/12 99.71%)

The Environment Agency sets a quality target for each of our 350 sewage treatment works. During 2012/13, we achieved a compliance level of over 99%, which is a leading position across the industry.

Sludge disposal

KPI Sludge disposal 100% (2011/12 100%)

Sewage sludge is the main solid left behind after wastewater has been treated.

The KPI measures the percentage of sewage sludge disposed of satisfactorily. All of our sludge was disposed of safely, therefore this measure shows a green status.

Limiting odour from works

We aim to be a good neighbour, minimising the annoyance occasionally caused by odour from our works. We have completed work to improve odour control at six sites with a further three sites to be completed by 2015.

In addition, as part of the £140m upgrade of Mogden sewage works, which increased capacity by 54%, we have installed odour monitoring equipment further improving existing odour control. During the year, long running group legal proceedings relating to odour at Mogden have also concluded.

Looking after our assets

KPI Asset performance (above ground) Stable (2011/12 Stable)

KPI Asset performance (below ground) Marginal (2011/12 Stable)

The rating for our sewers and pumping stations moved from "stable" to "marginal" this year, which is a real concern. This was due to the increase in the number of sewer flooding and pollution incidents from our sewer network. We have plans in place to address this as quickly as possible.

Overall delivery of regulatory outputs

In 2012/13, we invested £225m in maintaining existing wastewater assets and £447m developing new ones. We met our targets for delivery of specific projects to maintain and improve our assets. However, as described above, we did not meet our target for a "stable" rating for our sewers and pumping stations.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

Limiting our environmental impact

What we do impacts on the environment in many ways. We have a duty to protect the environment, both now and in the future and we take this very seriously.

Limiting and responding to climate change

Climate change requires us to act today so we are prepared for tomorrow

Understanding and addressing the causes of climate change and adapting to its consequences are key elements of our business planning. Recent exceptional weather cannot be ignored and has a major impact on our business.

Reducing emissions

KPI Greenhouse gas emissions 770 KtCO₂e (2011/12)
741 KtCO₂e

By 2015 we aim to have cut our greenhouse (GHG) emissions (CO₂e – carbon dioxide equivalent) by 20% compared with 1990 levels.

To date we have reduced emissions by 12.5%, despite serving the equivalent of 3 million more customers than in 1990 and having to meet today's higher treatment standards. The reduction is lower than the previous year due to the increased pumping and treatment of wastewater resulting from record rainfall.

We generated 156GWh of renewable energy at our operational sites. We used 151GWh of this electricity ourselves and exported the remaining GWh to the National Grid. In total, 12.5% of our electricity needs were covered by self-generated renewable electricity.

In 2012/13 we increased our renewable energy generation capacity by 1,001.5 kW by

- Installing an additional 990kW of photovoltaic solar energy generation across 10 sites
- Installing a small (11.5kW) hydroelectric turbine at Oxford sewage treatment outfall

Since 2007/08 we have reduced our consumption of energy by 5% from 1,348 GWh to 1,282 GWh. Last year, we delivered 20.3 GWh of new energy efficiencies through installing sub meters at sites to identify opportunities to cut energy usage and through improving pumping station and sewage treatment work performance.

Our efforts to reduce carbon emissions are recognised by our accreditation to the Carbon Trust Standard.

Preventing pollution incidents

KPI Pollution incidents
All sewerage 68.5 incidents per 10,000 km sewer
(2011/12 37.8 incidents per 10,000 km sewer)
Serious sewerage 2.3 incidents per 10,000 km sewer
(2011/12 2.9 incidents per 10,000 km sewer)

The EA categorises pollution incidents on a scale from one (most serious) to four (no significant environmental impact). It maintains the official database of all reported pollution incidents and confirms numbers for each calendar year.

For the year ended 31 December 2012, the total number of Category 1 and 2 pollutions were 16 (21 in 2011). The number of Category 3 pollutions increased 89% to 461.

The two pollution incident KPIs are flagged as "amber", reflecting the comparison with the 2008-10 water industry average (as required by Ofwat).

One of our most serious incidents was at Beddington sewage works where a fire destroyed the powerhouse and control room, resulting in total loss of treatment capability. This caused significant pollution to the River Wandle. Despite our immediate response, a number of fish were killed. This was very disappointing given all the hard work and investment to improve the river after a more serious pollution incident in 2007.

The overall increase in pollution incidents last year was partly due to record levels of rainfall, with some sewers overflowing and causing pollution as a result. It was also partially due to an improvement in our processes which meant that we were able to identify more incidents and report these to the Environment Agency ("EA"). However, we also think that our performance last year also had an impact, for example the sheer volume of rainfall during the year led to a significant increase in the number of incidents, which in turn affected the speed at which we were able to respond to incidents. We are working hard to improve our performance.

Kemble Water Holdings Limited

Directors' report – Review of TWUL's performance (continued)

As part of this plan we have introduced a 24/7 pollution and tankering desk to speed up response to incidents. We also have a team focused on cleaning and maintenance at blockage hotspots, and we have improved alarm systems to help identify problems with our sewers and pumping stations before they cause a pollution incident.

Managing leakage

KPI Leakage 646 million litres per day (2011/12 637 million litres per day)

Leakage remains a key issue for the business, reflecting the priorities of our customers and stakeholders. Although leakage is slightly higher than in 2011/12 due to a colder winter, we have beaten our leakage target for the seventh year in succession. This has been achieved by repairing leaks and replacing 73 km (202 km in 2011/12) of old pipes. Since April 2007 we have replaced 1,886 km of water mains out of around 31,000 km, or 6% of the network at a cost of £797.5m.

To completely replace the water network with modern equivalent assets and effectively minimise leakage would take a number of years and cost in excess of £12 billion. In anybody's estimation this is a significant cost to the business, which would impact customers' bills – it is simply not viable.

In order to manage leakage we use a number of tools and initiatives,

- trunkminder – Monitors our trunk mains to identify underground leaks as soon as they occur. This allows time to repair a leak before it causes the pipe to burst. If a burst does occur, the technology raises the alarm so that the pipe can be fixed more quickly,
- "Smart" Metering – A trial carried out using water meter technologies. This allows for meters to be read remotely on a more regular basis to help identify leaks from water supply pipes and respond quickly,
- JD7 Pipescan+ technology - to get full life use out of existing pipes and to build knowledge of their deterioration rates. This will help to reduce operational and maintenance costs and disruption.

We have reduced leakage from over 790 mld in 2006/7 to 646 mld in 2012/13, however, significant parts of our water network are over 100 years old and it is an on-going challenge to maintain them to

the standard required, both in terms of physically performing the work safely and without causing significant disruption. As part of our AMP 6 plans we are proposing to reduce leakage by a further 53 mld by 2020, through a combination of further mains replacement and efficient management of the network. It is estimated that the investment needed to achieve this reduction is in the region of £300m on top of the current level of investment in the water network.

Managing and reducing leakage remains a priority for the Thames Water and investing to reduce leakage is one of the tools used to ensure that there is enough water available to serve our customers. This is, however, an economic and environmental equation and in order to have affordable bills for customers we must balance up the costs of reducing leakage, the costs and environmental impacts of water abstraction, and the cost and ability to develop new sources of water such as trading with other companies.

Environmental and wildlife improvements

KPI Condition of SSSI's 99% (2011/12 100%)
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We are custodians of a number of Sites of Special Scientific Interest ("SSSI"), 99% of which were in "favourable" and "unfavourable recovering" conditions. This Key Performance Indicator is green as we are above the 95% target set by Natural England.

We improved access to the Crossness Southern Marshes and Crossness Nature Reserve, at which a rare bumblebee, the Shrill Carder, was spotted. Its presence demonstrates successful habitat management.

Recycling waste

We continue to lead the way in recycling material excavated from our street works. This was recycled as reinstated road and pavement surfaces once the work was complete.

We recycled an average of 99.5% of all wastes produced from capital projects in 2012/13.

Kemble Water Holdings Limited

Directors' report – TWUL's performance (continued)

Providing value for money and investment

We aim to give value for customers' money whilst also providing appropriate returns for the investors who provide the capital that we spend on behalf of customers. At a time when household budgets are tight, it is more important than ever that we find cost-effective ways to deliver our services.

Financial Key Performance Indicators (KPIs)

Key Performance Indicator	Units	Description	2013	2012	2013 Target
Average household bill	£ per financial year	The average combined water and wastewater bill for household customers	366	316	376 Industry average
Post tax return*	% financial year	Current cost operating profit less tax as a return on regulatory capital value	4.31	6.34	4.85 Final determination (FD)
Credit rating*	Rating	Indicates the Company's ability to comply with its licence requirement to maintain an investment grade credit rating	Baa1	Baa1	Investment grade credit rating
Gearing*	% financial year	This shows net debt as a percentage of total regulatory capital value at financial year end	77.4	76.3	85% Covenant trigger
Interest cover*	Ratio of earnings to interest payments	The interest coverage ratio is a measure of the number of times the Company could make the interest payments on its debt with its earnings before interest and taxes. This measures the Company's ability to repay its debt based on available cashflow	1.7	1.4	1.1 Covenant trigger

*KPI's we are required to report on by Ofwat

Financial KPI commentary

The financial KPIs show that despite the operational challenges experienced in 2012/13 and their resultant impact on TWUL's financial performance, the overall position remains sound.

Our average household bill, which represents the cost of our services to customers, was £336 for 2012/13, £40 below the industry average.

This average reflected a 6.7% increase from 2011/12 in regulated bills (RPI of 5.2% and real terms increase of 1.5%). TWUL chose to forego a further increase of 2.7% in 2012/13 to which it was entitled in the AMP 5 determination. This increment had been allowed to fund costs that TWUL no longer expected to incur during AMP 5. It was appropriate to pass this saving on to Customers now rather than waiting for the regulatory process to complete for AMP6.

For 2013/14 customers will see their bills rise by around 5.5% (RPI of 3% plus real terms increase of 2.5%) to enable the continuing investment in infrastructure to deliver the quality and standard of services our customers and other stakeholders expect.

The post-tax return, which represents a measure of the return TWUL makes on its asset base and

hence to its ultimate shareholders, was 4.31%. This represents a significant reduction from 6.34% in 2011/12 and 4.85% return expected in the final determination, hence this has been classified as Amber. The reduction has been driven by the increased bad debt charges, network costs and drought costs. The restructuring and efficiency programme currently being undertaken should impact the post-tax return positively during the remainder of AMP 5 as cost savings are realised.

TWUL maintained its strong investment grade credit ratings from S&P and Moody's. The Corporate Family Rating ("CFR") assigned by Moody's remained at Baa1, this rating reflects the aggregate rating of the different classes of outstanding debt obligations issued by the financing subsidiaries of TWUL. It is a licence requirement to use all reasonable endeavours to maintain an investment grade CFR. Maintaining this ensures TWUL can access the debt funding needed to deliver the investment programme in an efficient and cost-effective manner.

TWUL's gearing reduced 0.9% to 77.4% and interest cover increased from 1.4 times for 2011/12 to 1.7 times for 2012/13.

Kemble Water Holdings Limited

Directors' report – TWUL's performance (continued)

Turnover

TWUL's turnover for the year was £1,791.9m (2011/12 £1,694.9m), 5.7% up from the previous year. This increase reflected a 6.7% increase in regulated bills. This increase was partially offset by lower metered consumption of £9.5m. This reflects our campaign to use water wisely during the drought at the beginning of the year and then lower usage in the second half of the year during the wettest year on record.

Operating expenditure

TWUL's operating expenditure increased significantly in 2012/13 to £785.1m. On an underlying basis this represents an increase of £109.7m from 2011/12. This reflects operating costs increases in our networks and customer service functions and increased bad debt expense, as well as general inflationary pressures.

In the networks there was a significant increase of activity. In the water network additional resource was mobilised to reduce leakage ahead of the Olympics, as during the games there were restrictions on how we were able to work in London. There has also been significant expenditure on the waste network. This included clearing more blockages than anticipated and the tankering of waste out of the network, to try to minimise sewer flooding as a result of the second wettest year since records began. The sheer volume of rain, especially later in the year when it was falling on to already saturated ground has overwhelmed the sewer network in a number of locations. The network was simply not designed to cope with this amount of water. We have done what we can to assist customers in these circumstances, but we also recognise the significant distress that sewer flooding causes.

We also invested in customer service, spending an additional £2m employing more people to answer the phone to customers and to deal with customer correspondence and complaints. This additional expenditure is above the level anticipated in the Final Determination by Ofwat and is therefore not being paid for by customers.

TWUL's bad debt charge in the year has increased by £23.1m compared to 2011/12 to £93.7m. This charge represents 5.3% of regulated turnover, significantly ahead of that experienced on average during AMP 4 (2.6%).

During the year there was a continued focus on

TWUL's debtor collections. Reduced collection rates have required us to review our provisions to ensure they reflect the harsh economic environment. This has led to an increased level of provisioning to reflect the current levels of collections following a comprehensive review of the judgments taken by management in this area. The bad debt charge of £93.7m compares to a final determination allowance of £39.8m. The level of bad debt charge is a notifiable item in the final determination and so, if certain trigger levels are met, TWUL can apply for an interim determination of K ("IDoK") to recover these additional costs during the current AMP.

Going forward, it is feared that the continuation of the current economic conditions mean that we will continue to see bad debt charges of around £60m per year as customers continue to be affected by the economic downturn.

Saving money through innovation

Last year we delivered a number of innovative projects.

Some of these innovations are listed below.

In water treatment, we investigated a number of new ways to minimise biological threats and reduce costs. For example, algal blooms restrict the capacity of our water treatment works and increase treatment costs by around £3.6m a year. A new approach to combatting this problem was in June 2012 to install a "living filter" of baffles and plants at the outlet tower of one of our reservoirs in Oxford, to encourage an ecology that eats algae.

We are also trialling an emerging product called BioBullets to reduce the amount of zebra mussels which build up in our raw water tunnels and treatment works, causing significant clearance costs.

We committed to invest £250m in thermal hydrolysis process at six sewage treatment works to increase the production of renewable energy.

We are installing Europe's first phosphorus-recovery system, in Slough sewage works. By recovering phosphorus, the operation of the site is improved and energy needed to pump sludge reduced. The recovered phosphorus is turned into a slow-release fertiliser. By applying this fertiliser to land we can help close the phosphorus loop and reduce the loss of this important natural resource.

We have been trialling a novel sludge dryer unit.

Kemble Water Holdings Limited

Directors' report – TWUL's performance (continued)

that turns sewage sludge into sustainable solid fuel with the same energy content as wood chip. Trial batches have been used in our sludge powered generator (SPG) at Crossness sewage works.

Operating profit

In addition to the increase of £109.7m in operating expenditure, depreciation and Infrastructure Renewals Charge ("IRC") increased by £41.9m in 2012/13, reflecting the high level of capital investment over the first three years of AMP5. The increases in operating expenditure and depreciation more than offset the increase in turnover (£97.0m) and so TWUL's operating profit fell to £549.3m for 2012/13, down 9% on an underlying basis. Underlying operating profit excludes the impact of exceptional items 2012/13 £nil (2011/12 £40m pension curtailment gain).

Capital expenditure

2012/13 has been another successful year for the delivery of the capital investment programme. The third year of AMP5 has seen around £1bn invested in delivering all of TWUL's capital regulatory outputs.

In the year TWUL has capitalised £199m on its infrastructure assets (water and waste networks) spending money on essential work to improve the networks by replacing, repairing and modernising the pipes, sewers and associated equipment. The plant and machinery fixed asset balance increased by £457m for works capitalised in relation to Thames Water's water and sewage treatment works and related facilities. The assets under construction balance also increased by £178m, reflecting the large number of projects that Thames Water is committed to delivering in AMP5.

One of the major areas of spend continues to be the London Tideway improvements programme. This project includes the construction of the £635m Lee Tunnel which is designed to prevent an average of 16m tonnes a year of untreated sewage entering the River Lee from London's Victorian sewerage network. London's five main sewage treatment works (Beckton, Crossness, Long Reach, Mogden and Riverside) are also being upgraded at a cost of £660.0m. The London Tideway improvement programme is designed to reduce discharging of untreated sewage into the tidal River Thames. The upgrades to the Mogden site (£140m) and the first phase at Long Reach (£40m) were completed in 2012/13.

TWUL has also spent around £33m in 2012/13

acquiring the sites required for the construction of the Thames Tideway tunnel. These sites will be used during the construction of the Tunnel and then, where practical and not required for on-going maintenance access, will be sold off to ensure that customers do not pay more than is absolutely necessary for the Tunnel.

Thames Water is on track to deliver its required investment programme of £4.9bn over this regulatory period. This level of investment in Thames Water's assets is necessary to ensure that we can continue to provide the water supplies that customers require and treat the sewage in an efficient and effective manner.

Pensions

TWUL is the sponsoring employer of two pension schemes, Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"). Both schemes are closed to new entrants, although existing members continue to accrue benefits. The combined pension's liability, net of deferred tax, as at 31 March 2013 was £191.5m (2011/12 £119.2m), a deterioration of £72.3m. This was principally as a result of a post-tax actuarial loss in relation to the pension schemes of £85.5m.

TWUL made a deficit repair payment of £25.2m to the pension funds in the year as part of an agreement with the trustees to increase its funding.

Kemble Water Holdings Limited

Directors' report – Group performance

Dividends

The Group paid interim dividends totalling £74.5m during the year (2012 £165.1m). Together with the interest paid on the bonds issued by the Company's immediate subsidiary, Kemble Water Eurobond Plc of £17.5m (2011/12 £34.9m) this gave a total distribution to shareholders of £92.0m (2011/12 £200.0m).

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 (2011/12 £nil)

Taxation

The Group's taxable profits have been substantially reduced by the continuing availability of capital allowances on the capital investment programme. HMRC's capital allowance regime permits companies to delay the payment of corporation tax, not avoid it, by providing accelerated tax relief for capital investment. The allowances are intended to encourage companies to carry out crucial investment – crucial for business and customers, and also crucial for the economy at large.

We have been investing around £1 billion each year in assets which qualify for capital allowances. The mechanism has resulted in a deferred tax liability of £904.4m being recognised on the Group's balance sheet. This balance represents tax that is expected to be paid in future years and the benefit of this deferral has effectively been passed through to customers in the form of lower bills.

Although the Group has not paid any corporation tax in the period it continues to pay business rates, account for income tax and national insurance on employee remuneration, and pay other taxes for which it is liable. These payments were approximately £150m in the year ended 31 March 2013. The company's expenditure with its suppliers and contractors generates substantial additional tax revenues in the wider economy.

The credit for taxation shown in the profit and loss account of £0.1m (2012 £6.1m charge), (see note 9 to the financial statements), includes a credit of £39.2m from a reduction in the carrying value of the deferred tax liability resulting from the announced reduction in the rate of corporation tax from 24% to 23% with effect from 1 April 2013. The current tax charge on profits for the year reflects a benefit of £35.4m from the capital allowances available on the investment programme as noted above which is shown as additional deferred tax for the year.

Cash flow

Net cash outflow before financing declined £105.9m to £622.0m as cash flow from operating activities increased £43.2m, cash outflow for capital expenditure decreased £92.4m to £1,025.0m, dividends decreased £90.6m to £74.5m and £107.9m was used to acquire liquid resources (short term-cash equivalent investments). In addition, the acquisition payment of £43.3m was additional consideration relating to the acquisition of the Thames Water Group by the Kemble Water consortium.

The Group increased its net debt by £644.5m to fund the capital investment programme, with the result that there was a decrease in cash of £102.2m in the year (2011/12 increase of £11.8m).

Kemble Water Holdings Limited

Directors' report – Group capital structure

The Group is funded using a combination of debt and equity. The Group seeks to maintain an efficient capital structure with a balance of debt and equity whereby debt levels are restricted to limit the risk of financial distress, maintain strong credit ratings and hence optimise the cost of debt. The Treasury function ensures the Group remains an attractive counterparty to lenders.

Treasury policy

The Board oversees the Group's Treasury activities, reviewing policy and approving the Treasury plan on an annual basis.

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 TWUL operates and are intended 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 sufficient to fund at least 12 months net cash flow and to maintain an investment grade credit rating (see "Debt financing" section below) as set out in Condition F of the Licence.

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

Financial risk management and material financial instruments

The Group's Executive Management Team 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 operation of the treasury function is governed by policies and procedures, which set out guidelines for the management of market risks including interest rate risk, foreign exchange risk and inflation and the use of financial instruments. Treasury policy and procedures are incorporated within the financial control procedures of the Group.

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.

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 and designed to ensure the Group has sufficient available funds for operations.

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 appropriate.

Kemble Water Holdings Limited

Directors' report – Group capital structure

Debt financing

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

- all debt issued by the securitised group of companies is documented pursuant to a Common Terms Agreement as part of the Whole Business Securitisation ("WBS") entered into in August 2007. The Group companies within the Whole Business Securitisation ("the Securitisation Group") include Thames Water Utilities Holdings Limited and all of its wholly owned subsidiaries, including TWUL, Thames Water Utilities Cayman Finance Limited (TWUCFL) and Thames Water Utilities Finance Limited (TWUF),
- net debt issued by the Group (debt issued by the securitised group plus debt issued outside the securitised group at the Kemble Water Finance level) the ratio of net debt to Regulated Capital Value ("RCV") within the Group is limited to 92.5%,
- net debt issued by the Securitisation Group. Two classes of debt exist within the Securitisation Group, ("Class A") debt is the most senior debt obligation of the Group and the ratio of Class A net indebtedness to RCV is limited to 75%. Alongside this class of debt the Securitisation Group is able to issue subordinated ("Class B") debt. The ratio of Class A and Class B net indebtedness combined ("Senior net indebtedness") to RCV is limited to 85% at the TWUL level,
- each Obligor 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 guarantee 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.

Debt financing is raised by the Group, through the Group's wholly owned subsidiaries. Subordinated debt is issued outside of the securitised group by Thames Water (Kemble) Finance PLC and Kemble Water Finance Limited. The terms of the WBS do not apply to Kemble Water Finance Limited and Thames Water (Kemble) Finance PLC and the debt these companies hold as they sit outside of the Securitised Group.

Moody's Investor Service ("Moody's") rates subordinated debt (debt held outside of the Securitisation Group) at B1 and Fitch rates this debt at BB-. Moody's rates the Class A debt as issued by TWUCFL, A- long term with stable outlook. Moody's also issues a Corporate Family Rating for the Securitisation Group, which stands at Baa1. Standard and Poor's Rating Services ("Standard and Poor's") rates Class A debt as issued by Thames Water Utilities Cayman Finance Limited at A- with a stable outlook. TWUL maintains an investment grade issuer credit rating in accordance with the requirements of its Licence.

During the period, the Group's financing subsidiary TWUCFL raised two £300m fixed rate bonds, maturing in 2034 and 2046 respectively. The net proceeds were loaned to the TWUL on the same terms. In addition, the Group raised £415m of Class A debt and £100m of class B debt through bilateral loans. The Group repaid capital of £74.5m on finance leases and €500m of TWUCFL's bonds that matured in the year.

On 21 May 2013, Kemble Water Finance executed an amendment on its £425m Facilities Agreement after receiving unanimous lender consent. The amendments were to extend the maturity date of the £150m facility from 31 March 2014 to 30 September 2015 and the margin was aligned with the other drawn element of £200m which matures in March 2016. At 31 March 2013, £350m of the £425m Facilities Agreement were drawn (31 March 2012: £350m).

Kemble Water Holdings Limited

Directors' report – Group capital structure

A summary of the Group's net debt by the different types of debt (shown in the basis used for covenant calculations) is as follows

Net debt analysis	31 March 2013	31 March 2012
	£ m	£ m
Subordinated debt (Kemble Water Finance)		
Net debt (covenant basis)	725 4	698 6
Securitised group (TWUL and subsidiaries)		
Class A net debt (covenant basis)	7,391 4	6,882 6
Class B net debt (covenant basis)	1,046 6	946 5
Total net debt (covenant basis)	9,163 4	8,527 7
Net debt excluded from covenants	443 1	434 3
Kemble Water Holdings Group reported net debt	9,606 5	8,962 0

The net debt excluded from the covenants includes cash and investments held in companies that are excluded from covenant calculations, the bonds held in Kemble Water Eurobond PLC (as these are owned by the Group's shareholders) and the fair value adjustment made to the Thames Water Group's borrowings on acquisition by Kemble Water consortium

Servicing of debt

TWUL, as the principal trading subsidiary of the Group, is the entity that generates substantially all the cash needed by the Group to service borrowing made against RCV

For the debt held outside the securitised group, TWUL's dividends are passed up the Group structure and provide the funding to Thames Water (Kemble) Finance Plc and Kemble Water Finance Limited to enable these companies to service the debt of £750 0m (31 March 2012 £750m) held at this level. If TWUL was unable to pay dividends, the Group's shareholders would have to find an alternative source of external funding to service these debts

Within the securitised group, TWUL is an obligor, underwriting all the securitised debt (31 March 2013 gross borrowings of £9,121 4m (31 March 2012 £8,397 6m)). In addition to the debt it holds directly, it also, through the on-lending arrangements for TWUF's and TWUCFL's borrowings, services the debt held in those companies

Kemble Water Holdings Limited

Directors' report – Group capital structure

The following extract from the TWUL financial statements for the year ended 31 March 2013 shows how the dividends paid by TWUL have been utilised within the Group

Thames Water Utilities Limited: Interim dividends

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
External dividend distributions *	74.5	165.1
External interest on Kemble Water Eurobond plc debt	17.5	34.9
Distribution to ultimate shareholders	92.0	200.0
External interest on Kemble Water Finance Limited debt	60.0	50.0
Inter-group group relief settlement payments	40.0	-
Inter-group distribution to parent undertaking **	39.4	24.4
Inter-group dividend to Kemble Water Limited	-	5.1
	231.4	279.5

* External dividend distribution represents the payment made by Kemble Water Holdings Limited, the ultimate parent company from the dividend it receives indirectly from TWUL

** The immediate parent undertaking, Thames Water Utilities Holdings Limited ("TWUHL") received £39.4m (2012 £24.4m) from TWUL, which was used by TWUHL to settle its inter-company interest balance with TWUL

The external interest on Kemble Water Finance Limited debts of £60m (2011/12 £50m) was used to service debt held by Kemble Water Finance Limited and Thames Water (Kemble) Finance PLC

The inter-group group relief settlement payment was used by Thames Water Limited to settle group relief balances it owed to TWUL

Kemble Water Holdings Limited

Directors' report – Group capital structure

Covenant compliance

Under the terms of its finance documents, the Group is required to comply with various covenants such as interest cover (post maintenance interest cover ratio("PMICR")) and net debt to RCV. These covenants are measured and submitted to lenders semi-annually and involve both actual data and forecasts. The covenants are calculated for the securitised group and for the Kemble Water Finance group. Key financial covenants are shown below.

Covenant	Actual	Trigger	Default
Kemble Water Finance consolidated group			
Group net debt to RCV	84.1%	92.5%	95.0%
PMICR	1.3x	N/A	1.05x
Securitised group (TWUL and subsidiaries)			
Senior net debt to RCV	77.4%	85.0%	95.0%
Senior PMICR	1.7x	1.1x	N/A
Class A net debt to RCV	67.8%	75.0%	85.0%
Class A PMICR	2.0x	1.3x	1.1x

The Group was in compliance with all its covenants at 31 March 2013.

The Group has a number of controls in place to ensure compliance with its financial covenants. All the covenants are calculated monthly, including forward looking calculations to the end of the AMP period, and reviewed by the TWUL executive, the Group's board and the shareholders. In addition, the regulated nature of the Group's principle business gives a relatively high degree of certainty as to the forecast cash flows of the Group, which is further supported by a rigorous monthly cash flow forecasting process. The hedging policy under the Whole Business Securitisation requires 85% of debt within the Securitisation Group to be either at a fixed rate of interest, or index linked. This gives the Group a high level of certainty over the cash interest cost.

Finally, the Group assesses the ratio of Senior Net Indebtedness (TWUL Senior Debt/RCV above) to the level of both the stated RCV and the RCV taking into account the Group's best estimates of adjustments that will be made at the beginning of the next AMP period.

These factors give the Group the confidence that it can operate within the financial covenants listed above.

Equity

The Company has £1,991.6m of share capital (31 March 2012: £1,991.6m). In addition, the shareholders own, in direct proportion to their shareholdings, £310.4m of bonds issued by the Company's immediate subsidiary, Kemble Water Eurobond Plc. The Group considers these bonds as part of the shareholder's investment in the Group and whilst the interest on these bonds take priority over the payment of a dividend by the Company, the Board considers the payment of the interest as part of the overall distribution to shareholders under the dividend policy described on page 18. The bonds are included in the Group's net debt at 31 March 2013 of £9,606.4m (31 March 2012: £8,962.0m). However, they are excluded from the calculations of net debt for the purposes of covenant compliance calculations.

Interest of £17.5m (2011/12: £34.9m) was paid in 2012/13, which together with dividends of £74.5m (2011/12: £165.1m), made the total distribution to shareholders in 2012/13: £92.0m (2011/12: £200.0m).

Kemble Water Holdings Limited

Directors' report – Principal risks and uncertainties

Risk overview

The Group's principal activity is the delivery of water and waste water services through the principal wholly owned subsidiary of TWUL. The risks of the Group are therefore largely dependent on the regulated business. 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 maintaining a risk register. Significant risks are escalated and reviewed by the Executive of TWUL, and the process is overseen by the Audit & Risk Review Committee of TWUL ("ARRC") on behalf of the Board.

The Group is exposed to a number of risks and uncertainties that could have a material impact on the Group's long-term performance are as follows:

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 present a number of major technical and logistical challenges. These include the need to secure a number of construction sites in central London, obtaining planning consent via the process for major projects set out in the Planning Act 2008 and managing the inevitable disruption caused by construction activities. A key challenge is to manage the impact of the project (which is intended to be undertaken by a stand-alone Infrastructure Provider ("IP")) on the Group's credit ratings. The Government has indicated that it will provide support to the IP for certain of the exceptional risks involved in the project, but the details of this support and the residual risk to the Group have yet to be finalised.

Mitigation: The Group is working closely with the Government and Ofwat to agree the funding model and the appropriate organisational structure. The preferred route of the stakeholders is to establish an independent IP which will raise funding and deliver and operate the tunnel. This will provide value for money and transparency around risk and reward, and it is expected that the Group will be prevented from investing in the IP but will continue to be involved. A development consent application has been submitted and accepted for examination by the Planning Inspectorate.

Price Review 14 ("PR14") determination – All UK water and sewerage companies must justify the operating costs and capital investment needed to deliver service to customers in the five-year period from April 2015. Failure to demonstrate the Thames Water's case to Ofwat's satisfaction may mean that it is unable to invest in asset improvements and / or provide services that the Group believes will benefit its customers in the long term or to finance its business plans.

Mitigation: The Group is well advanced in developing capital plans and has consulted widely with customers and the Customer Challenge Group. Operating plans are in progress, looking to minimize costs. Our approach builds on the experience gained during previous Price Reviews.

Increased competition in the water industry - The draft Water Bill published in July 2012 develops Government's competition proposals from the previous Water White Paper. The legislation will change existing retail and upstream markets by allowing a choice of retailer for all business customers. Further liberalisation of upstream water and sewerage markets is enabled by the draft Bill but the full scope and timing of any change remain very uncertain.

Mitigation: Preparations for increased competition include exploiting commercial opportunities as well as managing risk. The Group has increased activity outside the region, winning its first commercial customer, and will need to upgrade systems if it is to provide business customers with added value services. The full response to market liberalisation may require structural change.

Kemble Water Holdings Limited

Directors' report – Principal risks and uncertainties

Employee pension scheme funding – The Group operates two material defined benefit pension schemes. Although both are closed to new entrants, the Group remains liable for the historic rights earned by past and present employees, and both schemes are currently in deficit on a Gilts valuation basis. Under current assumptions, the deficit is expected to increase and this could cause increased employer contributions.

Mitigation: The Group has closed the defined benefit schemes to new joiners, and moved a number of senior employees onto a defined contribution scheme. In addition, for the larger scheme benefits are now being accrued on a career average related earnings basis. Together the scheme trustees, the Group is reviewing mechanisms that could reduce its risk, whilst maintaining adequate funding of the schemes.

Failure to maintain adequate funding arrangements – The Group will need to renew £450.0m of 364 day committed facilities by August 2013. As a regulated utility, the Group expects to be able to access financing but an increase in the cost of funds may put pressure on key financial covenants (as defined by the Group's capital structure).

Mitigation: The Group has an established funding strategy which is reviewed by the Board annually. As of 31 March 2013, the Group has adequate cash at bank and short term deposits of £822.4m (31 March 2012 £736.4m) and undrawn committed bank facilities of £1,690.0m (2012 £1,275.0m) in place to provide liquidity as required.

Customer experience – Ofwat measure Thames Water's customer service performance using the Service Incentive Mechanism ("SIM"). Thames Water is currently at the bottom of the industry's SIM ranking and has seen a decrease in qualitative customer satisfaction in 2012/13. Failure to meet the SIM target for TWUL over the remaining years of this regulatory period could lead to a financial penalty in the next regulatory period, although it is not clear how the penalty would be applied.

Mitigation: The Group has responded to this ranking position by developing a 10-point plan to improve customer service which was implemented in 2012/13. In addition, significant extra resource has been brought into the customer service team. These changes have contributed to a marked reduction in the number of written complaints in 2012/13. The Group is currently redesigning its processes across all its customer facing functions with the aim of delivering significant service improvements for our customers.

AMP4 sewer flooding programme – The Group responded to an information request from Ofwat issued under section 203 of the "Water Industry Act 1991" concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10, specifically concerning evidence that properties were likely to have flooded in the past. The principal question will be whether TWUL has met its legal obligations by complying with the relevant guidance, and Ofwat has indicated that it is unlikely to conclude its investigations until the end of 2013. If Ofwat concludes Thames Water has mis-reported its sewer flooding outputs, it may seek to impose sanctions including financial penalties of up to 10% of TWUL's turnover attributable to regulated sewerage services.

Mitigation: The Group has provided all the information that has been requested to support the numbers claimed, and has met with Ofwat on several occasions to discuss its concerns. The Group awaits the conclusion of Ofwat's investigation and will continue to work with Ofwat to understand its concerns and to provide any further information required.

Kemble Water Holdings Limited

Directors' report – Principal risks and uncertainties

Credit rating – Any change to the regulatory landscape, including increased competition and any changes to the license, could have a detrimental effect on the credit rating of the sector. The Group's credit rating would also be affected if the delivery model for the Thames Tideway Tunnel project exposed the Group to increased risk, or by an obligation to deliver a large capital programme in the next regulatory period ("AMP6"). A downgrade in the credit rating would increase borrowing costs and reduce access to long-term debt markets, putting at risk the ability to meet financial covenants and potentially preventing the Group from paying dividends.

Mitigation: The Group is working to ensure that its Price Review preparations, Thames Tideway Tunnel plans and other significant business changes take account of the impact on the credit rating, as well as working with Government and Ofwat to ensure the financing impact of future proposals is understood. License changes for 2015-20 are credit rating neutral.

Failure to meet regulatory targets – Thames Water is required to meet targets set by Ofwat, the EA, 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 and the standard of customer service. Thames Water has a regulatory target to maintain the serviceability of its assets as at least stable. During 2012/13 there have been increased incidences of pollution from its waste network, and as a consequence the reported status of the wastewater network (wastewater asset performance below ground) has been downgraded from "stable" to "marginal".

Mitigation: Performance against regulatory measures is the subject of regular management review. Specifically in relation to the wastewater network, the Group has put increased financial and management resource into managing the network. In addition, the Group continues to develop plans to return the wastewater network to stable serviceability by identifying and then implementing the additional activity necessary to reverse the trend in performance.

The effects of climate change and long-term changes in weather patterns – As the Group continues to supply an increasing population, the effects of climate change could adversely affect its ability to maintain its Security of Supply Index (SoSI) requirements.

Mitigation: The Group has been working on measures to reduce demand, mounting a widespread awareness campaigns and providing free water saving devices, as well as making provision for new sources of potable water and improving the integrity of its network. Together with other water companies and regulators, the Group is actively participating in work to identify the wider water resources needs across South East England.

Future changes in laws or regulations – Thames Water is not funded by Ofwat for changes in obligations that would affect the whole economy. Consequently the Group may, for example, have to meet the obligations resulting from changes in environmental legislation without adequate funding.

Mitigation: Changes that are specific to, or are more material for, the water industry may be funded by Ofwat as a relevant change of circumstance. The Group engages actively with regulators where a change is likely, to ensure the implications are understood, and monitors the impact of recent changes to ensure it can demonstrate the case for additional funding where it is justified.

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.

Mitigation: The Group has a specific compliance process to manage each of the identified risks.

Impact of low inflation or deflation – In return for their capital investment in assets, regulated water companies earn a return on their RCV, 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.

Kemble Water Holdings Limited

Directors' report – Principal risks and uncertainties

Mitigation: In order to protect the Group from these impacts, around half of the Group's debt is indexed to RPI, either directly in the underlying debt instrument, or by use of RPI swaps

Impact of recession on our bad debt charge – Continued economic weakness will make our customers more likely to default on their water bills, leading to increased bad debt expense to the Group

Mitigation: The Group keep Thames Water's debtor collection process under review to ensure that it fit for purpose. During the year the process has been externally benchmarked and a new stage in the collection process has been added. TWUL is planning to submit an Intermediate Determination of K to Ofwat for the increases in bad debt linked to the recession. If agreed this would increase customers' bills in 2014/15

Kemble Water Holdings Limited

Directors' report (continued)

Directors

The directors who held office during the year ended 31 March 2013 and to the date of signing were

Director	Appointments	Resignations
Sir Peter Mason KBE		
E Beckley		
R Blomfield-Smith	29 November 2012	
C R Deacon		
Dr P Dyer		
S R Eaves		
G I W Parsons		
D J Shah		
Y Shi		28 September 2012
M S W Stanley		7 September 2012
L Webb		
R E Verrion		29 October 2012
D Rees	29 October 2012	2 January 2013
K Roseke	2 January 2013	24 May 2013
D Xu	29 October 2012	

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

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

director			alternate director		
Name	Appointment	Resignation	Name	Appointment	Resignation
R Blomfield-Smith	29 November 2012		P Noble	29 November 2012	
C R Deacon			R Evenden		
L Webb			C Pham		
S R Eaves			Marcus Hill		
Y Shi		28 September 2012	F Sheng		28 September 2012
D J Shah			K Roseke		2 January 2013
			C van Heijningen	2 January 2013	
R Verrion		29 October 2012	S Kolenc		29 October 2012
D Rees	29 October 2012	2 January 2013	S Kolenc	29 October 2012	2 January 2013
K Roseke	2 January 2013	24 May 2013	D Rees	2 January 2013	24 May 2013
D Xu	29 October 2012		F Sheng	29 October 2012	

Kemble Water Holdings Limited

Directors' report (continued)

Political and charitable donations and expenditure

No political donations were made by the Group (2011/12 £nil)

The Group contributed £5 1m in official sponsorship to the London 2012 Olympics that were hosted in the capital city during July and August 2012. This sponsorship was paid for by Kemble Water Limited, a wholly owned subsidiary of the Group, which is outside the regulated business group of TWUL.

The Group made charitable donations totalling £551,599 (2011/12 £1,019,340). Details of these charitable donations are:

- £284,360 (2011/12 £743,759) to Ten for Ten projects, of which £30,360 went to various educational and recreational projects and £254,000 to the Thames Water Trust Fund for income deprived families
- £154,443 (2011/12 £118,680) to the Charities Aid Foundation
- £19,294 (2011/12 £61,129) to TWUL's principal charity, WaterAid
- £85,000 (2011/12 £60,000) to Thames 21, a range of charities which assist in cleaning rivers and streams within the Thames Valley
- £8,502 (2011/12 £35,772) of other donations

In addition, fund raising activities by employees and contractors raised £113,000, to which the Group added matching funds of £62,167 (included in the donations above)

The Company made no charitable donations during 2012/13 (2011/12 £nil)

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 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 from employees who become disabled during the course of their employment so that they continue to work in a position appropriate to their experience and abilities.

Policy and practice on payment of creditors

The Group's policy is to pay all suppliers, contractors and service providers according to pre-agreed terms. During the year under review, the average amount due to trade creditors represented 63 days (2012 60 days) of purchases received from these creditors.

The Company had no trade creditors at year end (31 March 2012 £nil)

Market value of land and buildings

The directors have considered the market value of the Group's land and buildings and are satisfied that their market value is not less than their net book value.

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. Research and development deliver innovative technical solutions through a research programme aligned with business needs to address challenges for

Kemble Water Holdings Limited

Directors' report (continued)

AMP5 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.9m for the year (2011/12 £3.9m)

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 2012/13 financial statements. Further information is set out in note 1 'Basis of preparation' on page 38.

Disclosure of information to the auditor

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 auditor is 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 auditor is 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.

Auditor

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

Approved by the Board of Directors on 6 June 2013 and signed on its behalf by



J Hanson
Company Secretary
Clearwater Court
Vastern Road
Reading RG1 8DB

Kemble Water Holdings Limited

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

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

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

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 parent company, and to prevent and detect fraud and other irregularities

The directors are responsible for the maintenance and integrity of the corporate and financial information included on Thames Water's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions

Independent auditor's 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 2013 set out on pages 33 to 78. 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 31, 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, and express an opinion on, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2013 and of the Group's loss 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

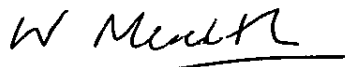
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Independent auditor's report to the members of Kemble Water Holdings Limited

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



W Meredith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL

6 June 2013

Kemble Water Holdings Limited

Consolidated profit and loss account

		Year ended 31 March 2013	Year ended 31 March 2012
	Note	£m	£m
Turnover	2	1,803.6	1,700.2
Operating costs before exceptional items		(1,299.1)	(1,163.5)
Exceptional item – pension curtailment gain	3, 5	-	40.0
Operating costs	3	(1,299.1)	(1,123.5)
Group operating profit		504.5	576.7
Profit on disposal of fixed assets	6	11.2	3.5
Profit before interest and taxation		515.7	580.2
Interest receivable and similar income	7	47.7	47.5
Interest payable and similar charges	8	(583.5)	(634.7)
Net interest expense		(535.8)	(587.2)
Loss on ordinary activities before taxation		(20.1)	(7.0)
Taxation credit/(charge) on loss on ordinary activities	9	0.1	(6.1)
Loss for the financial year	23	(20.0)	(13.1)

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

All amounts relate to continuing operations

Kemble Water Holdings Limited

Balance sheets

	Note	Group		Company	
		As at 31 March 2013 £m	As at 31 March 2012 £m	As at 31 March 2013 £m	As at 31 March 2012 £m
Fixed assets					
Intangible assets	12	1,513.8	1,557.3	-	-
Tangible assets	13	11,173.2	10,685.0	-	-
Investment in joint ventures					
Share of gross assets		3.6	3.6	-	-
Share of gross liabilities		(3.6)	(3.6)	-	-
Other fixed asset investments	14	-	0.1	1.0	1.0
		12,687.0	12,242.4	1.0	1.0
Current assets					
Stocks	15	8.5	10.4	-	-
Debtors	16	546.9	582.1	3,488.9	3,205.0
Investments	17	790.7	682.8	-	-
Cash at bank and in hand		31.7	53.6	-	-
		1,377.8	1,328.9	3,488.9	3,205.0
Creditors amounts falling due within one year	18	(1,398.1)	(1,557.9)	(623.5)	(537.5)
Net current (liabilities)/assets		(20.3)	(229.0)	2,865.4	2,667.5
Total assets less current liabilities		12,666.7	12,013.4	2,866.4	2,668.5
Creditors amounts falling due after more than one year	19	(10,165.5)	(9,351.0)	-	-
Provisions for liabilities and charges	21	(994.6)	(1,047.3)	-	-
Net assets excluding pension liability	27	1,506.6	1,615.1	2,866.4	2,668.5
Pension assets, net of deferred tax		27.7	29.6	-	-
Pension liabilities, net of deferred tax		(214.6)	(144.5)	-	-
Net pension liability	27	(186.9)	(114.9)	-	-
Net assets including pension liability		1,319.7	1,500.2	2,866.4	2,668.5
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	(671.9)	(491.4)	874.8	676.9
Total shareholders' funds		1,319.7	1,500.2	2,866.4	2,668.5

The notes on pages 38 to 78 form an integral part of these financial statements

The financial statements on pages 34 to 78 were approved by the Board of directors on 6 June 2013 and signed on its behalf by



Sir Peter Mason KBE
Chairman

Kemble Water Holdings Limited, registered number 5819262

Kemble Water Holdings Limited

Consolidated cash flow statement

	Note	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Net cash inflow from operating activities	28(a)	1,007.3	964.1
Returns on investments and servicing of finance	28(b)	(368.9)	(387.8)
Taxation		(9.7)	70.4
Net cash outflow for capital expenditure and financial investment	28(c)	(1,025.0)	(1,117.4)
Acquisitions and Disposals	28(d)	(43.3)	-
Equity dividends paid to shareholders	10	(74.5)	(165.1)
Net cash outflow before management of liquid resources and financing		(514.1)	(635.8)
Net cash (outflow)/inflow from management of liquid resources	28(d)	(107.9)	119.7
Net cash outflow before financing		(622.0)	(516.1)
Financing			
Net cash inflow from increase in debt and lease financing	28(d)	519.8	527.9
(Decrease)/increase in net cash	28(d)	(102.2)	11.8

Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
(Decrease)/increase in net cash	(102.2)	11.8
Cash inflow from increase in debt and lease financing		
- loans due within one year	124.1	(462.4)
- loans due after more than one year	(718.2)	(73.4)
- capital repayment of finance leases	74.3	7.9
Cash inflow/(outflow) from increase in liquid resources	107.9	(119.7)
Increase in net debt resulting from cash flows	(514.1)	(635.8)
Other non-cash movements		
- RPI uplift on index-linked bond and debt issue cost amortisation	(140.6)	(192.3)
- other non-cash movement	-	(0.1)
- fair value amortisation on loans at acquisition	10.2	10.1
Increase in net debt	(644.5)	(818.1)
Opening net debt	(8,962.0)	(8,143.9)
Closing net debt	(9,606.5)	(8,962.0)

Kemble Water Holdings Limited

Group statement of total recognised gains and losses

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Group loss for the financial year	(20.0)	(13 1)
Exchange adjustments	(0.6)	-
Actuarial loss on pension scheme (see note 27)	(106.6)	(93 6)
Deferred tax on actuarial loss on pension schemes	21 2	21 3
Total recognised losses relating to the year	(106.0)	(85 4)

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 ended 31 March 2013 £m	Year ended 31 March 2012 £m	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
(Loss)/profit for the financial year	(20.0)	(13 1)	272.4	265 2
Exchange adjustments	(0 6)	-	-	-
Actuarial loss on pension scheme (see note 27)	(106.6)	(93 6)	-	-
Deferred tax credit on actuarial loss on pension scheme	21.2	21 3	-	-
Dividend (see note 10)	(74.5)	(165 1)	(74.5)	(165 1)
Net change in shareholders' funds	(180.5)	(250 5)	197.9	100 1
Opening shareholders' funds	1,500 2	1,750 7	2,688.5	2,568 4
Closing shareholders' funds	1,319 7	1,500 2	2,866.4	2,668 5

Kemble Water Holdings Limited

Notes to the financial statements

1. Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Group and Company 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 (e) 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 5 to 30. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Directors' Report

The directors believe, after due and careful enquiry, that the Group and the Company have sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2013 financial statements

Company cash flow statement

The Company has taken advantage of the scope exemption available under FRS 1 paragraph 5(a) and has not presented a cash flow statement as these financial statements contain a consolidated cash flow statement and are publically available

Changes to accounting policies

There have been no changes to the accounting policies from those used for the year ended 31 March 2012

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 Group and entities controlled by the Group (its subsidiaries), made up to 31 March 2013, and incorporate the results of its share of joint ventures using equity accounting

(b) Subsidiaries

Control is achieved where the Group 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

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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(c) Revenue recognition

Turnover 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". Turnover is recognised at the time of delivery of the service. Should the Group consider that the criteria for revenue recognition are not met at the time of a transaction, recognition of the associated turnover would be deferred until such time as the criteria have subsequently been met. No adjustment is made to turnover for estimated bad debt charges. These are charged to operating expenses.

For metered customers, turnover 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 turnover being adjusted in the period for which the revision to the estimates is determined. The amounts recognised in turnover, but unbilled at the balance sheet date are recorded as a prepayment.

When a new property is connected to the networks, an estimate is made of the sales value of water supplied and waste water charges to customers between the date of connection and the period end.

For customers who do not have a meter, the amount billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is apportioned in turnover over the period to which the bill relates.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors fees, are not recognised in turnover. They are recognised as favourable operating costs when payment is received.

The Group only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Group identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Group has not identified an occupant within 6 months the bill is cancelled and the property is classified as empty.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(d) 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 8 years.

(e) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers and pumped raw water storage reservoirs and sludge pipelines), plant and equipment, land and buildings, and assets under the course of construction.

The Group capitalises the directly attributable costs of procuring and constructing tangible 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. 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. Interest costs are not capitalised.

The estimated useful economic lives of fixed assets and their residual values are based on management's judgement and experience of the type of asset. These judgements are reviewed annually and when management identifies that the actual useful lives of a specific asset or group of assets differ materially from the estimates used, the depreciation charge is adjusted 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.

Land and Buildings

Land and buildings are stated at cost less accumulated depreciation. Freehold land is not depreciated. Buildings are depreciated down to their residual value over 15 to 60 years on a straight-line basis.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(e) Tangible fixed assets (continued)

Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Plant and equipment consists of operational structures, operational assets, fixtures, fittings, vehicles and computers, and fixed and mobile plant.

These assets are depreciated down to their residual values on a straight-line basis as follows:

Operational structures	15 – 100 years
Other operational assets	5 - 40 years
Fixtures and fittings	5 - 7 years
Vehicles	4 - 5 years
Computers	3 - 7 years
Fixed and mobile plant	3 - 40 years

Assets under the course of construction

Assets in the course of construction represent the directly attributable costs of projects that are expected to result in a tangible fixed asset being commissioned and capitalised at the end of the project. The balance is not depreciated as assets are not considered to commence their economic lives until they are commissioned (and transferred into the appropriate classification of tangible fixed assets).

Infrastructure assets

Infrastructure assets comprise networks of below ground systems (water and sewerage networks). All expenditure on infrastructure assets is capitalised at cost. The planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as Infrastructure Renewals Charge ("IRC") included within the total depreciation charge recognised in the profit and loss account.

The IRC recognised in 2013 reflects the Group's expenditure plans for infrastructure assets for the period 2010 to 2025 (AMPs 5 to 7) as presented in the 2009 Final Business Plan. The level of charge is kept under review and updated annually to reflect the current level of infrastructure renewals expenditure. All infrastructure assets recognised in the Group's balance sheet relate to the regulated business of TWUL.

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, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the contributions being 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. As infrastructure assets are accounted under renewals accounting, related capital contributions are not recognised in the profit and loss account.

The financial effect of this departure is disclosed in note 13.

Grants and capital contributions received towards the cost of non-infrastructure assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(e) Tangible fixed assets (continued)

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

The calculation of estimated future cash flows and residual values is based on the directors' best estimates of future prices, output and costs and is therefore subjective.

(f) Stocks

Stocks, other than Water Efficiency products 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.

Stocks of Water Efficiency products which are to be provided to customers free of charge as part of Thames Water's on-going water efficiency campaigns are recorded at cost and expensed to the profit and loss account when they are given or sent to customers.

(g) 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.

(h) 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 profit on ordinary activities before tax as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(h) Taxation (continued)

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 "Deferred Taxation"

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

(i) 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

(j) Pension and other post-retirement benefits

The Group operates two defined benefit pension schemes. The Group accounts for these schemes in accordance with FRS 17 "Retirement Benefits"

These schemes are independently administered funds, for the substantial majority of the Group's 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)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(j) Pension and other post-retirement benefits (continued)

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, net of deferred tax

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 to the defined benefit schemes, the Group operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS"), managed through Standard Life Assurance Limited ("Standard Life"). From 1 April 2011 the DCSPS is the only scheme to which new entrants to the Group will be eligible. The assets of the DCSPS are held separately from those of the Company and that the amounts charged to the profit and loss account represents contributions payable to the scheme

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

(k) Foreign currencies

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

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

(l) Cash and cash equivalents

Cash and cash equivalents 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

(m) Financial liabilities and equity

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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(n) Borrowings

Interest bearing bank loans and overdrafts are recorded as 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.

(o) Financial instruments and derivatives

Interest rate swap agreements and financial futures are used to manage interest rate exposure. Cross currency forward exchange contracts are used to manage foreign exchange exposure associated with borrowings that are not GBP denominated. 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 does not apply FRS 29 "Financial Instruments Disclosures". The presentation requirements of FRS 25 "Financial Instruments Presentation" have been applied. In addition, certain voluntary disclosures have been prepared to aid understanding and ensure comparability with prior year.

Foreign currency and interest rate swaps are all in economic hedging relationships and amounts payable or receivable on these derivatives are accounted for on an amortised cost basis. Swaps are included within the appropriate caption in note 20.

(p) 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.

(q) Research and development

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

(r) 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 cash flows under insurance contracts.

(s) 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 Group. 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.

(t) Provision for doubtful debts

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

At each reporting date, the Company evaluates the value of cancellations that will occur in the future against turnover booked, and not to be rebilled. The provision is based on history of cancellations and subsequent rebills, which could affect operating results positively or negatively.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

(u) Exceptional items

Items that the directors consider one-off in nature and are of such significance that individually or combined they require disclosure to understand the performance of the business are disclosed as exceptional items. There are no such items in 2013 (2012 see note 3)

2 Segmental analysis

The segments by class of business are

TWUL. This incorporates the business activities of TWUL and its apportionment of fair value and goodwill derived from its purchase by Kemble Water Limited

Other: All other activities of the Group including provision of engineering, utility network and asset and facilities management services, land and property development, water supply to the competitive market 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. These balances also include intercompany eliminations and consolidation adjustments

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 ended 31 March 2013			Year ended 31 March 2012		
	TWUL £m	Other £m	Total £m	TWUL £m	Other £m	Total £m
Turnover	1,791.9	11.7	1,803.6	1,694.9	5.3	1,700.2
Operating profit/(loss)	549.3	(44.8)	504.5	643.9	(67.2)	576.7
Profit on sale of fixed assets	10.8	0.4	11.2	3.9	(0.4)	3.5
Net interest payable*	(415.2)	(120.6)	(535.8)	(425.6)	(161.6)	(587.2)
Taxation	5.1	(5.0)	0.1	25.0	(31.1)	(6.1)
Profit/(loss) after tax	150.0	(170.0)	(20.0)	247.2	(260.3)	(13.1)

* Interest payable in other relates to the funding required for the acquisition of the regulated group

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Balance sheet by class of business:

	31 March 2013			31 March 2012		
	TWUL £m	Other £m	Total £m	TWUL £m	Other £m	Total £m
Fixed assets						
Intangible assets	1,513.1	0.7	1,513.8	1,556.3	1.0	1,557.3
Tangible assets	11,173.2	-	11,173.2	10,685.0	-	10,685.0
Investment in joint ventures						
Share of gross assets	-	3.6	3.6	-	3.6	3.6
Share of gross liabilities	-	(3.6)	(3.6)	-	(3.6)	(3.6)
Other fixed asset investments	-	-	-	-	0.1	0.1
	12,686.3	0.7	12,687.0	12,241.3	1.1	12,242.4
Current assets						
Stocks	8.4	0.1	8.5	9.6	0.8	10.4
Debtors amounts falling due within one year	572.8	(25.9)	546.9	647.9	(65.8)	582.1
Debtors amounts falling due after one year (inter group loan)	2,015.0	(2,015.0)	-	2,015.0	(2,015.0)	-
Current asset investments	748.7	42.0	790.7	619.4	63.4	682.8
Cash at bank and in hand	-	31.7	31.7	2.7	50.9	53.6
	3,344.9	(1,967.1)	1,377.8	3,294.6	(1,965.7)	1,328.9
Creditors amounts falling due within one year	(957.3)	(440.8)	(1,398.1)	(1,460.4)	(97.5)	(1,557.9)
Net current assets/(liabilities)	2,387.6	(2,407.9)	(20.3)	1,834.2	(2,063.2)	(229.0)
Total assets/(liabilities) less current assets/(liabilities)	15,073.9	(2,407.2)	12,666.7	14,075.5	(2,062.1)	12,013.4
Creditors amounts falling due after more than one year	(9,216.0)	(949.5)	(10,165.5)	(8,050.2)	(1,300.8)	(9,351.0)
Provisions for liabilities and charges	(1,044.4)	49.8	(994.6)	(1,052.6)	5.3	(1,047.3)
Net assets/(liabilities) excluding pension (liabilities)/assets	4,813.5	(3,306.9)	1,506.6	4,972.7	(3,357.6)	1,615.1
Net pension (liabilities)/assets	(191.5)	4.6	(186.9)	(119.2)	4.3	(114.9)
Net assets/(liabilities) including pension (liabilities)/assets	4,622.0	(3,302.3)	1,319.7	4,853.5	(3,353.3)	1,500.2

The net assets reflected under TWUL above include the net book values of goodwill of £1,513.0m (2012 £1,556.3m), fair value adjustments to tangible assets of £1,889.8m (2012 £1,911.2m) and financial instruments included in creditors falling due after more than one year of £247.3m (2012 £257.5m). The other business has a goodwill apportionment of £nil (2012 £nil).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

3 Group operating costs

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Staff costs before exceptional item (note 5)	199.5	201.9
Exceptional item pension curtailment gain	-	(40.0)
Staff costs	199.5	161.9
Materials and consumables	142.8	156.2
Other operating charges (net)	563.9	470.1
Amortisation of goodwill and intangibles	44.9	44.4
Depreciation		
- owned assets	334.1	298.1
- infrastructure assets renewal charge	135.3	129.5
- assets held under finance leases	9.6	9.6
Rentals under operating leases		
- hire of plant and machinery	5.8	10.0
- other	6.3	5.7
Research and development	3.9	3.9
Auditor's remuneration	0.5	2.7
Foreign currency losses	(0.1)	(0.1)
	1,446.5	1,292.0
Own work capitalised (staff and other costs)	(147.4)	(168.5)
	1,299.1	1,123.5

Prior year exceptional item was a curtailment gain of £40.0m arising from changes to certain provisions, in respect of the Thames Water Pension Scheme. The tax charge on this exceptional item is £9.6m and it had £nil cash flow impact.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

For performance purposes operating costs, operating profit and profit before tax are analysed as follows

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Underlying operating expenses	775.2	681.9
Exceptional item – pension curtailment gain *	-	(40.0)
Total operating expenses	775.2	641.9
Total depreciation and amortisation	523.9	481.6
Total operating costs	1,299.1	1,123.5
Underlying operating profit	504.5	536.7
Exceptional item – pension curtailment gain	-	40.0
Operating profit	504.5	576.7
Underlying loss after tax	(20.0)	(43.5)
After tax impact of exceptional item	-	30.4
Loss after tax	(20.0)	(13.1)

Included in operating costs is auditor's remuneration analysed as following

	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Fees payable to the Company's auditor for the audit of the Company's annual report and accounts	33	33
Fees payable to the Company's auditor and its associates for other services		
Audit of the Company's subsidiaries	352	340
Audit-related assurance services	96	140
All other assurance services	97	53
Taxation compliance services	9	22
Taxation advisory services	105	3
All services relating to corporate finance transactions entered into or proposed to be entered into, by or on behalf of the Company or any of its associates	1,384	1,881
All other non-audit services	122	263
	2,198	2,735

Fees for all other services above include £1.4m (2011/12 £1.9m) in respect of advice on the Thames Tunnel. These costs have been capitalised as part of the design phase of the project. The contract was awarded to KPMG following a competitive tendering process in line with the Group's procurement processes.

No other fees were payable to KPMG Audit Plc in respect of this year or the prior year.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

4 Information regarding directors

Aggregate directors' emoluments:	Year ended 31 March 2013 £'000	Year ended 31 March 2012 £'000
Salary	961	735

Highest paid director:

Total emoluments of the highest paid director of the Company, in respect of their work done for the Group during the year, were £300,000 (2012 £300,000). None of the directors accrued any pension during either 2012/13 or 2011/12, or had any accrued pension under the Group's defined benefit scheme.

During the year, an indirect subsidiary of the Company made a payment of £60,000 (2012 £62,000) to C R Deacon, a director, for consultancy services and a payment of £16,976 (2012 £16,000) to R Blomfield-Smith, for consultancy services.

5 Staff numbers and costs

The aggregate payroll costs were as follows:	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
- Wages and salaries	158.7	168.2
- Social security costs	16.7	15.9
- Pension costs defined benefit scheme	18.8	16.9
- Pension costs defined contribution scheme	2.3	1.4
- Severance costs	4.9	1.3
	201.4	203.7
Employment costs included within research and development	(1.9)	(1.8)
Net staff costs before exceptional item	199.5	201.9
Exceptional item pension curtailment gain	-	(40.0)
Net staff costs	199.5	161.9

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

	Year ended 31 March 2013 Number	Year ended 31 March 2012 Number
Operations	4,279	4,239
Support	420	323
	4,699	4,562

The Company has no employees (2011/12 none)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

6 Profit on disposal of fixed assets

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Profit on disposal of fixed assets	11.2	3.5
Taxation charge attributable, included in the tax credit for the period	2.6	1.6

7 Interest receivable and similar income

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Interest income		
- Net interest income from swaps	42.8	23.7
- Other interest income	4.9	23.8
	47.7	47.5

Net interest income from swaps relate to the net of all the income and expense from interest rate swaps taken out to economically hedge external borrowings. Refer to note 20.

8 Interest payable and similar charges

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Interest expense		
Bank loans, overdrafts and other loans	(558.8)	(615.8)
Finance charges payable in respect of finance leases	(5.9)	(6.8)
Amortisation of fees and discounts	(8.9)	(9.7)
Net pension finance expense (see note 27)	(9.9)	(2.4)
Interest payable and similar charges	(583.5)	(634.7)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

9 Taxation on loss on ordinary activities

Analysis of (credit)/charge in year	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
UK corporation tax - amounts payable in respect of corporation tax for the year	-	0.3
Adjustments in respect of previous years	0.8	(14.9)
Total current tax charge/(credit)	0.8	(14.6)
Deferred tax		
Origination and reversal of timing differences	35.4	45.9
Adjustment in respect of previous years	1.2	33.1
Current year adjustment due to tax rate change to 23% (2012 change to 24%)	(39.2)	(75.4)
Pensions tax relief higher than pension cost in accounts	1.7	17.1
Total deferred tax (credit)/charge	(0.9)	20.7
Tax (credit)/charge on loss on ordinary activities	(0.1)	6.1

Factors affecting tax charge/(credit) for year

The current tax charge for the year is higher than (2012 current tax credit higher than) the standard rate of corporation tax in the UK of 24% (2012 26%). The differences are explained below

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Loss on ordinary activities before taxation	(20.0)	(7.0)
Loss on ordinary activities multiplied by standard rate of corporation tax in the UK of 24% (2012 26%)	(4.8)	(1.8)
Effects of		
Capital allowances in excess of depreciation and other timing differences	(35.4)	(45.9)
Tax losses unable to be used	28.4	44.1
Disallowable expenditure and other permanent differences	15.4	21.0
Pensions tax relief higher than pension cost in accounts	(3.6)	(17.1)
Adjustments to tax charge in respect of previous years	0.8	(14.9)
Current tax charge/(credit) for the year	0.8	(14.6)

Of the deferred tax credit for the year ended 31 March 2013 of £0.9m (2012 £20.7m charge), a deferred tax credit for the year ended 31 March 2013 of £2.6m (2012 £3.6m 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 2013 of £1.7m (2012 £17.1m charge) is included within note 27 (Pension schemes)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Factors affecting the tax charge for the year

The tax charge includes a deferred tax credit of £39.2m to reflect the impact of the reduction of the corporation tax rate from 24% to 23% from 1 April 2013. This change was substantively enacted on 3 July 2012. An additional charge of £4.2m (2011/12: £1.2m charge) has been included in the net tax credit taken to reserves. The tax charge in 2012 reflected a deferred tax credit of £75.4m resulting from the reduction in the corporation tax rate from 26% to 24%.

The March 2013 Budget announced that the corporation tax rate will further reduce to 20% from 1 April 2015. The overall effect of the planned reductions from 23% to 20% would be to reduce the deferred tax liability by approximately £118.0m.

10 Dividends

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Second interim dividend in respect of 2011/13 3.74p (2011/12 4.14p (in respect of 2010/11)) per £1 ordinary share	74.5	82.5
First interim dividend in respect of the 2012/13 £nil (2011/12 4.15p (in respect of 2011/12)) per £1 ordinary share	-	82.6
	74.5	165.1

11 Profit of holding company

A separate profit and loss account for the Company has not been presented as permitted by Section 408 of the Companies Act 2006. The Company had profit for the year of £272.4m (2011/12: £265.2m).

Kemble Water Holdings Limited
Notes to the financial statements (continued)

12 Intangible assets

	Goodwill £m	Group Other intangible assets £m	Total £m
Cost			
At the beginning of the year	1,792.9	1.5	1,794.4
Addition	1.4	-	1.4
At the end of the year	1,794.3	1.5	1,795.8
Amortisation			
At the beginning of the year	(236.4)	(0.7)	(237.1)
Charge for the year	(44.8)	(0.1)	(44.9)
At the end of the year	(281.2)	(0.8)	(282.0)
Net book value			
At the end of the year	1,513.1	0.7	1,513.8
At the beginning of the year	1,556.5	0.8	1,557.3

The Group has provided for additional consideration of £1.4m for the acquisition of the regulated group resulting from a review of pre-acquisition liabilities. The additional goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of a subsidiary, has been capitalised and will be amortised to nil using the straight line method over its estimated useful economic life of 40 years.

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

The Company has no intangible assets (31 March 2012: £nil).

Kemble Water Holdings Limited

Notes to the financial statements (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 the beginning of the year	3,803.5	2,299.3	5,179.3	1,515.4	12,797.5
Additions	-	-	-	1,008.1	1,008.1
Transfers between items	478.5	175.0	671.4	(834.8)	490.2
Disposals	(3.2)	(0.3)	-	-	(3.5)
At the end of the year	4,278.8	2,474.0	5,850.7	1,688.9	14,292.4
Capital contributions					
At the beginning of the year			(173.1)		(173.1)
Additions			(39.0)		(39.0)
Transfers between items			(490.2)		(490.2)
At the end of the year			(702.3)		(702.3)
Depreciation					
At the beginning of the year	(984.4)	(323.0)	(632.0)		(1,939.4)
Provided during the year	(293.8)	(49.9)	(135.3)		(479.0)
Transfers between items	(29.3)	-	29.3		-
Disposals	1.2	0.3	-		1.5
At the end of the year	(1,306.2)	(372.6)	(738.0)		(2,416.9)
Net book value					
At the end of the year	2,972.5	2,101.4	4,410.4	1,688.9	11,173.2
At the beginning of the year	2,819.1	1,976.3	4,374.2	1,515.4	10,685.0

Depreciation has not been charged on freehold land stated in the financial statements at cost of £155.7m (2012 £120.3m)

On 1 October 2011 the Group adopted 40,000km of private sewers. The private sewers have zero cost, depreciation and net book value as no cost was paid by the Group on adoption.

The Company has no tangible fixed assets (2012 £nil)

The net book value of land and buildings comprises

	31 March 2013 £m	31 March 2012 £m
Group		
Freehold	2,091.1	1,965.7
Long leasehold - over 50 years	7.5	7.8
Short leasehold - under 50 years	2.7	2.8
	2,101.3	1,976.3

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Details of the Group's tangible fixed assets, all of which are classified as plant and equipment, which are held under finance leases are

	£m
Cost	
At the beginning and end of the year	272.5
Depreciation	
At the beginning of the year	(155.7)
Charge for the year	(9.6)
At the end of the year	(165.3)
Net book value	
At the end of the year	107.2
At the beginning of the year	116.8

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 associated undertakings and joint ventures are all unlisted

Group

Fixed asset investments	£m
Cost	
At the beginning and end of the year	0.1
Depreciation	
At the beginning of the year	-
Charge for the year	(0.1)
At the end of the year	(0.1)
Net book value	
At the end of the year	-
At the beginning of the year	0.1

Company

Investment in subsidiary undertaking	£m
Cost	
At the beginning and end of the year	1.0

The investment in subsidiary undertaking relates to the Company's shareholding in Kemble Water Eurobond Plc

The Company has no (2012 £nil) investments in joint ventures or associates

See note 30 for a list of principal subsidiaries

Kemble Water Holdings Limited
Notes to the financial statements (continued)

15 Stocks

Group	31 March 2013 £m	31 March 2012 £m
Raw materials and consumables	5.8	5.8
Finished goods and goods for resale	2.7	4.6
	8.5	10.4

The Company has no stocks (2012 £nil)

16 Debtors

	Group		Company	
	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Due within one year				
Trade debtors	206.4	256.2	-	-
Amounts owed by Group undertakings	-	-	3,488.9	3,205.0
Other debtors	142.3	90.1	-	-
Prepayments and accrued income	198.2	235.8	-	-
	546.9	582.1	3,488.9	3,205.0

Company

Amounts owed by Group undertakings is further analysed as follows

	31 March 2013 £m	31 March 2012 £m
Inter-company loans due within one year	1,990.6	1,990.6
Non-loan amounts due within one year	1,498.3	1,214.4
	3,488.9	3,205.0

A loan of £1,990.6m (31 March 2012 £1,990.6m) which incurs interest at 18% (2012 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

17 Current asset investments

Group	31 March 2013 £m	31 March 2012 £m
Bank deposits	170.9	181.4
Money market funds	619.8	501.4
	790.7	682.8

Current asset investments consist of short-term bank deposits with highly rated banks and triple A rated money market funds

The Company has no current asset investments (2012 £nil)

18 Creditors: amounts falling due within one year

	Group		Company	
	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Other loans	345.9	470.0	-	-
Overdraft	80.3	-	-	-
Trade creditors – operating expenses	273.2	278.6	-	-
Trade creditors – capital expenditure	160.4	243.0	-	-
Obligations under finance leases	10.5	56.5	-	-
Corporation tax payable	11.9	21.0	-	-
Group relief creditor	-	-	86.0	93.1
Taxation and social security	6.1	5.6	-	-
Other creditors	110.4	120.0	-	-
Interest creditors	225.7	202.3	-	-
Amounts owed to subsidiary undertakings	-	-	537.5	444.4
Accruals and deferred income	173.7	160.9	-	-
	1,398.1	1,557.9	623.5	537.5

The amounts owed to subsidiary undertakings are interest free and payable on demand

On 21 May 2013, Kemble Water Finance executed an amendment on its £425m Facilities Agreement after receiving unanimous lender consent. The amendments were to extend the maturity date on Facility A to 30 September 2015 and to align the margin in line with Facility B.

Kemble Water Holdings Limited
Notes to the financial statements (continued)

19 Creditors: amounts falling due after more than one year

	Group		Company	
	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Secured bank loans	1,198.7	999.6	-	-
Other loans	8,691.1	8,041.6	-	-
Obligations under finance leases	102.4	130.7	-	-
Deferred income	173.2	177.1	-	-
Accruals	0.1	2.0	-	-
	10,165.5	9,351.0	-	-

Other loans are all secured apart from one loan, £310.4m (2012 £310.4m) For further detail of security see note 29

20 Financial instruments

Funding and treasury policy

The Group's treasury operations are managed centrally by a small specialist team within the Group reporting directly to the Chief Financial Officer of TWUL. The treasury team manages the financing (including debt, interest costs and foreign exchange) for the Group. Treasury policy is focussed on efficient and effective management of cash and financial resources within the Group.

The Group's funding policy is to maintain a broad portfolio of debt. The debt arranged via Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Limited, Kemble Water Finance Limited and Thames Water (Kemble) Finance Plc is diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

Derivative financial instruments, including cross currency swaps, interest rate swaps and index-linked swaps, are employed to manage the currency, interest rate and inflation risks arising from the primary financial instruments used to finance the Group's activities.

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.

Company

The Company has no external borrowings and no derivative financial instruments (31 March 2012 £nil)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Interest rate risk profile at 31 March

After taking into account the Group's interest rate and currency swaps, the interest rate risk profile of the Group's financial liabilities and assets is as follows

Group financial assets

	Total at floating rates		Total book value	
	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Current asset investments	790.7	682.8	790.7	682.8
Cash in bank and in hand	31.7	53.6	31.7	53.6
	822.4	736.4	822.4	736.4

London Inter-Bank Offered Rate ("LIBOR") and Bank of England base rate are the benchmark rates for floating current asset investments and cash at bank respectively

Group financial liabilities

	Total at floating rates		Total at fixed rates		Total at RPI linked rates		Total book value	
	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Bank loans and overdraft								
- £ Sterling	458.4	265.0	215.0	217.7	949.2	516.9	1,622.6	999.6
Other loans and finance leases								
- £ Sterling	74.3	316.0	4,921.0	4,648.2	3,812.8	3,734.6	8,808.1	8,698.8
- \$ USD	-	-	(2.0)	-	-	-	(2.0)	-
	532.7	581.0	5,134.0	4,865.9	4,762.0	4,215.5	10,428.7	9,698.4

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Interest rate risk profile at 31 March (continued)

	Weighted average interest rate for fixed rate and RPI linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and RPI debt	
	Year ended 31 March 2013 %	Year ended 31 March 2012 %	31 March 2013 Years	31 March 2012 Years
Bank loans and overdraft				
- £ Sterling	1.1	5.2	13.7	14.0
Other loans and finance leases				
- £ Sterling	4.0	3.5	21.2	21.1
- \$ USD	4.7	-	5.9	-
All loans	3.8	3.7	20.6	20.4

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate and RPI linked borrowings of £9,896.2m (2012: £9,117.4m) equate to 94.9% (2012: 94%) of the total borrowings.

Currency risk

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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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 2013 £m	31 March 2012 £m	31 March 2013 £m	31 March 2012 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets.				
Current asset investments	790.7	682.8	790.7	682.8
Cash at bank and in hand	31.7	53.6	31.7	53.6
Total financial assets	822.4	736.4	822.4	736.4
Financial liabilities:				
Bank loans and overdrafts	(1,622.6)	(999.6)	(1,622.6)	(999.6)
Other loans and finance leases	(8,599.1)	(8,424.1)	(9,297.2)	(8,614.5)
Derivative financial instruments held to manage the interest rate and currency profile				
Cross currency swaps and forward foreign currency contracts	(18.0)	(96.3)	(104.4)	(217.5)
Interest rate swaps	3.0	0.5	(143.5)	(53.9)
Index-linked swaps	(192.1)	(178.9)	(740.8)	(518.0)
Total financial liabilities	(10,428.8)	(9,698.4)	(11,908.5)	(10,403.5)
Net financial liabilities	(9,606.5)	(8,962.0)	(11,086.1)	(9,667.1)

Other loans include bonds, which are publicly traded. Fair values for these have been calculated using the 31 March 2013 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.

The Company has no bank loans, overdrafts, other loans, finance leases or derivatives financial instruments (2012: £nil).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Maturities

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors more than 1 year, as disclosed on page 61, is as follows

	31 March 2013 £m	31 March 2012 £m
Bank loans and overdrafts		
- Within one year	423.9	-
- Between one and two years	99.5	-
- Between two and five years	349.0	332.7
- After more than five years	750.2	666.9
	1,622.6	999.6
Other loans		
- Within one year	2.2	470.0
- Between one and two years	100.0	-
- Between two and five years	635.3	735.6
- after more than five years	7,955.9	7,306.0
	8,693.4	8,511.6
Finance leases		
- Within one year	10.5	56.5
- Between one and two years	45.7	28.1
- Between two and five years	56.6	80.1
- after more than five years	-	22.5
	112.8	187.2
Total borrowings	10,428.8	9,698.4

Loans are repayable between 2013 and 2062

The Group's loans wholly repayable after more than five years are

	31 March 2013 £m	31 March 2012 £m
Bank loans	750.2	666.9
Other loans	7,955.9	7,306.0
	8,706.1	7,972.9

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Other listed loans include

Other secured loans in order of maturity include

£200m 4 9% Fixed rate bond due 2015	20bn Yen 3 28% Fixed rate bond due 2038
£500m Euro 3 25% Fixed rate bond due 2016	£50m 3 85% Index linked bond due 2040
£400m 7 241% Fixed rate bond due 2058*	£500m 5.5% Fixed rate bond due 2041
£400m 7 75% Fixed rate bond due 2019	£50m 1 98% Index linked bond due 2042
£200m 5 05% Fixed rate bond due 2020	£55m 2 09% Index linked bond due 2042
£225m 6 59% Fixed rate bond due 2021	£40m 1 97% Index linked bond due 2045
£175m 3 38% Index linked bond due 2021	£300m 4 625% Fixed rate bond due 2046
£550m 5 375% Class B Fixed rate bond due 2025	£100m 1 85% Index linked bond due 2047
£330m 6 75% Fixed rate bond due 2028	£200m 1 82% Index linked bond due 2049
£300m 5 75% Class B Fixed rate bond due 2030	£300m 1 68% Index linked bond due 2053
£200m 6 5% Fixed rate bond due 2032	£300m 1 68% Index linked bond due 2055
£300m 4 37% Fixed rate bond due 2034	£200m 1 77% Index linked bond due 2057
£600m 5 13% Fixed rate bond due 2037	£350m 1 76% Index linked bond due 2062
€113m 2 30% CPI IL bond due 2022	

*£400m Class A bond issued with a final maturity date of 9 April 2058 with a fixed coupon of 7 241% until 9 April 2018. If at this date interest rates have risen, the bond will be "put" at par by investors and redeemed the Group. Should interest rates have fallen, the bond will be called by the Group and either re-marketed for the remaining 40-year period at the underlying PCR rate (4 572%) plus the prevailing credit spread or the Group will settle related derivative contracts with bank counterparties and redeem the bond at par. The fair value of this derivative at 31 March 2013 is a loss of £84 4m. This reflects the potential future value of cash flows relating to remarketing the bond.

Group

Loans repayable by instalments after more than five years are	31 March 2013 £m	31 March 2012 £m
Other loans and finance leases	-	22 5

The range of interest rates charged on outstanding bank loans, other loans and finance leases is 0 2% to 11 0% (2012 0 2% 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 2013 the Group has access to committed bank facilities of £3,241 4m (31 March 2012 £1,625 0m) of which £1,551 4m (31 March 2012 £1,017 0m) had been drawn at the balance sheet date. The bank facilities are arranged through its subsidiary companies:

- Kemble Water Finance Limited - £425 0m (31 March 2012 £425 0m) of which £350 0m (31 March 2012 £350 0m) is drawn
- TWUL - £1,616 4m (31 March 2012 £667 0m) of which £1,201 4m (31 March 2012 £667 0m) is drawn
- Thames Water Utilities Cayman Finance Limited - £1,200 0m (31 March 2012 £1,200 0m) of which £nil (31 March 2012 £nil) is drawn

The Group expects to draw on the facilities held in TWUL during the next financial year. The Group does not expect to utilise the facilities held in Thames Water Utilities Cayman Finance Limited.

The Group has a £10bn (2012 £10bn) secured bond programme through its wholly owned subsidiary, Thames Water Utilities Cayman Finance Limited, which provides the Group with access to the capital markets in a range of currencies and maturities. £4 4bn (31 March 2012 £4 2bn) has been issued under this programme.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Previously debt has been raised via its wholly owned subsidiary, Thames Water Utilities Finance Limited £2.8bn (2012 £2.7bn) remains in issue 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.

21 Provisions for liabilities and charges

	Deferred tax £m	Insurance liabilities £m	Other provisions £m	Total £m
At 1 April 2012	907.0	56.8	83.5	1,047.3
Net charge/(credit) to profit and loss for the year	(2.6)	5.2	(4.4)	(1.8)
Released during the year	-	-	(7.9)	(7.9)
Utilised during the year	-	-	(43.0)	(43.0)
At 31 March 2013	904.4	62.0	28.2	994.6

The elements of deferred taxation are as follows:

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

	£m
Accelerated capital allowances	967.2
Other timing differences	(62.8)
At 31 March 2013	904.4

Total deferred tax provision:

Included in taxation provision above	904.4
Deferred tax asset provided on pension deficit (see note 27)	(55.8)
At 31 March 2013	848.6

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset unrecognised at 23% (2011/12 24%) is

	31 March 2013 £m	31 March 2012 £m
Deferred tax asset not recognised in respect of tax losses	151.6	131.6

See note 9 for more information on deferred taxation

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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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.

The Company has no provisions (31 March 2012: £nil)

22 Share capital

	31 March 2013 £m	31 March 2012 £m
Group and Company		
Allotted, called up and fully paid		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6

23 Profit and loss account

	Group		Company	
	Year end 31 March 2013 £m	Year end 31 March 2012 £m	Year end 31 March 2013 £m	Year end 31 March 2012 £m
At beginning of year	(491.4)	(240.9)	676.9	576.8
(Loss)/profit for the year	(20.0)	(13.1)	272.4	265.2
Exchange adjustments	(0.6)	-	-	-
Actuarial loss recognised in the pension schemes	(106.6)	(93.6)	-	-
Deferred tax relating to actuarial deficit on pension schemes	21.2	21.3	-	-
Dividends paid	(74.5)	(165.1)	(74.5)	(165.1)
At end of year	(671.9)	(491.4)	874.8	676.9

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.

Contingent liabilities - AMP4 sewer flooding programme

TWUL has responded to an information request from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. The information requested relates to the level of evidence required to support a judgment that a property is likely to have flooded in the past.

Ofwat first indicated its concerns in June 2010 and passed the investigation to its casework team in June 2012. Since this time, Ofwat has been considering whether to take regulatory enforcement action in relation to this case. The principal question will be whether TWUL has met its legal obligations by complying with the relevant guidance. Ofwat has indicated that it is unlikely to conclude its investigations until the end of 2013.

If Ofwat concludes TWUL has mis-reported its sewer flooding outputs, it may seek to impose sanctions including financial penalties of up to 10% of TWUL's turnover attributable to regulated sewerage services. Any

Kemble Water Holdings Limited

Notes to the financial statements (continued)

such potential financial impact cannot yet be quantified and, as such, no provision has been made within these accounts

Contingent liabilities – £400m 7.21% puttable, callable, resettable bond due 2058

As described in Note 17, if the Group were to account for derivative financial instruments associated with the bond under IFRS a net fair value loss of £84.4 million would be recognised as at 31 March 2013, reflecting the potential future value of cash flows relating to the remarketing of the bond in April 2018. The Group expects that it will be able to successfully remarket the bond at fair value and a cash settlement will not be required and so no provision has been reflected to record this potential liability in these financial statements (under UK GAAP)

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 2013		31 March 2012	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
- Within one year	0.2	1.1	0.1	0.1
- In the second to fifth years inclusive	0.4	0.9	0.6	0.4
- Over five years	6.1	-	5.9	1.2
	6.7	2.0	6.6	1.7

The Company has no commitments in respect of non-cancellable operating leases (2012: £nil)

26 Capital commitments

	31 March 2013 £m	31 March 2012 £m
Group		
Contracted for but not provided in the financial statements	842.5	1,035.5

In addition to these commitments, the Group has long-term capital investment plans to meet performance and asset condition requirements and to provide for new demand and growth. The Company has no capital commitments (2012: £nil)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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, TWPS and TWMIPS (see table below for details of each schemes' respective deficit or surplus), covering employees within the Kemble Water Holdings Group, whose' assets are held separately from those of the Group in independently administered funds. Benefits accrue on a career average basis for TWPS and final salary basis for TWMIPS. The defined benefit arrangements were closed to new employees from 1 April 2011. From this date, new employees have been offered membership of a defined contribution scheme managed through Standard Life.

Contributions to the defined contribution scheme are charged to the profit and loss account in the period to which they relate. Contributions to the defined contribution pension scheme in the year were £2.2m (2011/12 £1.4m).

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 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 2013 payments amounted to £0.2m (2011/12 £1.5m).

The latest actuarial valuation was undertaken as at 31 December 2010 on behalf of the pension Trustee's by AON Hewitt Limited ("Hewitt") (the independent and professionally qualified consulting actuaries to the schemes). This valuation has been updated at 31 March 2013 by Mercer Limited ("Mercer"), independent and professionally qualified consulting actuaries, using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts. The Group has taken advice from Mercer in respect of the funding position of the Group pension schemes.

A further actuarial valuation is currently being undertaken as at 31 March 2013. This valuation has not yet been completed and has not been reflected in these financial statements.

Net liability by pension schemes before tax

	31 March 2013 £m	31 March 2012 £m
<i>Thames Water Pension Scheme</i>		
Deficit in scheme	(278.7)	(190.1)
<i>Thames Water Mirror Image Scheme</i>		
Surplus in scheme	55.7	73.5
Impact of irrecoverable surplus	(25.8)	(39.9)
	29.9	33.6
Other schemes	6.1	5.4
Liability before deferred tax asset	(242.7)	(151.1)

The Group has recognised a surplus in the Thames Water Mirror Image scheme to the extent that it may possibly be able to recover it by paying a reduced rate of contributions in the future. The recognisable surplus has been calculated in accordance with FRS 17 as the present value of the current service cost projected over the future working lifetime of all active members of the scheme, using the assumptions adopted at 31 March 2013.

The assumptions used in the valuation of assets and liabilities of the schemes are the same for both schemes, therefore the following tables are for the combined values for both schemes.

Kemble Water Holdings Limited
Notes to the financial statements (continued)

Reconciliation of funded status to balance sheet	31 March 2013 £m	31 March 2012 £m
Fair value of scheme assets	1,706.5	1,551.6
Present value of scheme liabilities	(1,923.4)	(1,662.8)
Deficit in scheme	(216.9)	(111.2)
Impact of irrecoverable surplus	(25.8)	(39.9)
Liability recognised on the balance sheet	(242.7)	(151.1)
Deferred tax asset	55.8	36.2
Net pension liability	(186.9)	(114.9)
Presented in the balance sheet as		
Pension asset, net of deferred tax	27.7	29.6
Pension liability, net of deferred tax	(214.6)	(144.5)

Movement in the present value of scheme liabilities	31 March 2013 £m	31 March 2012 £m
Opening present value of scheme liabilities	1,662.8	1,515.8
Current service cost Thames Water Utilities Limited	18.9	16.4
Current service cost Other Thames Water Group participating companies	-	0.1
Interest cost	76.2	80.0
Contribution by scheme participants	0.2	0.2
Curtailement gain on changes to scheme benefits	-	(40.0)
Actuarial gains on scheme liabilities	230.5	154.2
Net benefit paid out	(65.4)	(65.4)
Termination pension cost	0.2	1.5
Closing present value of scheme liabilities	1,923.4	1,662.8

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Movement in fair value of scheme assets

	31 March 2013 £m	31 March 2012 £m
Opening fair value of scheme assets	1,551.6	1,414.0
Expected return on scheme assets	66.6	77.4
Actuarial gains on scheme assets	109.7	78.9
Contributions by the employer Thames Water Utilities Limited	43.8	44.6
Contributions by the employer Other Thames Water Group participating companies	-	0.4
Contributions by scheme participants	0.2	0.2
Termination pension costs	-	1.5
Net benefits paid out	(65.4)	(65.4)
Closing fair value of scheme assets	1,706.5	1,551.6

Expense/(income) recognised in the profit and loss account:

	Year end 31 March 2013 £m	Year end 31 March 2012 £m
Current service cost	18.9	16.4
Exceptional item – pension curtailment gain*	-	(40.0)
Interest cost	76.2	80.0
Expected return on scheme assets	(66.3)	(77.7)
Total expense/(income) recognised in the profit and loss account	28.8	(21.3)

* During 2011/12 a curtailment gain of £40.0m arising from changes to certain provisions, in respect of the TWPS. The gain arose as a result of changes to scheme benefits, which have reduced future liabilities.

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

	Year end 31 March 2013 £m	Year end 31 March 2012 £m
Operating costs staff costs	18.9	(23.6)
Other finance expense	9.9	2.3
Total expense/(income) charged in the profit and loss account	28.8	(21.3)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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

	Year end 31 March 2013 £m	Year end 31 March 2012 £m
Actual return less expected return on pension scheme assets	109.7	78.4
Changes in assumptions underlying the present value of scheme liabilities	(230.4)	(153.7)
Adjustment relating to irrecoverable surplus	14.1	(18.3)
Actuarial loss recognised in the statement of total recognised gains and losses	(106.6)	(93.6)
Cumulative amount of gains recognised in the statement of total recognised gains and losses	(401.8)	(295.2)

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 2013		31 March 2012	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	7.15%	575.5	7.11%	533.0
Bonds	4.3%	121.1	4.63%	32.9
Gilts	2.90-3.15%	866.4	1.86-3.11%	785.9
Property	6.15%	99.8	6.11%	103.3
Other assets	4.0%	43.7	3.11%	96.5
Average expected long-term rate of return/total fair value of assets	4.6%	1,706.5	4.6%	1,551.6

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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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

	31 March 2013	31 March 2012
Price inflation – RPI Linked	3.5%	3.1%
Price inflation – CPI Linked	2.8%	2.4%
CARE revaluation (CPI max 2.5%)	2.5%	2.4%
Salary increase – TWMIPS	4.0%	3.6%
Pension increases – RPI Linked	3.5%	3.1%
Pension increases – CPI Linked	2.8%	2.4%
Discount rate for scheme liabilities	4.3%	4.65%

In valuing the liabilities of the pension schemes at 31 March 2013, 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 improvements to mortality rates.

	31 March 2013	31 March 2012
TWPS members who joined before/after 1 January 1995		
Life expectancy for a male pensioner from age 60	27	27
Life expectancy for a female pensioner from age 60	29	29
Life expectancy from age 60 for a male pensioner currently aged 40	29	29
Life expectancy from age 60 for a female pensioner currently aged 40	31	31
TWMIPS		
Life expectancy for a male pensioner from age 60	26	26
Life expectancy for a female pensioner from age 60	28	28
Life expectancy from age 60 for a male pensioner currently aged 40	28	28
Life expectancy from age 60 for a female pensioner currently aged 40	30	30

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

	31 March 2013 £m	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m	31 Dec 2009 £m
Fair value of scheme assets	1,706.5	1,551.6	1,414.0	1,327.0	1,048.8
Present value of scheme liabilities	(1,923.4)	(1,662.8)	(1,515.9)	(1,472.3)	(1,110.3)
(Deficit)/surplus in scheme	(216.9)	(111.2)	(101.9)	(145.3)	(61.5)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

Experience adjustments:

	31 March 2013 £m	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m	31 Dec 2009 £m
Experience gains/(losses) on scheme assets					
Amounts	109.7	76.3	13.6	214.1	(250.8)
Percentage of scheme assets	6.4%	4.9%	5.9%	16.7%	24.1%
Experience gains/(losses) on scheme liabilities:					
Amounts	-	11.1	-	-	(44.4)
Percentage of scheme liabilities	-	0.7%	-	-	4.0%
Total amount recognised in the Statement of total gains and losses:					
Amounts	(106.6)	(93.6)	2.0	(111.9)	(136.4)
Percentage of present value of scheme liabilities	5.5%	5.7%	0.1%	7.2%	12.0%

The Group expects to contribute approximately £44.0m (2011/12 £43.8m) to the defined benefit schemes in the next financial year

28 Analysis of cash flows

28(a) Net cash inflow from operating activities

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Reconciliation of operating profits to net cash flow from operating activities		
Group operating profit	504.5	576.7
Depreciation charges	479.0	437.2
Amortisation	44.9	44.4
Decrease/(increase) in stocks	1.9	(1.6)
Decrease in debtors	31.3	5.7
Decrease in creditors	(7.7)	(11.8)
Deferred income release	(13.6)	(13.8)
Decrease in provisions	(7.9)	(4.2)
Difference between pension charge and cash contributions	(25.1)	(68.5)
Net cash flow from operating activities	1,007.3	964.1

Depreciation includes maintenance expenditure on infrastructure assets in accordance with FRS 15, Tangible Fixed Assets

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28(b) Return on investment and servicing of finance

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Interest received	143.3	182.8
Interest paid	(503.8)	(563.7)
Interest element of finance lease rental payments	(8.4)	(6.9)
	(368.9)	(387.8)

28(c) Capital expenditure and financial investment

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Purchase of tangible fixed assets	(903.6)	(993.6)
Infrastructure renewals expenditure	(185.7)	(176.8)
Capital contributions received	51.1	44.3
Sale of tangible fixed assets	13.2	8.7
	(1,025.0)	(1,117.4)

28(d) Acquisitions

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Investment in subsidiary undertaking	(43.3)	-
	(43.3)	-

Investment in subsidiary undertaking represents the cash paid to RWE (former owners of Thames Water Group) in the year following settlement of pre-acquisition tax computations with HMRC

28 (e) Decrease in cash

	Year ended 31 March 2013 £m	Year ended 31 March 2012 £m
Unrestricted cash movement	(104.3)	11.6
Restricted cash movement *	2.1	-
	(102.2)	11.6

*Included in cash and shown within the decrease in cash in the cash flow statement is a restricted cash receipt in the year of £2.1m (2011/12: £nil). This cash receipt relates to collateral posted by derivative counter parties that have failed to meet minimum credit rating criteria assigned by Moody's and has no impact on net debt.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28(e) Analysis of net debt

	At 1 April 2012 £m	Cash flow £m	Other non- cash movements £m	At 31 March 2013 £m
Cash at bank and in hand	53.6	(21.9)		31.7
Overdraft	-	(80.3)		(80.3)
	53.6	(102.2)		(48.6)
Loans due within one year	(470.0)	124.1	-	(345.9)
Loans due after more than one year	(9,041.2)	(718.2)	(130.4)	(9,889.8)
Finance leases due within one year	(56.5)	46.0	-	(10.5)
Finance leases due after more than one year	(130.7)	28.3	-	(102.4)
	(9,698.4)	(519.8)	(130.4)	(10,348.6)
Liquid resources	682.8	107.9		790.7
Total	(8,962.0)	(514.1)	(130.4)	(9,606.5)

The Group includes its current asset investments (see note 17) as liquid resources

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.

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 Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2013 was £9.6bn (2012 £8.5bn).

At 31 March 2013 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20m (2012 £20m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8m (2012 £0.8m) at 31 March 2013.

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 RBS as Facility Agent. This facility amounted to £425m (2012 £425m), the amount outstanding at 31 March 2013 was £350m (2012 £350m). The chargee is RBS as Facility Agent.

The Isis Insurance Company Limited, a wholly owned subsidiary of the Group, has letters of credit in issue totalling £3.9m (2012 £3.9m), and £0.3m (2012 £0.5m) secured under a Security Trust Agreement. Security for these is provided by the Company to the value of £3.9m invested in a fixed term deposit held with Royal Bank of Scotland International Limited and £0.3m held by Barclays Trustees Limited.

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 (continued)

30 Group undertakings

At 31 March 2013, 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
Thames Water (Kemble) Finance Plc	England & Wales	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
Thames Water Commercial Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Commercial water supply
Trans4m Limited (In administration)	England & Wales	Ordinary	-	25%	Investment	Contract management for stations and civil assets

Advantage is taken of section 410 of the Companies Act 2006 and full information will be annexed to the next Annual Return delivered to the Registrar of Companies after the accounts in question have been approved under section 233

Kemble Water Holdings Limited

Notes to the financial statements (continued)

31 Related parties

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

Related party	Nature of transaction	Year ended	Year ended	Year ended	Year ended
		31 March 2013	31 March 2013	31 March 2012	31 March 2012
		Value £m	Amount due £m	Value £m	Amount due £m
Macquarie Group Limited	Fees payable for management and other services	4.3	1.0	4.2	1.0

During the year, a subsidiary of the group incurred advisory fee charges of £60,000 (2012 £62,000) for consultancy services provided by C R Deacon, a director and £16,976 (2011/12 £16,000) for consultancy services provided by R Blomfield-Smith, a director

32 Immediate and ultimate parent company and controlling party

Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Fund II LP ("MEIF 2"), wholesale investment funds which make long-term investments in infrastructure and related businesses located across Europe. The directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the largest group to consolidate these financial statements.

The Company's other shareholders are international pension funds and institutional investors.

MEIF 2 invests in businesses which

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

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

MEIF 2 is managed by Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEL"). MIRAEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Conduct Authority. MIRAEL is resourced by executives of Macquarie Infrastructure and Real Assets.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

33 Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on its balance sheet. The principal off-balance sheet arrangements are listed below:

- Operating leases (see note 25)
- Outsourcing contracts
- Derivative financial instruments (see note 20)

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include IT support, Legal Services, metering services, capital delivery and Customer Service. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material impact on the financial position of the Group.