

Registered no 2366623 (England & Wales)

Thames Water Limited

Annual report and financial statements

For the year ended 31 March 2010

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Thames Water Limited

Annual report and financial statements for the year ended 31 March

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Thames Water Limited

Directors and advisors at 31 March

Directors

Sir Peter Mason KBE
L Abrara
M W Baggs
E Beckley
R Blomfield-Smith
C R Deacon
Dr P Dyer
C Lynam
K Roseke
D J Shah
M S W Stanley

Independent auditors

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

Registered office

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Limited

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 March 2010

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

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 The registered number of the company is 2366623

Results and dividends

The results for the year are set out in the profit and loss account on page 7

During the year interim dividends of 53 68p per 0 23p ordinary share, amounting to £191m (2009 62 40p per 0 23p ordinary share, amounting to £222m) were paid

A further interim dividend of 37 2p (2009 16 86p) per ordinary share amounting to £132 3m (2009 £60 0m) was approved on 10 June 2010 This interim dividend will be paid in two tranches of £75 0m in June and £57 3m in September 2010

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 11

Directors

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

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

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

Thames Water Limited

Directors' Report (continued)

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

Director	Alternate Director
L Abrara (appointed 1 January 2010)	P Gomez (appointed 1 January 2010, resigned 31 March 2010) D Mora (appointed 31 March 2010)
R Blomfield-Smith	K Boesenberg (appointed 1 April 2009)
C R Deacon	R D Israel
S Kolenc (resigned 1 January 2010)	L Webb (resigned 1 January 2010)
C Lynam	
K Roseke (appointed 1 January 2010)	S Kolenc (appointed 1 January 2010)
A F C DeP Santos (resigned 1 January 2010)	S Batey (resigned 1 January 2010)
D J Shah	C van Heijningen (resigned 1 January 2010) R Verrion (appointed 1 January 2010)

Investments

In the opinion of the directors, the values 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 (2009 £Nil)

Disclosure of information to auditors

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the 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

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

By order of the Board


J Hanson
Company Secretary

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

10 June 2010

Thames Water Limited

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the 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 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 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, 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 adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the 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 company and to prevent and detect fraud and other irregularities

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 2010 set out on pages 7 to 24. 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 auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditors

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

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

Opinion on other matters prescribed by the Companies Act 2006

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

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF THAMES WATER LIMITED (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records and 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

W Meredith (Senior Statutory Auditor)

for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants

10 June 2010

Thames Water Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Income – release of provisions	2	35.4	13.3
Operating costs		(8.4)	(2.1)
Operating profit		27.0	11.2
Income from shares in group undertakings		14.9	15.6
Release of fixed asset investment provision	10	12.4	-
Loss on sale of fixed assets	4	-	(4.4)
Interest receivable and similar income	5	274.5	310.4
Interest payable and similar charges	6	(0.2)	(3.3)
Other finance expenses	7	-	(0.7)
Profit on ordinary activities before taxation		328.6	328.8
Taxation on profit on ordinary activities	8	(76.4)	(86.7)
Profit for the financial year		252.2	242.1

All amounts above relate to continuing operations

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

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

	Note	31 March 2010 £m	31 March 2009 £m
Profit for the year		252.2	242.1
Actuarial gain/(loss) on pension scheme	18	0.3	(0.5)
Deferred tax relating to actuarial gain/(loss)		(0.1)	0.1
Total recognised gains and losses relating to the financial year		252.4	241.7

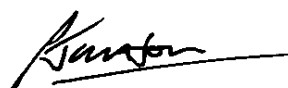
Thames Water Limited

Balance sheet as at 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Fixed assets			
Investments	10	108.6	96.2
Current assets			
Debtors			
- due within one year	11	1,000.2	304.3
- due after one year	11	3,419.7	3,546.2
Cash at bank and in hand		80.7	56.4
		4,500.6	3,906.9
Creditors' amounts falling due within one year	12	(1,328.0)	(737.6)
Net current assets		3,172.6	3,169.3
Total assets less current liabilities		3,281.2	3,265.5
Provisions for liabilities and charges	13	(8.2)	(53.7)
Net assets excluding pension asset		3,273.0	3,211.8
Net pension asset	18	2.8	2.6
Net assets including pension asset		3,275.8	3,214.4
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	2,768.7	2,707.3
Shareholder's funds	16	3,275.8	3,214.4

The notes on pages 9 to 24 form part of these financial statements

The financial statements on pages 7 to 24 were approved by the Board of Directors on 10 June 2010 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

The Company is exempt by virtue of s400 of the Companies Act 2006 from the requirement to prepare group financial statements. These financial statements present information about the Company as an individual undertaking not about its group.

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) Dividends

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

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

Thames Water Limited

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

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 without discounting 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 (continued)

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 (continued)

2 Income – release of provisions

	31 March 2010 £m	31 March 2009 £m
Release of provisions (see note 13)	35.4	13.3

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

Fees payable to current auditors

	31 March 2010 £m	31 March 2009 £m
Audit of these financial statements	-	-
Audit fees in relation to subsidiaries and fellow subsidiaries	0.1	0.1

3 Information regarding directors and employees

Directors' emoluments

	31 March 2010 £m	31 March 2009 £m
Aggregate emoluments	0.7	0.6

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 2.

At 31 March 2010, no retirement benefits are accruing to directors (year ended 31 March 2009 £Nil) under a defined benefit pension scheme.

During the year, no directors (year ended 31 March 2009 Nil) exercised share options.

Thames Water Limited

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

3 Information regarding directors and employees (continued)

Highest paid director

	31 March 2010 £m	31 March 2009 £m
Aggregate emoluments	0.3	0.1

4 Loss on sale of fixed assets

	31 March 2010 £m	31 March 2009 £m
Loss on disposal of fixed asset investments	-	(4.4)

5 Interest receivable and similar income

	31 March 2010 £m	31 March 2009 £m
- Receivable from group undertakings	271.2	305.2
- Other interest receivable	3.3	5.2
	274.5	310.4

6 Interest payable and similar charges

	31 March 2010 £m	31 March 2009 £m
- Interest payable on bank overdrafts	-	(0.7)
- Interest payable to group undertakings	(0.2)	(2.5)
- Other interest payable	-	(0.1)
	(0.2)	(3.3)

7 Other finance expenses

	31 March 2010 £m	31 March 2009 £m
Other financial expenses	-	(0.9)
Other financial income	-	0.1
Expected return on pension scheme assets	(0.3)	0.4
Interest on pension scheme liabilities	0.3	(0.3)
	-	(0.7)

Thames Water Limited

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

8 Taxation on profit on ordinary activities

Analysis of charge in the year

	31 March 2010 £m	31 March 2009 £m
<i>UK Corporation tax</i>		
Current tax on income for the period	75.1	84.6
Adjustments in respect of previous periods	1.7	1.0
Overseas tax	-	0.3
Total current tax	76.8	85.9
<i>Deferred tax</i>		
Origination and reversal of timing differences	0.1	0.2
Adjustments in respect of previous periods	(0.5)	0.6
Total deferred tax	(0.4)	0.8
Taxation on profit on ordinary activities	76.4	86.7

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% (2009 28%). The differences are explained below

	31 March 2010 £m	31 March 2009 £m
<i>Current tax reconciliation</i>		
Profit on ordinary activities before taxation	328.6	328.8
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)	92.0	92.1
Effects of		
Income not taxable	(16.8)	(7.3)
Adjustments in respect of previous periods	1.7	1.0
Overseas taxation	-	0.3
Other timing differences	(0.1)	(0.2)
Current tax charge for the year	76.8	85.9

9 Dividends

	31 March 2010 £m	31 March 2009 £m
Equity - Ordinary		
Interims paid 53.68p (2009 62.40p) per £0.23p ordinary share	191.0	222.0

Thames Water Limited

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

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 2009	43.2	30.0	419.2	40.0	532.4
At 31 March 2010	43.2	30.0	419.2	40.0	532.4
Provisions:					
At 1 April 2009	(25.2)	(30.0)	(341.0)	(40.0)	(436.2)
Additions	(5.5)	-	(23.5)	-	(29.0)
Disposals	8.6	-	32.8	-	41.4
At 31 March 2010	(22.1)	(30.0)	(331.7)	(40.0)	(423.8)
Net Book Value:					
At 31 March 2010	21.1	-	87.5	-	108.6
At 1 April 2009	18.0	-	78.2	-	96.2

Thames Water Limited

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

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 are in administration

Advantage is taken of section 401 of the Companies Act 2006 and 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 (continued)

11 Debtors

Amounts falling due within one year:

	31 March 2010 £m	31 March 2009 £m
Amounts owed by group undertakings	1,000.8	300.6
Provision for doubtful debts	(3.0)	-
Deferred tax asset	1.2	0.8
Other debtors	1.2	2.9
	1,000.2	304.3

Amounts owed by group undertakings	£m	£m
Inter-company loans due within one year	286.3	286.3
	286.3	286.3
Non loan amounts due within one year	714.5	14.3
	1,000.8	300.6

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 £1.2m (2009 £0.8m) relates to other timing differences

Reconciliation of movements in deferred tax	Total £m
At 1 April 2009	0.8
Charge in year	(0.1)
Prior year credit	0.5
At 31 March 2010	1.2

	31 March 2010 £m	31 March 2009 £m
Unprovided deferred tax asset		
Potential deferred tax asset	1.2	2.1
Provided in the accounts	(1.2)	(0.8)
Unprovided at 31 March	-	1.3

There was an unrecognised deferred tax asset in the prior year relating to short term timing differences and capital losses where the Company does not anticipate use in the immediate future. There is no corresponding unprovided deferred tax asset in the current year.

Thames Water Limited

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

11 Debtors (continued)

Amounts falling due after more than one year.

	31 March 2010 £m	31 March 2009 £m
Amounts owed by group undertakings – loans	2,746.0	2,746.0
Amounts owed by group undertakings – non loan amounts	673.7	800.2
	3,419.7	3,546.2

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

£2,746,000,000 (2009 £2,746,000,000) 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 2010 £m	31 March 2009 £m
Bank overdraft	19.0	19.5
Amounts owed to group undertakings	1,202.5	624.8
Group relief	105.1	88.8
Other creditors	1.3	3.9
Accruals and deferred income	0.1	0.6
	1,328.0	737.6

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 2010 £m	31 March 2009 £m
Inter-company loans	1,201.9	149.4
Non-loan amounts	0.6	475.4
	1,202.5	624.8

Thames Water Limited

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

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

Amounts owed to group undertakings include the following unsecured loans with no fixed repayment date

- £6,500,000 (2009 £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 2009	14.3	39.4	53.7
Release of provision	(5.4)	(30.0)	(35.4)
Utilisation of provision	(8.9)	(1.2)	(10.1)
At 31 March 2010	-	8.2	8.2

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.

In December 2009, a liquidator was appointed to Metronet and the companies are in the process of being wound up. As a result of this the provision held for future Metronet costs was released in the year. Any Trans4m costs which cannot be recovered from Metronet will be covered by the shareholders. It is unclear whether any residual liability by Trans4m up to the capped amount exists.

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.

Thames Water Limited

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

14 Called up share capital

	31 March 2010 £m	31 March 2009 £m
Allotted, called up and fully paid:		
355,770,743 (2009 355,770,743) ordinary shares of 23p each	81.8	81.8

15 Share premium and reserves

	Share premium £m	Capital redemption account £m	Profit and loss account £m	Total £m
At 1 April 2009	104.5	320.8	2707.3	3,132.6
Profit for the year	-	-	252.2	252.2
Dividends paid	-	-	(191.0)	(191.0)
Actuarial gain on pension scheme	-	-	0.3	0.3
Movement on deferred tax relating to pension scheme	-	-	(0.1)	(0.1)
At 31 March 2010	104.5	320.8	2,768.7	3,194.0

16 Reconciliation of movements in shareholder's funds

	31 March 2010 £m	31 March 2009 £m
Shareholder's funds at the beginning of the year	3,214.4	3,194.7
Profit for the year	252.2	242.1
Dividends paid	(191.0)	(222.0)
Actuarial gain/(loss) in pension scheme	0.3	(0.5)
Movement in deferred tax relating to pension scheme	(0.1)	0.1
Closing shareholder's funds	3,275.8	3,214.4

17 Guarantees

At 31 March 2010, the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £40.0m (2009 £40.0m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £6.3m at 31 March 2010 (2009 £8.4m).

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.

Thames Water Limited

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

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 2010 by independent actuaries Mercer Limited (2009 Hewitt Associates Limited)

The latest full actuarial valuation was undertaken as at 31 December 2007. This valuation has been updated at 31 March 2010 by Mercer Limited (Mercer) (2009 Hewitt Associates Limited) (independent and professionally qualified consulting actuaries) using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts. The recent exceptional volatility on the credit markets has impacted the pension valuation as calculated under the requirements of FRS 17.

Reconciliation of funded status to balance sheet

	31 March 2010 £m	31 March 2009 £m
Fair value of scheme assets	9.6	8.5
Present value of scheme liabilities	(5.7)	(4.9)
Surplus in scheme	3.9	3.6
Asset recognised on the balance sheet	3.9	3.6
Deferred tax liability	(1.1)	(1.0)
Net pension asset	2.8	2.6

Movement in the present value of scheme liabilities

	31 March 2010 £m	31 March 2009 £m
Opening present value of scheme liabilities	4.9	4.8
Interest cost	0.3	0.3
Actuarial losses on scheme liabilities	0.8	0.1
Net benefit paid out	(0.3)	(0.3)
Closing present value of scheme liabilities	5.7	4.9

Thames Water Limited

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

18 Pension schemes (continued)

Movement in fair value of scheme assets

	31 March 2010 £m	31 March 2009 £m
Opening fair value of scheme assets	8.5	8.8
Expected return on scheme assets	0.3	0.4
Actuarial gains/(losses) on scheme assets	1.1	(0.4)
Net benefits paid out	(0.3)	(0.3)
Closing fair value of scheme assets	9.6	8.5

Income recognised in the profit and loss account:

	31 March 2010 £m	31 March 2009 £m
Interest cost	0.3	0.3
Expected return on scheme assets	(0.3)	(0.4)
	-	(0.1)

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

	Year end 31 March 2010 £m	Year end 31 March 2009 £m
Other finance income	-	(0.1)
Total income recognised in the profit and loss account	-	(0.1)

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

	31 March 2010 £m	31 March 2009 £m
Actual return less expected return on pension scheme assets	0.3	(0.4)
Experience gains arising on the scheme liabilities	-	(0.1)
Actuarial gain recognised in the Statement of total recognised gains and losses	0.3	(0.5)
Cumulative amount of gains recognised in the Statement of total recognised gains and losses	1.3	1.0

Thames Water Limited

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

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 2010		31 March 2009		31 March 2008	
	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	4.25%	8.8	4.20%	7.9	4.25%	8.4
Other assets	4.50%	0.8	3.40%	0.6	6.00%	0.4
Average expected long-term rate of return/total fair value of assets	4.27%	9.6	4.14%	8.5	4.33%	8.8

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 2010	31 March 2009	31 March 2008
Price inflation	3.5%	3.2%	3.7%
Salary increases	N/a	N/a	N/a
Pension increases	3.5%	3.2%	3.7%
Discount rate for scheme liabilities	5.6%	6.6%	6.9%

In valuing the liabilities of the pension schemes of the Group, including the Company's pension scheme at 31 March 2010, mortality assumptions have been made as indicated below. These mortality assumptions are in line with those adopted for the year ended 31 March 2010 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 (continued)

18 Pension schemes (continued)

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

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m
Fair value of scheme assets	9 6	8 5	8 8
Present value of scheme liabilities	(5 7)	(4 9)	(4 8)
Surplus in scheme	3 9	3 6	4 0

Experience adjustments

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m
Experience gains/(losses) on scheme assets			
Amounts	1 1	(0 4)	0 7
Percentage of scheme assets	11 5%	-4 7%	8 0%
Experience (losses)/gains on scheme liabilities			
Amounts	-	(0 1)	0 5
Percentage of present value scheme liabilities	-	-2%	10 4%
Total amount recognised in the Statement of Total Recognised Gains and Losses			
Amounts	1 1	(0 5)	1 2
Percentage of present value of scheme liabilities	11 5%	-10 2%	25 0%

19 Related parties

At the year end the loans outstanding from related parties are £40 0m (2009 £40 0m)

During the year, an indirect subsidiary of the Company made a payment of £222,500 (2009 £160,000) 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