

Registered no 2366623 (England & Wales)

Thames Water Limited

Directors' report and financial statements

For the year ended 31 March 2012

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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 - Chairman
E Beckley
C R Deacon
Dr P Dyer
S R Eaves
G I W Parsons
D J Shah OBE
Y Shi
M S W Stanley
R E Verrion
L Webb

Registered auditor

KPMG Audit Plc
Chartered Accountants
15 Canada Square
London
E14 5GL

Company Secretary and registered office

J E Hanson
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Limited

Directors' report

The directors present their report and the audited financial statements of Thames Water Limited ("the Company") for the year ended 31 March 2012

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

The directors paid dividends of £405.1m during the year (2011 £1,166.9m) This was made up of a first interim dividend of £150.0m (42.16p per 0.23p ordinary share) (2011 £75.0m, 21.08p per 0.23p ordinary share) Second, third and fourth interim dividends were paid in the year for £105.1m (29.54p per 0.23p ordinary share) (2011 £981.0m, 275.74p per ordinary share), £50.0m (14.05p per 0.23p ordinary share) (2011 £75.0m, 21.08p per ordinary share) and £100.0m (28.11p per 0.23p ordinary share) (2011 £35.9m, 10.09p per ordinary share) respectively

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 2012 and to the date of signing were

Sir Peter Mason KBE - Chairman
L F Abraira (appointed 4 August 2011, resigned 19 January 2012)
E Beckley
R Blomfield-Smith (resigned 21 November 2011)
C R Deacon
Dr P Dyer
S R Eaves (appointed 20 January 2012)
R Gadsby (resigned 8 July 2011)
G I W Parsons
A F C DeP Santos (resigned 4 August 2011)
D J Shah OBE
Y Shi (appointed 19 January 2012)
M S W Stanley
R E Verrion
L Webb (appointed 21 November 2011)

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 18 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
E Beckley	G I W Parsons
R Blomfield-Smith (resigned 21 November 2011)	K Boesenberg (resigned 21 November 2011)
C R Deacon	R D Israel (resigned 12 December 2011)
S R Eaves (appointed 20 January 2012)	R Evenden (appointed 12 December 2011)
G I W Parsons	M C Hill (appointed 20 January 2012)
A F C DeP Santos (resigned 4 August 2011)	E Beckley (appointed 11 November 2011)
D J Shah OBE	M C Guerreiro (resigned 4 August 2011)
Y Shi (appointed 19 January 2012)	L Webb (resigned 21 November 2011)
R E Verrion	K Roseke (appointed 31 January 2012)
L Webb (appointed 21 November 2011)	F Sheng (appointed 29 February 2012)
	S Kolenc
	C Pham (appointed 21 November 2011)

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 or charitable donations were made by the Company during the year (2011 £Nil)

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 Company's auditor is unaware, and each director has taken all the steps that they ought to have taken as director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information

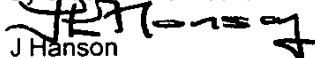
Directors' indemnities

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

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

By order of the Board



J Hanson
Company Secretary
7 June 2012

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

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 auditor's report to the members of Thames Water Limited

We have audited the financial statements of Thames Water Limited for the year ended 31 March 2012 set out on pages 7 to 23. 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 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, 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 APB's web-site at www.frc.org.uk/apb/scope/private.cfm

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 2012 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 auditor's 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 (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
United Kingdom
E14 5GL

7 June 2012

Thames Water Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2012 £m	31 March 2011 £m
Income – release of provisions		-	2.9
Operating costs		(0.8)	(5.2)
Operating profit		(0.8)	(2.3)
Income from shares in Group undertakings		1.4	9.7
Interest receivable and similar income	4	230.6	223.2
Other finance income	6	0.1	0.1
Profit on ordinary activities before taxation		231.3	230.7
Taxation on profit on ordinary activities	7	(64.4)	(62.1)
Profit for the financial year		166.9	168.6

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

The notes from pages 9 to 23 form part of these financial statements

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

	Note	31 March 2012 £m	31 March 2011 £m
Profit for the year		166.9	168.6
Actuarial gain on pension scheme	17	0.8	0.4
Deferred tax relating to actuarial gain		(0.2)	(0.1)
Total recognised gains and losses relating to the financial year		167.5	168.9

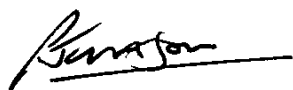
Thames Water Limited

Balance sheet as at 31 March

	Note	31 March 2012 £m	31 March 2011 £m
Fixed assets			
Investments	9	106.5	106.5
Current assets			
Debtors			
- due within one year	10	1,506.9	1,336.1
- due after one year	10	2,145.2	2,335.8
Cash at bank and in hand		49.1	17.2
		3,701.2	3,689.1
Creditors: amounts falling due within one year	11	(1,766.8)	(1,515.9)
Net current assets		1,934.4	2,173.2
Total assets less current liabilities		2,040.9	2,279.7
Provisions for liabilities and charges	12	(4.9)	(5.1)
Net assets excluding pension asset		2,036.0	2,274.6
Net pension asset	17	4.3	3.3
Net assets including pension asset		2,040.3	2,277.9
Capital and reserves			
Called up share capital	13	81.8	81.8
Share premium account	14	104.5	104.5
Capital redemption reserve	14	320.8	320.8
Profit and loss account	14	1,533.2	1,770.8
Shareholder's funds	15	2,040.3	2,277.9

The notes on pages 9 to 23 form part of these financial statements

The financial statements on pages 7 to 23 were approved by the Board of Directors on 7 June 2012 and signed on its behalf by



Sir Peter Mason KBE
Chairman

Registered no 2366623 (England & Wales)

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 Financial Reporting Standard ("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.

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 Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in FRS8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings 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 19.

(c) Cash flow

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, which include a cash flow statement.

(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 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 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 Operating Profit

Included in operating profit is the auditor's remuneration in respect of the following

Fees payable to current auditors

	31 March 2012 £m	31 March 2011 £m
Audit fees in relation to subsidiaries and fellow subsidiaries	0.1	0.1

No other fees were payable to the auditor in either year

3 Information regarding directors and employees

Directors' emoluments

	31 March 2012 £m	31 March 2011 £m
Aggregate emoluments	0.7	0.6

Other than as noted above and included in note 18, 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 2012, no retirement benefits are accruing to directors (2011: £Nil) under a defined benefit pension scheme.

During the year no directors (2011: none) exercised share options.

Highest paid director

	31 March 2012 £m	31 March 2011 £m
Aggregate emoluments	0.1	0.1

4 Interest receivable and similar income

	31 March 2012 £m	31 March 2011 £m
Receivable from Group undertakings	215.1	222.8
Other interest receivable	15.5	0.4
	230.6	223.2

Thames Water Limited

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

6 Other finance income

	31 March 2012 £m	31 March 2011 £m
Expected return on pension scheme assets	0.4	0.4
Interest on pension scheme liabilities	(0.3)	(0.3)
	0.1	0.1

7 Taxation on profit on ordinary activities

Analysis of charge in the year

	31 March 2012 £m	31 March 2011 £m
Current tax		
Current tax on income for the period	59.0	61.2
Adjustments in respect of previous periods	5.1	0.6
Overseas tax	0.1	0.1
Total current tax	64.2	61.9
Deferred tax (note 10)		
Origination and reversal of timing differences	0.2	0.1
Adjustments in respect of previous periods	-	0.1
Total deferred tax	0.2	0.2
Tax charge on profit on ordinary activities	64.4	62.1

The tax assessed for the year is higher (2011 lower) than the standard rate of corporation tax in the UK of 26% (2011 28%). The differences are explained below

	31 March 2012 £m	31 March 2011 £m
Profit on ordinary activities before taxation	231.3	230.7
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 26% (2011 28%)	60.1	64.6
Effects of		
Income not taxable	(1.0)	(3.3)
Adjustments in respect of previous periods	5.1	0.6
Overseas taxation	0.1	0.1
Other timing differences	(0.1)	(0.1)
Current tax charge for the year	64.2	61.9

There are no amounts of unprovided deferred tax

Thames Water Limited

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

7 Taxation on profit on ordinary activities (continued)

Factors affecting the future tax charge

The 2012 Budget on 21 March 2012 announces that the UK corporation tax rate will be reduced to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above.

8 Dividends

	31 March 2012 £m	31 March 2011 £m
Equity - Ordinary		
First Interim dividend paid 42.16p (2011 21.08p) per £0.23p ordinary share	150.0	75.0
Second Interim dividend paid 29.54p (2011 27.574p) per £0.23p ordinary share	105.1	981.0
Third Interim dividend paid 14.05p (2011 21.08p) per £0.23p ordinary share	50.0	75.0
Fourth Interim dividend paid 28.11p (2011 10.09p) per £0.23p ordinary share	100.0	35.9
	405.1	1,166.9

9 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 2011 and 31 March 2012	43.2	30.0	419.2	40.0	532.4
Provisions:					
At 1 April 2011	(22.1)	(30.0)	(333.8)	(40.0)	(425.9)
Provided in the year	-	-	-	-	-
At 31 March 2012	(22.1)	(30.0)	(333.8)	(40.0)	(425.9)
Net Book Value:					
At 31 March 2012	21.1	-	85.4	-	106.5
At 1 April 2011	21.1	-	85.4	-	106.5

Thames Water Limited

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

9 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 S410 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)

10 Debtors

Amounts falling due within one year:

	31 March 2012 £m	31 March 2011 £m
Amounts owed by Group undertakings	1,508.5	1,336.6
Provision for doubtful debts	(3.0)	(3.0)
Deferred tax asset	0.8	1.0
Other debtors	0.6	1.5
	1,506.9	1,336.1

	31 March 2012 £m	31 March 2012 £m
Amounts owed by Group undertakings		
Inter-company loans due within one year	136.3	136.3
Non loan amounts due within one year	1,372.2	1,200.3
	1,508.5	1,336.6

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

- £136,300,000 (2011 £136,300,000) owed by Kemble Water Liberty Limited, on which interest is based on London Interbank Offered Rate ("LIBOR") + 0.50%

The deferred tax asset of £0.8m (2011 £1.0m) relates to other timing differences

Reconciliation of movements in deferred tax:	31 March 2012 £m	31 March 2011 £m
At the beginning of the year	1.0	1.2
Charge in year	(0.2)	(0.1)
Prior year credit	-	(0.1)
At the end of the year	0.8	1.0

Factors affecting the future tax charge

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a further reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above.

Changes to reduce the main rate of corporation tax to 22% by 2014 have not yet been substantively enacted and therefore are not included in the figures above. The overall effect of the further reductions from 24% to 22%, if these applied to the deferred tax balance at 31 March 2012, would be to further reduce the recognised deferred tax asset by approximately £70,000.

Thames Water Limited

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

10 Debtors (continued)

Amounts falling due after more than one year:

	31 March 2012 £m	31 March 2011 £m
Amounts owed by Group undertakings – loans	2,056.3	2,317.1
Amounts owed by Group undertakings – non loan amounts	88.9	18.7
	2,145.2	2,335.8

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

The loan of £2,056,319,906 (2011 £2,317,015,000) above, 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.

11 Creditors: amounts falling due within one year

	31 March 2012 £m	31 March 2011 £m
Bank overdraft	12.0	12.5
Amounts owed to Group undertakings	1,684.6	1,436.0
Group relief	53.3	66.4
Corporation Tax	15.8	-
Other creditors	1.3	1.3
Accruals and deferred income	(0.2)	(0.3)
	1,766.8	1,515.9

The Company's 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 overdrawn, then this is unsecured.

Amounts owed to Group undertakings are:

	31 March 2012 £m	31 March 2011 £m
Inter-company loans	102.8	1,436.3
Non-loan amounts	1,581.8	0.1
	1,684.6	1,436.4

The above loans are all non-interest bearing loans

Thames Water Limited

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

12 Provisions for liabilities and charges

	31 March 2012 Other £m	31 March 2011 Other £m
At the beginning of the year	(5.1)	(8.2)
Release of provision	-	2.9
Utilisation of provision	0.2	0.2
At the end of year	(4.9)	(5.1)

Other provisions include the following items:

Metronet and Trans4m

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

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

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

13 Called up share capital

	31 March 2012 £m	31 March 2011 £m
Allotted, called up and fully paid:		
355,770,743 ordinary shares of 23p each (2011: 355,770,743)	81.8	81.8

Thames Water Limited

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

14 Share premium and reserves

Current Year	Share premium £m	Capital redemption account £m	Profit and loss account £m	Total £m
At the beginning of the year	104.5	320.8	1,770.8	2,196.1
Profit for the year	-	-	166.9	166.9
Dividends paid	-	-	(405.1)	(405.1)
Actuarial gain on pension scheme	-	-	0.8	0.8
Movement in deferred tax relating to pension scheme	-	-	(0.2)	(0.2)
At the end of the year	104.5	320.8	1,533.2	1,958.5
Prior Year	Share premium £m	Capital redemption account £m	Profit and loss account £m	Total £m
At 1 April 2010	104.5	320.8	2,768.7	3,194.0
Profit for 2011	-	-	168.6	168.6
Dividends paid	-	-	(1,166.9)	(1,166.9)
Actuarial gain on pension scheme	-	-	0.4	0.4
At 31 March 2011	104.5	320.8	1,770.8	2,196.1

15 Reconciliation of movements in shareholder's funds

	31 March 2012 £m	31 March 2011 £m
Shareholder's funds at the beginning of the year	2,277.9	3,275.8
Profit for the year	166.9	168.6
Dividends paid	(405.1)	(1,166.8)
Actuarial gain in pension scheme	0.8	0.4
Movement in deferred tax relating to pension scheme	(0.2)	(0.1)
Closing shareholder's funds	2,040.3	2,277.9

16 Guarantees

At 31 March 2012, the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £40.0m gross overdraft (2011 £40.0m), with a net overdraft facility of £5.0m (2011 £5.0m) available across the company and the relevant subsidiaries. The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.6m at 31 March 2012 (2011 £6.6m).

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.

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

17 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. The latest full valuation was carried out at 31 March 2012 by independent actuaries, Mercer Limited (Mercer)

The latest full actuarial valuation was undertaken as at 1 March 2011. This valuation has been updated at 31 March 2012 by 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 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 2012 £m	31 March 2011 £m
Fair value of scheme assets	11.9	10.2
Present value of scheme liabilities	(6.3)	(5.8)
Surplus in scheme	5.6	4.4
Asset recognised on the balance sheet	5.6	4.4
Deferred tax liability	(1.3)	(1.1)
Net pension asset	4.3	3.3

Movement in the present value of scheme liabilities

	31 March 2012 £m	31 March 2011 £m
Opening present value of scheme liabilities	5.8	5.7
Interest cost	0.3	0.3
Actuarial losses on scheme liabilities	0.5	0.1
Net benefit paid out	(0.3)	(0.3)
Closing present value of scheme liabilities	6.3	5.8

Thames Water Limited

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

17 Pension schemes (continued)

Movement in fair value of scheme assets

	31 March 2012 £m	31 March 2011 £m
Opening fair value of scheme assets	10.2	9.6
Expected return on scheme assets	0.4	0.4
Actuarial gains on scheme assets	1.3	0.5
Company contributions	0.3	-
Net benefits paid out	(0.3)	(0.3)
Closing fair value of scheme assets	11.9	10.2

Income recognised in the profit and loss account:

	31 March 2012 £m	31 March 2011 £m
Interest cost	0.3	0.3
Expected return on scheme assets	(0.4)	(0.4)
	(0.1)	(0.1)

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

	31 March 2012 £m	31 March 2011 £m
Actual return less expected return on pension scheme assets	1.3	0.5
Actuarial losses on scheme liabilities	(0.5)	(0.1)
Actuarial gain recognised in the Statement of total recognised gains and losses	0.8	0.4
Cumulative amount of gains recognised in the Statement of total recognised gains and losses	2.5	1.7

Thames Water Limited

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

17 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 2012		31 March 2011		31 March 2010	
	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	2.86%	10.8	4.15%	9.2	4.25%	8.8
Other assets	3.11%	1.1	4.40%	1.0	4.50%	0.8
Average expected long-term rate of return/total fair value of assets	2.88%	11.9	4.17%	10.2	4.27%	9.6

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 2012	31 March 2011	31 March 2010
Price inflation	3.1%	3.5%	3.5%
Pension increases	3.1%	3.5%	3.5%
Discount rate for scheme liabilities	4.7%	5.5%	5.6%

In valuing the liabilities of the pension schemes of the Group, including the Company's pension scheme at 31 March 2012, mortality assumptions have been made as indicated below. These mortality assumptions are in line with those adopted for the year ended 31 March 2012 except for an allowance has been made for minimum annual rates of improvements in life expectancy of 1.25% p.a. for both males and 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 a further 27.1 years for males and 28.8 years for females.

Thames Water Limited

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

17 Pension schemes (continued)

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

	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m
Fair value of scheme assets	11.9	10.2	9.6
Present value of scheme liabilities	(6.3)	(5.8)	(5.7)
Surplus in scheme	5.6	4.4	3.9

Experience adjustments

	31 March 2012 £m	31 March 2011 £m	31 March 2010 £m
Experience gains/(losses) on scheme assets			
Amounts	(1.3)	(0.5)	1.1
Percentage of scheme assets	10.9%	4.9%	11.5%
Experience (losses)/gains on scheme liabilities			
Amounts	0.1	-	-
Percentage of present value scheme liabilities	1.6%	-	-
Total amount recognised in the Statement of Total Recognised Gains and Losses			
Amounts	(0.8)	(0.4)	(0.3)
Percentage of present value of scheme liabilities	12.7%	6.9%	5.3%

18 Related parties

During the year, an indirect subsidiary of the Company made a payment of £62,000 (2011 £40,000) to C R Deacon, a director, for consultancy services

19 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