

Registered no: 2366623 (England & Wales)

Thames Water Limited

Annual report and financial statements

For the year ended 31 March 2009

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Thames Water Limited

Annual Report for the year ended 31 March 2009

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Thames Water Limited

Directors and advisors

Directors

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

Independent auditors

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

Registered office

Clearwater Court
Vastern Road
Reading
RG1 8DB

Thames Water Limited

Directors' Report for the year ended 31 March 2009

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

Review of business, principal activities and future developments

The Company's principal activity is that of an intermediate holding company in the Kemble Water Holdings Limited group of companies ("the Group"). It is expected to continue to act as an intermediate holding company within the Group.

During the year, the Company continued with its restructuring and divestment process and disposed of its interests in Thames Water Altyapi Hizmetleri Sirketi to an MBO team, as shown in note 4.

The Company's business review disclosures are integrated with those of the Group and so they are not disclosed separately. Accordingly, the business review and disclosures of the Group, which include those of the Company, are discussed in the Group's annual report which does not form part of this report.

Results and dividends

The results for the year are set out in the profit and loss account on page 8.

During the year interim dividends of 62.40p per ordinary share, amounting to £222m (2008: 360.35p per ordinary share, amounting £1,282m) were paid.

Subsequent to the year end a further interim dividend of 16.86p (2008: 36.82p) per ordinary share amounting to £60.0m (2008: £131.0m) was paid on 29 May 2009.

Principal risks and uncertainties

From the perspective of the Company, the principal risks and uncertainties are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's annual report, which does not form part of this report.

Financial risk management

Financial risk management is addressed in more detail in section (i) of the Accounting policies on page 12.

Thames Water Limited

Directors' Report for the year ended 31 March 2009 (continued)

Directors

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

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

During the year under review, none of the directors had significant contracts with the Company or any other body corporate other than their contracts of service, except as disclosed in note 19 to the accounts.

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

Director	Alternate Director
L F Abaira (resigned 1 January 2009)	P Gomez (resigned 1 January 2009)
R Blomfield-Smith	P E D Crone (resigned 6 March 2009)
	K Boesenberg (appointed 1 April 2009)
C R Deacon	P De Souza (resigned 10 September 2008)
	R D Israel (appointed 10 September 2008)
S Kolenc (appointed 9 February 2009)	L Webb (appointed 9 February 2009)
G I W Parsons (resigned 19 January 2009)	E Beckley (resigned 19 January 2009)
A F C DeP Santos (appointed 1 January 2009)	S Batey (appointed 1 January 2009)
D J Shah	W R McKenzie (resigned 9 February 2009)
	C van Heijningen (appointed 9 February 2009)
L Webb (resigned 9 February 2009)	S Kolenc (resigned 9 February 2009)
C Lynam	M W Baggs (appointed 21 January 2009)

Investments

In the opinion of the directors, the value of the investments are not less than the values included in the financial statements.

Political and charitable donations and expenditure

No political donations were made by the Company. No charitable donations were made by the company during the year (2008: £81,207).

Thames Water Limited

Directors' Report for the year ended 31 March 2009 (continued)

Disclosure of information to auditors

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

Directors' indemnities

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

Auditors

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

A handwritten signature in black ink, appearing to read 'J. Hanson', with a stylized flourish at the end.

By order of the Board

J Hanson
Company Secretary
17 June 2009

Clearwater Court
Vastern Road
Reading
RG1 8DB

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

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

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

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

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

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

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

KPMG Audit Plc

8 Salisbury Square
London
EC4Y 8BB
United Kingdom

Independent auditors' report to the members of Thames Water Limited

We have audited the financial statements of Thames Water Limited for the year ended 31 March 2009 which comprise the Profit and Loss Account, the Balance Sheet, the Statement of Total Recognised Gains and Losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the financial statements in accordance with applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of directors' responsibilities on page 5.

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

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

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

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

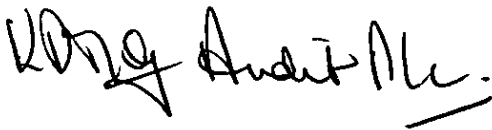
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

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

Opinion

In our opinion:

- The financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 March 2009 and of its profit for the year then ended.
- The financial statements have been properly prepared in accordance with the Companies Act 1985.
- The information given in the Directors' Report is consistent with the financial statements.



KPMG Audit Plc
Chartered Accountants
Registered Auditor

17 June 2009

Thames Water Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2009 £m	31 March 2008 £m
Administrative income/(expenses)	2	<u>11.2</u>	<u>(54.2)</u>
Operating profit/(loss)		11.2	(54.2)
Income from shares in group undertakings		15.6	48.1
(Loss)/profit on sale of fixed assets	4	(4.4)	3,156.1
Interest receivable and similar income	5	310.4	201.7
Interest payable and similar charges	6	(3.3)	(5.0)
Other finance (expenses)/income	7	<u>(0.7)</u>	<u>0.1</u>
Profit on ordinary activities before taxation		328.8	3,346.8
Taxation on profit on ordinary activities	8	<u>(86.7)</u>	<u>(48.5)</u>
Profit for the year		<u>242.1</u>	<u>3,298.3</u>

The results for the year shown above are derived entirely from continuing activities.

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

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

	Note	31 March 2009 £m	31 March 2008 £m
Profit for the year		242.1	3,298.3
Actuarial (loss)/gain on pension scheme	18	(0.5)	1.2
Deferred tax relating to actuarial(loss)/gain		<u>0.1</u>	<u>(0.3)</u>
Total recognised gains and losses relating to the financial year		<u>241.7</u>	<u>3,299.2</u>

Thames Water Limited

Balance sheet as at 31 March

	Note	31 March 2009 £m	31 March 2008 £m
Fixed assets			
Investments	10	<u>96.2</u>	<u>168.5</u>
		96.2	168.5
Current assets			
Debtors			
- due within one year	11	304.3	244.2
- due after one year	11	3,546.2	3,156.6
Cash at bank and in hand		<u>56.4</u>	<u>51.4</u>
		3,906.9	3,452.2
Creditors: amounts falling due within one year	12	<u>(737.6)</u>	<u>(362.7)</u>
Net current assets		<u>3,169.3</u>	<u>3,089.5</u>
Total assets less current liabilities		3,265.5	3,258.0
Provisions for liabilities and charges	13	<u>(53.7)</u>	<u>(66.2)</u>
Net assets excluding pension asset		3,211.8	3,191.8
Net pension asset	18	<u>2.6</u>	<u>2.9</u>
Net assets including pensions asset		<u>3,214.4</u>	<u>3,194.7</u>
Capital and reserves			
Called up share capital	14	81.8	81.8
Share premium account	15	104.5	104.5
Capital redemption reserve	15	320.8	320.8
Profit and loss account	15	<u>2,707.3</u>	<u>2,687.6</u>
Shareholder's funds	16	<u>3,214.4</u>	<u>3,194.7</u>

The notes on pages 10 to 26 form part of these financial statements.

The financial statements on pages 8 to 26 were approved by the Board of Directors on 17 June 2009 and signed on its behalf by:



Sir Peter Mason KBE
Chairman

Thames Water Limited

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the financial statements.

Basis of preparation

The financial statements have been prepared on a going concern basis and in accordance with applicable accounting standards and under historical accounting rules.

In accordance with the requirements of FRS 18, the directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

Going concern

The financial statements have been prepared on the going concern basis. This is based upon a review of the Group's budget, business plan and investment programme, together with the cash and committed borrowing facilities available.

The Company has not prepared consolidated Group financial statements, as permitted under section 228 of the Companies Act 1985, as it is a wholly-owned subsidiary. The Company and its subsidiaries are included in the consolidated accounts of its ultimate parent company Kemble Water Holdings Limited, a company registered in the United Kingdom.

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements, which have been applied consistently are set out below.

(a) Investments

Investments held as fixed assets are stated at cost less provisions for impairment in value. Impairment reviews are performed by the directors when there has been an indication of potential impairment.

(b) Related party disclosures

As the Company is a wholly owned subsidiary of Thames Water Holdings Limited, the company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties). The consolidated financial statements of Kemble Water Finance Limited which is the smallest company of the group to produce consolidated financial statements within which this company is included can be obtained from the address in note 20.

(c) Cashflow

Under FRS1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the company in its own published consolidated financial statements.

(d) Dividend income

Dividend income is recognised when the right to receive payment is established.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(e) Taxation

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

Current taxation

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

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

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the profit and loss account.

Deferred taxation

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

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

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

Deferred taxation is measured on a non-discounted basis. Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with via the Statement of total recognised gains and losses.

(f) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are translated using the contracted rate or the rate of exchange ruling at the balance sheet date and the gains or losses on translation are included in the profit and loss account.

(g) Provisions

Provisions are recognised when the Company 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.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(h) Cash

Cash comprises cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash at any time without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

(i) Financial risk management

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

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

(j) Interest receivable

Interest receivable is recognised in the profit and loss account on an accruals basis.

(k) Interest Payable

Interest payable is recognised in the profit and loss account on an accruals basis.

(l) Pension and other post retirement benefits

The Company operates one pension scheme only, being a defined benefit scheme providing retirement benefits to a previous director and their spouse based on final salary. The scheme is an unfunded arrangement but is secured against assets held by the Company. There are no benefits currently being accrued with the scheme and no contributions are currently being paid by the Company.

A full actuarial valuation of the scheme is carried out each year. Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair value).

The difference between the assets and liabilities of the scheme are recognised as a surplus (to the extent that the surplus is recoverable) or obligation in the balance sheet.

The difference between the expected return on scheme assets and interest on scheme liabilities is included within other finance income/expense in the profit and loss account.

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

Thames Water Limited

Notes to the financial statements for the year ended 31 March

(m) Profit on sale of fixed assets

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. Details of the disposals made during the year are shown in note 4.

2 Administration (income)/expenses

	31 March 2009 £m	31 March 2008 £m
Administration recharge paid to subsidiary undertaking	2.0	1.2
Exchange loss	0.1	-
Provisions (see note 13)	(8.9)	50.0
Other (income)/expenses	(4.4)	3.0
	<u>(11.2)</u>	<u>54.2</u>

Included in the above is auditors' remuneration in respect of the following:

Fees payable to current auditors:

	31 March 2009 £'000	31 March 2008 £'000
Audit of these financial statements	9.5	-
Audit fees in relation to Subsidiaries and fellow subsidiaries	127.0	-
	<u>136.5</u>	<u>-</u>

Fees payable to previous auditors:

	31 March 2009 £'000	31 March 2008 £'000
Amounts receivable by the auditors for the audit of the financial statements	49	20
Other services pursuant to such legislation	-	502
	<u>49</u>	<u>522</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

3 Information regarding directors and employees

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

Directors' emoluments

	31 March 2009 £'000	31 March 2008 £'000
Aggregate emoluments	<u>559</u>	<u>562</u>
	<u>559</u>	<u>562</u>

Other than as noted above and included in note 19, no other amounts were payable to any of these directors. No remuneration was payable in respect of any alternate directors whose period of service can be found in the Directors' Report on page 3.

At 31 March 2009, no retirement benefits are accruing to directors (year ended 31 March 2008: £Nil) under a defined benefit pension scheme.

During the year, no directors (year ended 31 March 2008: Nil) exercised share options.

Highest paid director

	31 March 2009 £'000	31 March 2008 £'000
Aggregate emoluments	<u>110</u>	<u>100</u>

4 Loss on sale of fixed assets

	31 March 2009 £m	31 March 2008 £m
(Loss)/profit on disposal of fixed asset investments	<u>(4.4)</u>	<u>3,156.1</u>

The transactions during the year were:

On 16 March 2009 the Company sold its interests in its subsidiary, ISIS Insurance Company Ltd to Kemble Water Finance Limited, an intermediate parent company, for consideration of £14.3m resulting in a profit on disposal of £12m.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

4 Profit on sale of fixed assets (continued)

During the year the Company sold its interests in its subsidiary Thames Water Altyapi Hizmetleri Sirketi to Akifer SU Hizmetleri Ticaret Sirketi, for a cash consideration of US\$3m (£2.1m). This resulted in the Company making a profit on disposal of £1.1m.

For the year ended 31 March 2009 the Company sold its interests in Izmit SU AS to Gama Enerji AS for a cash consideration of £18.5m. This resulted in the Company making a loss on disposal of £17.5m.

5 Interest receivable and similar income

	31 March 2009 £m	31 March 2008 £m
Interest receivable		
- Group undertakings	305.2	195.4
- Other	5.2	6.3
	<u>310.4</u>	<u>201.7</u>

6 Interest payable and similar charges

	31 March 2009 £m	31 March 2008 £m
Interest payable		
- Bank overdraft	(0.7)	(0.5)
- Group undertakings	(2.5)	(3.9)
- Other	(0.1)	(0.6)
	<u>(3.3)</u>	<u>(5.0)</u>

7 Other finance (expenses)/income

	31 March 2009 £m	31 March 2008 £m
Other financial expenses	(0.9)	-
Other financial income	0.1	-
Expected return on pension scheme assets	0.4	0.4
Interest on pension scheme liabilities	(0.3)	(0.3)
	<u>(0.7)</u>	<u>0.1</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

8 Taxation on profit on ordinary activities

Analysis of charge in the year

	31 March 2009 £m	31 March 2008 £m
UK corporation tax - amounts payable in respect of corporation tax for the year	84.6	60.1
UK corporation tax - adjustments in respect of previous periods	1.0	(12.2)
Overseas tax	0.3	0.5
Total current tax	85.9	48.4
Deferred tax – origination and reversal of timing differences	0.2	-
Deferred tax – adjustments in respect of previous periods	0.6	-
Deferred tax – change in rate	-	0.1
Total deferred tax	0.8	0.1
Taxation on profit on ordinary activities	86.7	48.5

Factors affecting tax charge for year

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

	31 March 2009 £m	31 March 2008 £m
Profit on ordinary activities before taxation	328.8	3,346.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2008: 30%)	92.1	1,004.0
Effects of:		
Other timing differences	(0.2)	-
Disallowable expenditure (income not taxable) and other permanent differences	(7.3)	(943.9)
Adjustments in respect of previous periods	1.0	(12.2)
Overseas taxation	0.3	0.5
Current tax charge for the year	85.9	48.4

Thames Water Limited

Notes to the financial statements for the year ended 31 March

9 Dividends

	31 March 2009 £m	31 March 2008 £m
Equity - Ordinary		
Interims paid: 62.40p (2008: 360.35p) per £0.23p ordinary share	<u>222.0</u>	<u>1,282.0</u>
	<u>222.0</u>	<u>1,282.0</u>

As a post balance sheet event, on 3 April 2009 the directors approved a further interim dividend of £60m, which was paid on 29 May 2009 (16.86p per ordinary share) in respect of the year ended 31 March 2009. This dividend has not been accounted for in the current year financial statements (2008 : £131m 36.82p per ordinary share).

10 Fixed asset investments

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

	Shares in group undertakings £m	Participating interests £m	Loans to group undertakings £m	Loans to participating interests £m	Total £m
Cost:					
At 1 April 2008	92.6	30.0	413.8	40.0	576.4
Additions	-	-	6.1	-	6.1
Disposals	(49.4)	-	-	-	(49.4)
Repayments	-	-	(0.7)	-	(0.7)
Foreign exchange	-	-	-	-	-
At 31 March 2009	<u>43.2</u>	<u>30.0</u>	<u>419.2</u>	<u>40.0</u>	<u>532.4</u>
Provisions:					
At 1 April 2008	(31.7)	(30.0)	(306.2)	(40.0)	(407.9)
Reclassification	(3.5)	-	(34.8)	-	(38.3)
Disposals	10.0	-	-	-	10.0
At 31 March 2009	<u>(25.2)</u>	<u>(30.0)</u>	<u>(341.0)</u>	<u>(40.0)</u>	<u>(436.2)</u>
Net Book Value:					
At 31 March 2009	<u>18.0</u>	-	<u>78.2</u>	-	<u>96.2</u>
At 1 April 2008	60.9	-	107.6	-	168.5

The additions to investments in subsidiary undertakings during the year relate to loans that were issued for a total of £6.1m.

During the year £38.3m of provisions were reclassified from debtors to fixed asset investments.

Disposals during the year relate to the disposal of interests in Thames Water Turkey, ISIS Insurance Company and Izmit Su AS (refer to note 4).

Thames Water Limited

Notes to the financial statements for the year ended 31 March

10 Fixed asset investments (continued)

	Year end	% owner -ship	Country of incorporation	Description of shares held	Nature of business
Interests in group undertakings:					
Direct:					
Thames Water Utilities Holdings Limited	31 March	100	England & Wales	Ordinary £1	Holding Company
Kennet Properties Limited	31 March	100	England & Wales	Ordinary £1	Property
Thames Water Investments Limited	31 March	100	England & Wales	Ordinary £1	Property
Indirect (through Thames Water Utilities Holdings Limited):					
Thames Water Utilities Limited	31 March	100	England & Wales	Ordinary £1	Regulated Water Operations
Thames Water Utilities Finance Limited	31 March	100	England & Wales	Ordinary £1	Finance Company
Thames Water Utilities Cayman Finance Limited	31 March	100	Cayman Islands	Ordinary \$1	Finance Company
Interests in participating interests:					
Direct:					
*Metronet Rail BCV Holdings Limited	31 March	20	England & Wales	Ordinary £1	Maintenance and upgrade of London Underground
*Metronet Rail SSL Holdings Limited	31 March	20	England & Wales	Ordinary £1	Maintenance and upgrade of London Underground
Indirect (through Thames Water Investments Limited):					
Trans4m Limited	31 March	25	England & Wales	Ordinary £1	Contract management for stations and civil assets

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

In accordance with S231(5) of the Companies Act 1985, information is given only with respect to such undertakings whose financial position principally affects the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

11 Debtors

Amounts falling due within one year:

	31 March 2009 £m	31 March 2008 £m
Amounts owed by group undertakings	300.6	241.9
Deferred tax asset	0.8	1.7
Other debtors	2.9	0.6
	<u>304.3</u>	<u>244.2</u>
Amounts owed by group undertakings		
	£m	£m
Inter-company loans due within one year	<u>286.3</u>	<u>239.5</u>
	286.3	239.5
Non loan amounts due within one year	<u>14.3</u>	<u>2.4</u>
	<u>300.6</u>	<u>241.9</u>

Amounts owed by group undertakings are unsecured, repayable on demand and interest free except the following loans:

- £150,000,000 owed by Thames Water Utilities Limited, on which interest is based on LIBOR + 0.25%.
- £136,300,000 owed by Kemble Water Liberty Limited, on which interest is based on LIBOR + 0.50%.

The deferred tax asset of £0.8m (2008: £1.7m) relates to other timing differences.

Reconciliation of movements in deferred tax:

		Total £m
At 1 April 2008		1.7
Charge in year		<u>(0.9)</u>
At 31 March 2009		<u>0.8</u>
Unprovided deferred tax asset	31 March 2009 £m	31 March 2008 £m
Potential deferred tax asset	2.1	4.3
Provided in the accounts	<u>(0.8)</u>	<u>(1.7)</u>
Unprovided at 31 March	<u>1.3</u>	<u>2.6</u>

There is an unrecognised deferred tax asset in respect of short term timing differences and capital losses where the Company does not anticipate use in the immediate future.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

11 Debtors (continued)

Amounts falling due after more than one year:

	31 March 2009 £m	31 March 2008 £m
Amounts owed by group undertakings – loan	2,746.0	2,968.0
Amounts owed by group undertakings – other	<u>800.2</u>	<u>188.6</u>
	<u>3,546.2</u>	<u>3,156.6</u>

Amounts owed by group undertakings are unsecured and interest free except the following loan:

£2,746,000,000 (2008: £2,968,000,000) owed by Thames Water Utilities Holdings Limited, being the unpaid deferred consideration on the purchase of Thames Water Utilities Limited, on which interest is payable at 10%. Repayment is at the discretion of the Company but must be repaid by 2056. Interest repayment on this loan is determined by agreement between both parties. No repayment date has been set for interest incurred.

12 Creditors: amounts falling due within one year

	31 March 2009 £m	31 March 2008 £m
Bank overdraft	19.5	14.8
Amounts owed to group undertakings	624.8	213.2
Group relief	88.8	119.1
Other creditors	3.9	3.3
Accruals and deferred income	<u>0.6</u>	<u>12.3</u>
	<u>737.6</u>	<u>362.7</u>

The Company's bank accounts are with National Westminster Bank Plc. These bank accounts along with a number of other Group bank accounts form part of a cross-company guarantee arrangement with the bank. Should the net position be an overdraft, then this is unsecured.

Amounts owed to group undertakings are:

	31 March 2009 £m	31 March 2008 £m
Inter-company loans	149.4	127.8
Non-loan amounts	<u>475.4</u>	<u>85.4</u>
	<u>624.8</u>	<u>213.2</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

12 Creditors: amounts falling due within one year (continued)

Amounts owed to group undertakings include the following unsecured loans with no fixed repayment date, except the Isis Company Limited loan as noted below:

- £40,100,000 (2008: £50,500,000) owed to Isis Insurance Company Limited, a group undertaking. This represents a discounted loan note issued to Isis Insurance Company Limited, which was subsequently repaid on 6 April 2009. The discount on the note is accrued at a market rate derived from short term money markets which on the note outstanding on the balance sheet date was 1.41%.
- £6,500,000 (2008: £6,500,000) owed to PWT Projects Limited, a group undertaking on which interest is payable at three months LIBOR less 12.5 basis points.

All other amounts owed to group undertakings are unsecured and interest free.

13 Provisions for liabilities and charges

	Warranty and Indemnity £m	Other £m	Total £m
At 1 April 2008	16.2	50.0	66.2
Release of provision	-	(8.9)	(8.9)
Utilisation of provision	(1.9)	(1.7)	(3.6)
At 31 March 2009	14.3	39.4	53.7

Other provisions include the following items:

Metronet and Trans4m

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

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

As a result of significant projected cost overruns and insufficient liquidity, a PPP Administrator was appointed to Metronet in 2007. The Group continues to maintain its ownership in Metronet and Trans4m, however both companies are no longer trading, and the Group has no further obligations to provide debt or equity to Metronet or Trans4m.

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

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

Veolia Water UK Plc

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

Thames Water Limited

Notes to the financial statements for the year ended 31 March

14 Called up share capital

	31 March 2009 £m	31 March 2008 £m
Authorised:		
976,128,916 (2008: 976,128,916) ordinary shares of 23p each and 380,367,532 (2008: 380,367,532) 'B' shares of 79p each	<u>525.0</u>	<u>525.0</u>
Allotted, called up and fully paid:		
355,770,743 (2008: 355,770,743) ordinary shares of 23p each	<u>81.8</u>	<u>81.8</u>

15 Share premium and reserves

	Share premium £m	Capital redemption account £m	Profit and loss account £m	Total £m
At 1 April 2008	104.5	320.8	2,687.6	3,112.9
Profit for the year	-	-	242.1	242.1
Dividends paid	-	-	(222.0)	(222.0)
Actuarial gain on pension scheme	-	-	(0.5)	(0.5)
Movement on deferred tax relating to pension scheme	-	-	0.1	0.1
At 31 March 2009	<u>104.5</u>	<u>320.8</u>	<u>2707.3</u>	<u>3,132.6</u>

16 Reconciliation of movements in shareholder's funds

	31 March 2009 £m	31 March 2008 £m
Shareholder's funds at the beginning of the year	3,194.7	1,177.5
Profit for the year	242.1	3,298.3
Dividends paid	(222.0)	(1,282.0)
Actuarial (loss)/gain in pension scheme	(0.5)	1.2
Movement in deferred tax relating to pension scheme	<u>0.1</u>	<u>(0.3)</u>
Closing shareholder's funds	<u>3,214.4</u>	<u>3,194.7</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

17 Guarantees

At 31 March 2009, the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £40.0m (2008: £40.0m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £8.4m at 31 March 2009 (2008: £16.9m) and certain non Thames Water Limited group companies amounting to £5.4m (2008: £9.2m).

Letters of credit amounting to £25.0m (2008: £25.0m) have been provided in favour of Metronet Rail SSL Limited and Metronet Rail BCV Limited, in respect of enhanced credit support for the Parent Company Guarantees.

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

18 Pension schemes

Defined benefit pension scheme

The Company operates one pension scheme only, being a defined benefit scheme providing retirement benefits to a previous director and their spouse based on final salary.

The scheme is an unfunded arrangement but is secured against assets held by the Company. There are no benefits currently being accrued with the scheme and no contributions are currently being paid by the Company. The latest full valuation was carried out at 31 March 2009 by independent actuaries Hewitt Associates Limited.

Reconciliation of funded status to balance sheet

	31 March 2009 £m	31 March 2008 £m
Fair value of scheme assets	8.5	8.8
Present value of scheme liabilities	<u>(4.9)</u>	<u>(4.8)</u>
Surplus in scheme	<u>3.6</u>	<u>4.0</u>
Asset recognised on the balance sheet	3.6	4.0
Deferred tax liability	<u>(1.0)</u>	<u>(1.1)</u>
Net pension asset	<u>2.6</u>	<u>2.9</u>

Movement in the present value of scheme liabilities

	31 March 2009 £m	31 March 2008 £m
Opening present value of scheme liabilities	4.8	5.3
Interest cost	0.3	0.3
Actuarial losses/(gains) on scheme liabilities	0.1	(0.5)
Net benefit paid out	<u>(0.3)</u>	<u>(0.3)</u>
Closing present value of scheme liabilities	<u>4.9</u>	<u>4.8</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

18 Pension schemes (continued)

Movement in fair value of scheme assets

	31 March 2009 £m	31 March 2008 £m
Opening fair value of scheme assets	8.8	8.0
Expected return on scheme assets	0.4	0.4
Actuarial (losses)/gains on scheme assets	(0.4)	0.7
Net benefits paid out	<u>(0.3)</u>	<u>(0.3)</u>
Closing fair value of scheme assets	<u>8.5</u>	<u>8.8</u>

Income recognised in the profit and loss account:

	31 March 2009 £m	31 March 2008 £m
Interest cost	0.3	0.3
Expected return on scheme assets	<u>(0.4)</u>	<u>(0.4)</u>
	<u>(0.1)</u>	<u>(0.1)</u>

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

	Year end 31 March 2009 £m	Year end 31 March 2008 £m
Other finance income	<u>(0.1)</u>	<u>(0.1)</u>
Total income recognised in the profit and loss account	<u>(0.1)</u>	<u>(0.1)</u>

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

	31 March 2009 £m	31 March 2008 £m
Actual return less expected return on pension scheme assets	(0.4)	0.7
Experience gains arising on the scheme liabilities	<u>(0.1)</u>	<u>0.5</u>
Actuarial gain recognised in the Statement of total recognised gains and losses	<u>(0.5)</u>	<u>1.2</u>
Cumulative amount of gains recognised in the Statement of total recognised gains and losses	<u>1.0</u>	<u>1.5</u>

Thames Water Limited

Notes to the financial statements for the year ended 31 March

18 Pension schemes (continued)

Fair value of scheme assets and return on these assets:

The fair value of the assets held by the pension scheme, the long-term expected rate of return on each class of assets and the average expected long-term rate of return obtained by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio are shown in the following table:

	31 March 2009		31 March 2008		31 March 2007	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Index-linked Gilts	4.20%	7.9	4.25%	8.4	4.50%	7.8
Other assets	3.40%	0.6	6.00%	0.4	5.50%	0.2
Average expected long-term rate of return/total fair value of assets	4.14%	8.5	4.33%	8.8	4.53%	8.0

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

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

	31 March 2009	31 March 2008	31 March 2007
Price inflation	3.2%	3.7%	3.2%
Salary increases	N/a	N/a	N/a
Pension increases	3.2%	3.7%	3.2%
Discount rate for scheme liabilities	6.6%	6.9%	5.4%

In valuing the liabilities of the pension schemes of the Group, including the Company's pension scheme at 31 March 2009, mortality assumptions have been made as indicated below. These mortality assumptions are in line with those adopted for the year ended 31 March 2008 except for an allowance has been made for minimum annual rates of improvements in life expectancy of 1.1% p.a. for males and 0.6% p.a. for females.

The mortality assumptions are based on standard mortality tables which allow for future mortality improvements. The assumptions are that a member currently aged 60 will live on average for a further 23.6 years if they are males and for a further 25.8 years if they are female.

Thames Water Limited

Notes to the financial statements for the year ended 31 March

18 Pension schemes (continued)

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

	31 March 2009 £m	31 March 2008 £m	15 Months ending 31 March 2007 £m
Fair value of scheme assets	8.5	8.8	8.0
Present value of scheme liabilities	(4.9)	(4.8)	(5.3)
Surplus in scheme	3.6	4.0	2.7

Experience adjustments:

	31 March 2009 £m	31 March 2008 £m	15 months ending 31 March 2007 £m
Experience (losses)/gains on scheme assets:			
Amounts	(0.4)	0.7	0.0
Percentage of scheme assets	-4.7%	8.0%	0.0%
Experience (losses)/gains on scheme liabilities:			
Amounts	(0.1)	0.5	0.3
Percentage of present value scheme liabilities	-2%	10.4%	5.7%
Total amount recognised in the Statement of total recognised gains and losses:			
Amounts	(0.5)	1.2	0.3
Percentage of present value of scheme liabilities	-10.2%	25.0%	5.7%

19 Related parties

At the year end the loans outstanding from related parties are £40.0m (2008: £40.0m).

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

20 Immediate and ultimate parent company and controlling party

The immediate parent undertaking is Thames Water Holdings Limited, which owns 100% of the share capital.

Kemble Water Finance Limited, a company incorporated in the United Kingdom is an intermediate parent company and the smallest group to consolidate these financial statements.

The directors consider the ultimate parent company and controlling party is Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest group to consolidate these financial statements. Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.