

Registered no 02366661 (England and Wales)

Thames Water Utilities Limited

Annual report and financial statements

For the year ended 31 March 2010

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Annual report and financial statements for the year ended 31 March 2010

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Directors and Advisors at 31 March 2010

Directors

Sir Peter Mason KBE (Chairman)
L F Abrara
M W Baggs
E Beckley
R Blomfield-Smith
M W Braithwaite
C R Deacon
K Roseke
D J Shah
S F Shine
M S W Stanley

Independent non-executive directors

M J Pavia
W Smit

Registered auditors

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

Company Secretary & registered office

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

Thames Water Utilities Limited

Chairman's introduction

I am pleased to report further significant improvements in the operational and financial performance of Thames Water. Last year's 'best-ever' operational results have been surpassed by a considerable margin and Earnings Before Interest, Tax, depreciation and Amortisation ("EBITDA") are up by 10.6%. The management team has done particularly well to meet the agreed leakage target for the fourth successive year, overcoming the difficulties presented by one of the coldest winters in recent memory.

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

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

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

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

David Owens stepped down as Chief Executive Officer ("CEO") in November 2009 after three years, during which the Company had delivered a step change in both operational performance and efficiency. I thank him for his contribution. Martin Baggs was appointed interim CEO in November 2009. I am pleased to say that he was confirmed in the role in March 2010.

Finally, it is with great regret that I have to report the death of a valued and much-respected colleague, Stephen Box. As an Independent Non Executive Director, Stephen brought a wealth of experience and wise counsel to the Board and was an exemplary Chair of the Audit and Risk Review Committee.



Sir Peter Mason
Chairman
10 June 2010

Thames Water Utilities Limited

Chief Executive Officer's Business review

The following business review forms part of the Directors' report

Business review

Introduction

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

Nature of business

Background

The Company is the largest supplier of water and provider of sewerage services in the UK, based on the number of customers served. It is one of 10 companies currently holding appointments as water and sewerage undertakers¹ in England and Wales, with a further 11 companies holding appointments as water only undertakers.

In total, the area served by the Company occupies approximately 13,331 km² and encompasses more than 9% of the area of England and Wales. This includes London and extends as far as Cirencester in the west, Dartford in the east, Banbury in the north and Haslemere in the south. This area has a population of about 13.6m people, which represents nearly a quarter of the total population of England and Wales. In approximate terms, the Company supplies 3.6m properties (just over 8.5m people) with water, and collects sewage from 5.3m properties (about 13.6m people), including 97% of households in its sewerage region.

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Highlights

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

The Company reported its best ever performance in 2009 across many areas of the business. The Company is pleased to report that it has beaten this performance in 2010 whilst delivering the largest investment programme in the industry and improving EBITDA by 10.6%.

Other achievements include:

- Reduced operational expenditure despite the disruption from the cold weather experienced this winter and the increase in contractor costs as the Company close out an Asset Management Period ("AMP")
- Delivery of nearly £800m of investment in the year
- The opening of the Operations Management Centre. This will mean that, for the first time, the Company's water and sewerage operational control teams will be under one roof. This will deliver improved service to customers through increased operational synergies.
- A 14% reduction in written complaints
- Hitting the leakage target for the fourth successive year (a 27% reduction in the level of leakage from five years ago)
- Completion of the UK's first desalination plant (and other supply based initiatives), which has enabled the Company to exceed its security of supply target for the year
- A reduction in the risk of sewer flooding for a further 1,334 properties, and the Company remains committed to reducing the risk of customer flooding further
- A high performance for sewerage treatment work compliance and the Company has put 100% of sludge to beneficial use
- A significant reduction in interruptions to supply, and the Company's drinking water quality remaining amongst the best in the country

In total, the Company has achieved its best ever overall performance assessment ("OPA") score of 416.8² compared to 405.6 in 2009 (out of a maximum of 437.5).

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Financial results

Financial Key Performance Indicators (KPIs)

Performance Measure	Year to 31 March 2010 £m	Year to 31 March 2009 £m	% Movement
Turnover	1,623.8	1,558.2	4.2%
Operating expenditure ³	609.2	614.5	(0.9%)
EBITDA ⁴	1,052.5	951.9	10.6%
Total Capex Spend (see note 9) ⁵	782.5	982.4	(20.3%)

Turnover

Turnover increased by £65.6m, up 4.2%, to £1,623.8m reflecting real increases in price ('K'), see page 99, as agreed with Ofwat, together with increases linked to the Retail Price Index (RPI). Turnover was £86.5m lower than assumed by Ofwat in the AMP 4 Final Determination ("FD"), reflecting lower volumes due to weather conditions and changes in customer behaviour following the economic downturn.

Operating expenditure

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

EBITDA

The increase in turnover and the small decrease in operating costs have contributed to the 10.6% improvement in EBITDA compared to the prior year. The increase in turnover is detailed above. A further significant contributor to the increase in EBITDA has been the increase in the activity in the property market leading to an increase in profit on disposal of fixed assets of £29.7m against the prior year.

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

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

⁵ Total Capex Spend: Total expenditure on tangible fixed assets excluding contributions received, see note 9 to the financial statements

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Capital expenditure

2010 has been a successful year for capital delivery with nearly £800m spent on capital expenditure. This follows two years of annual expenditure of nearly £1bn and shows the significant level of investment in the Company's infrastructure. Despite this large programme, the Company has delivered outputs efficiently as over the course of Asset Management Period 4 ("AMP 4") the Company spent £7m below the FD. Looking forward, the Company is already well advanced in the planning of the Asset Management Period 5 ("AMP 5") programme with a cutting edge capital delivery strategy firmly in place to ensure that the Company delivers all regulatory outputs at minimum cost. With a clear focus, tight contracts and streamlined delivery process Thames Water enters AMP 5 with the capability to become the benchmark capital delivery company.

Treasury policy

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 treasury function does not act as a profit centre and does not undertake any speculative trading activity. The key objectives of the funding strategy are defined by the regulatory regime within which the Company operates and are to ensure that it meets all funding related requirements under the terms of its Licence. This includes maintaining cash reserves and access to undrawn committed bank facilities in order to fund at least 12 months net cash flow (as discussed on page 20 Company dividend policy extends this to a 15 month period) and to maintain an investment grade credit rating (see "Debt financing" section below) as set out in condition F of the Licence.

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

Financial risk management

The Company has an Executive Management Team ("EMT"), which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken.

The operation of the Treasury function is governed by policies and procedures, which set out 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.

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

Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the Company's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable. The Company actively maintains a broad portfolio of debt, diversified by source and maturity and designed to ensure the Company has sufficient available funds for operations.

The Company is exposed to commodity price risk, especially energy price risk, as a result of its operations. The Company aims to manage its risk by fixing contract prices where possible.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Financing

As at 31 March 2010, the Company had committed facilities in place with a syndicate of relationship banks to the value of £1,105m, all of which were undrawn at 31 March 2010. In addition, due to pre-funding activity undertaken in the final quarter of the year, the Company had £573m of cash on short-term deposit. This cash balance together with undrawn facilities will provide the Company with the necessary liquidity to fund the operation of the business for at least the next twelve months.

Debt financing

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

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

Capital structure

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

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

Covenant compliance

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

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Chief Executive Officer's Business review (continued)

Covenant compliance (continued)

Adjusted Interest cover ratio (trigger: 1.3x)⁶: For the year to 31 March 2010 the ratio was 2.1x (2009 3.2x). The movement in the ratio is due to an increased level of debt and resulting cash interest on that debt.

Class A/ Senior Debt/RCV ratio (trigger: 75%)⁷: At 31 March 2010 the ratio was 68.3% (2009 72.0%). The decrease in the ratio is due to a combination of reduced debt drawdown as a result of the smaller capital expenditure programme in the final year of the AMP and the impact of higher inflation feeding on the RCV.

There are other variations on these ratios, which the Company is also required to calculate to show compliance with its covenants. The Company is compliant with these ratios as at 31 March 2010.

Regulatory KPIs

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

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

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

⁷ A trigger event would lead to lock up which would mean nil distributions outside of the Securitisation Group until resolved to the Security Trustee's satisfaction.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

OPA

The OPA score is an important measure used by Ofwat to assess the operational performance of the water and sewerage undertakers. It incorporates all of the performance criteria in relation to each major activity that the Company needs to measure to ensure that it will meet the needs and priorities of its customers in line with the Company vision "If customers had a choice, they would choose Thames Water"

Regulatory KPI highlights

Below is a summary of some of the key changes in the business that the Company has used to drive its OPA improvement

Water Service and Environmental Performance

- The Company has achieved its regulatory leakage target for a fourth successive year with annual average leakage for 2010 of 670 MI/d, against the target of 685 MI/d. This is 29 MI/d below the level reported for 2009 despite another challenging winter with temperatures well below those for last year
- The Company's drinking water quality performance remains high at 99.98%. Whilst the Company aims to achieve 100% compliance, many of the failures recorded at customers' taps are caused by the condition or maintenance of customers' pipe work and fittings. To that extent, 100% compliance is not within the control of the Company. However, management continue to strive to achieve this target and Thames Water Utilities Limited is one of the best performing companies in the industry
- There was an event in February 2010 in the North East London area, in which minute traces of two chemicals used in manufacturing were found in drinking water abstracted from the River Lee. These substances were enough for a small number of customers (relative to the population served) to notice an odd smell and taste. Advice from the Health Protection Agency was that the levels of these chemicals in the water did not present a significant risk to public health. The Environment Agency also confirmed that there has not been any environmental impact on the river

The Company's actions were to suspend abstraction from the River Lee while investigations were ongoing, using the River Thames instead, and to adjust its treatment processes at Coppermills Advanced Water Treatment Works in order to eliminate the traces of the substances in question

However, there is an ongoing Drinking Water Inspectorate investigation which could possibly lead to a criminal prosecution

Sewerage Service and Environmental Performance

- Sewerage treatment works continue to perform well and have achieved 100% compliance with Urban Waste Water Treatment Directive (UWWTD) standards and are 99.4% compliant with their Water Resource Act (WRA) consents. This achievement should be seen in the context of the Thames region having some of the most stringent effluent quality standards in the UK
- The Company had only two significant incidents arising from its sewerage assets
- The Company has continued to deliver a reduction in the occurrence of sewer collapses. Collapses can cause flooding and pollution incidents. The Company has carried out a programme of sewer rehabilitation in AMP 4 to deal with sewers in poor condition before the collapses occur. This year the Company inspected some 930km of sewers as part of its proactive inspection programme and as a result renewed or renovated a total of 11km of sewers
- With regard to sewer flooding, 1,334 properties had risks reduced or mitigated by the Company's actions during 2009. This comprised of 867 internal properties alleviated (with 57 mitigated) and 345 external properties alleviated (with 65 mitigated)

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Regulatory KPI highlights (continued)

Security of Supply

- The Company has again achieved its Security of Supply Index (SoSI) target of 50 for 2010
- Of the four elements that make up the SoSI target (Hosepipe bans, Leakage SoSI, SoSI – Absolute and SoSI – Performance against target), the Company has scored 100 in the SoSI – Performance against target compared with a target of 85. This means that the Company can now deliver to its customers the target levels of service for security of supply

Customer Service

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

Incidence Rate – accidents per 1,000 employees

Management continue to focus on health and safety. The headlines for 2010 show a significant improvement in the Company's processes and compliance capability

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

Principal risks and uncertainties

Risk overview

The Company's Risk Management process is integrated within the business, and is designed both to identify emerging risks and to minimise the adverse impact of emerging and existing risks. Each business area is responsible for managing its risks, and maintains a risk register, which is reviewed regularly. Significant risks are escalated and reviewed by the EMT and, ultimately, the Board of Directors

The Company is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These include

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Principal risks and uncertainties (continued)

Failure to meet regulatory targets – The Company is required to meet targets set by Ofwat, the Environment Agency, the Drinking Water Inspectorate and other regulators. In order to achieve this, the Company must continue to deliver cost and efficiency savings in line with a challenging FD, while maintaining and improving operational performance. Performance against these targets is the subject of frequent management review.

Employee pension scheme funding – The Company operates two Final Salary pension schemes. In March 2010, the Company agreed a deficit repair plan, including increased employer contributions backdated to April 2008 and increased employee contributions from April 2009 in the Thames Water Pension Scheme, combined with a review of benefits. Movement in economic factors (such as inflation and interest rates) over the financial year have increased the potential pension deficit, and there is a risk that the Company may be required to make further employer contributions to safeguard members' benefits.

Failure to maintain adequate funding arrangements – As at 31 March 2010, the Company has adequate cash at bank and short term deposits of £579m and undrawn committed bank facilities (£1.1bn) in place to provide liquidity as required. The Company will renew £355m of committed facilities before August 2010. The Company has been successful in raising new debt financing, with £455m raised in the financial year to 31st March 2010. Significant falls in RPI could reduce the RCV growth which creates further pressure on financial covenant headroom, specifically the ratio of net debt to RCV ("Senior RAR").

Impact of the economic downturn – Aside from the potential difficulties in obtaining finance, the Company is exposed to the risk of failure by external counterparties (banks, insurers and contracted service providers) and to increased risk of customer defaults on payments and reduced consumption.

Future changes in laws or regulations – The Company is not funded by Ofwat for changes in obligations that would affect the whole economy. Consequently the Company may, for example, have to meet the obligations resulting from changes in environmental legislation or Corporation tax without recourse to Ofwat. However, changes that are specific to, or are more material for, the water industry may be funded by Ofwat as a relevant change of circumstance.

Failure of a major asset – A failure at one of the Company's major assets could significantly impact the safety of its workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets. The impact would be both financial and reputational, and as a result the Company has a specific process to manage the identified risks.

The effects of climate change and long-term changes in weather patterns – As the Company continues to supply a rapidly increasing population, the effects of climate change could adversely affect its ability to maintain its SoSI requirements. Consequently, in addition to substantially enhanced demand management measures, the Company is currently making provision for greater network integrity and the development of new sources of potable water.

Shortage of skilled labour – The shortage of available skilled labour in London and the South East creates an environment in which the Company must compete with other organisations for staff with the necessary skills, particularly engineering, in order to deliver the capital programme agreed in the FD and additional major planned projects. Failure to deliver agreed targets may result in fines, intervention by Ofwat and less favourable future determinations.

Managing increased competition in the water industry – As a result of the reduction in the barriers to entry to the water industry, the Company will have to meet the challenges posed by aspiring new entrants and the resultant effect of competition on its pricing schemes and modes of operation which could result in increased costs to customers. Consequently, the Company has engaged with Ofwat in the consultation process and the discussion of potential competition models.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Principal risks and uncertainties (continued)

Impact of low inflation or deflation – In return for their capital investment in assets, regulated water companies earn a return on their Regulated capital Value ("RCV"), see page 93, which is adjusted by the RPI. In times of low inflation or deflation, the return on this investment will decrease relative to the cost of funding, reducing cash flow and shareholder value.

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

Transfer of private sewers– The proposed transfer of private sewers to the Company will give rise to additional capital and operational costs which have not been funded in the FD. Full details of the Company's obligations and the funding mechanism have yet to be clarified.

FD and AMP 5

The key features

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

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

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

The plan to deliver

As an infrastructure business with a requirement for investment estimated to be £4.9bn during AMP 5, the Company recognised that, to deliver the outputs efficiently and to meet the demands of the various stakeholders of the business as well as the challenges presented in Ofwat's FD, it would need to implement a new business model focused on Asset Management. This Asset Management model was implemented at the start of the 2010 year and management believes that the Company is now set up as it enters AMP 5 to deliver the significant capital programme that was agreed by Ofwat in the FD.

Alongside the development of this business model, the implementation of SAP will enable the Company to deploy best practice, end-to-end business processes across its operations and provide further operating efficiencies. On 28 September 2009, the finance and supply chain work package of SAP went live and it has been a very successful implementation. The Human Resources work package went live on 12 April 2010 and the early signs are very promising.

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

FD and AMP 5 (continued)

The plan to deliver (continued)

Throughout AMP 5 the Company will embed SAP software into all parts of the business. SAP will continue to introduce new processes that will improve the way the Company works, and will replace a range of different systems with just one, making data more reliable and easily accessible across the Company.

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

In addition, the Company is starting work on a project called Work Asset Management and Information ("WAMI"). This is a far-reaching two year project that will transform the asset management and operational planning process of the Company.

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

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

AMP 5 Contracts

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

For network repair and maintenance services the Company has challenged the market to determine the optimum delivery model, and has awarded contracts for the whole five year period which will enable the Company to reduce costs and improve operational flexibility and performance.

Conclusion

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

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Looking further ahead

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

Strategic Direction Statement

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

Regulatory and market reform

The Company recognises that there is a major change agenda for the water industry, and wishes to work in partnership with Ofwat to deliver cost effective solutions for customers whilst taking a long term approach to the environment and industry financeability.

It is crucial that water and sewerage services remain affordable, deliver a step change in customer service, secure the services for future generations, and that the sector remains attractive to investors to ensure access to low cost, sustainable finance.

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

Climate change

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

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

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

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

Water resources

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

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Relationships and resources

Employees

The Company's employees have continued to demonstrate high commitment and increased engagement levels during a challenging year and most notably during the severe winter weather events of 2010

The People Strategy is now in its third year of implementation and continues to support the transformation of Thames Water in developing a positive working environment that celebrates diversity and inclusion. During 2010, the Company has delivered the following key interventions to support the business strategy and make the Company a great place to work

- Implementation of SAP HR post year end
- Graduate and Apprentice Programmes have continued with new intakes and a new bursaries scheme has been introduced to support the talent pipeline
- Implementation of performance related pay for employee grades, linked to 2010 Performance and Development Review ratings implemented with first pay award made in July 2009
- New executive reward package launched for Extended Leadership Team with the design of a new 5 year Long Term Incentive Plan linked to AMP 5
- Review of Equal Pay
- Delivery of new working patterns in the Company's Customer Services Business Unit
- TUPE arrangements for the outsourcing of Legal and for the transfer of Capital Delivery design to contractors
- Introduction of a new Operations Management Centre in Reading bringing together existing and new employees

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

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

Overall staff turnover increased from 8.4% in 2009 to 9.8% in 2010. However, resignation levels were lower in 2010. The decrease in resignations can likely be attributed to a more engaged working environment following continued focus on employee engagement, the change in Company ownership and also given the job market and economic uncertainty. The increase in overall staff turnover is due to the redundancies that have taken place in 2010 to support the business restructuring

In 2010 the Company sickness rate was 3.20% (2009 3.04%). The increase can be attributed to the swine flu epidemic. The Company has an attendance management policy in place with the overall aim of reducing and managing sickness absence

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Relationships and resources (continued)

Employees (continued)

The Company has also launched a Diversity & Inclusion Strategic Framework, which will ensure that it can improve in this area. The implementation of SAP - HR will enable the Company to monitor its diversity strategy more closely.

The Company is committed to the training and development of all of its employees and employees undertook 4,387 (2009 5,708) formal training days in 2010.

Stakeholders

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

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

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

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

Key suppliers and contractors

In 2010, the Company spent in excess of £1.1bn on construction, goods and services with a range of suppliers and contractors (2009 in excess of £1.2bn). Approximately 23 key suppliers (2009 24) were engaged with a spend greater than £10m each. The Company's policy is to establish trading arrangements, which are made following an open non-discriminatory, competitive bidding process. Procurement processes reflect the Company's corporate responsibility commitments and, where applicable, comply with the requirements of the Utilities Contracts Regulations 2006 (as amended).

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Relationships and resources (continued)

Research and development

The Company's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities. Research and Development deliver innovative technical solutions through a research programme aligned with business needs to address challenges for AMP 4 and now AMP 5 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.5m for the year (2009: £3.5m).

Intellectual property

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

Energy efficiency and renewable energy

The Company's total emissions (Scope 1, 2 and 3) reported for the 2010 were 757,218 Tonnes (2009: 851,546 Tonnes) of carbon emissions ("CO₂"). The reported figure is compatible with the new Decc/Defra guidance and Ofwat reporting requirements.

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

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

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

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

The lighting efficiency project this year saved approximately 546,520 kWh. When added to sustained energy savings from previous year's programme of 1,641,237 kWh in 2009, this is a cumulative energy saving of 2,187,757 kWh in 2010. This is equivalent to 1,190 Tonnes CO₂ per year.

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Social and community

Corporate responsibility

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

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

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

Community Investment and Support

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

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

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

Charities

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

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

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

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

Thames Water Utilities Limited

Chief Executive Officer's Business review (continued)

Ten for Ten

The Company has continued with its £10m Ten for Ten programme to benefit customers and communities across the Company's service area

This year the Company has donated £2.5m to the Thames Water Trust Fund – which during the year has helped over 2,200 disadvantaged customers who were unable to pay their water bills. Thames Water have also made payments totalling £307,500 to help support 205 customers who have suffered from the most serious sewer flooding incidents, including the exceptional flooding in July 2007.

The Company has provided £275,000 to complete a project to build a pontoon giving disabled sailors improved access to the Company's Farmoor Reservoir near Oxford. The scheme has provided a wheelchair-friendly ramp, enabling the provision of hoists and safer handling facilities.

As part of the Company's commitment to improve the educational value of key water-related visitor attractions it has been working with the London Wetland Centre to redevelop their popular pond zone exhibit and Crossness Engines Trust to build an access road to the museum. Donations towards these educational projects total over £125,000.

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

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

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

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



Martin Baggs
Chief Executive Officer
10 June 2010

Thames Water Utilities Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2010. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies.

Principal activities and likely future developments

The principal activities of the Company (Registered number 02366661) are the supply of water and the collection and treatment of sewage, serving approximately 13.6m customers in London and the Thames Valley.

The information which, complies with the Operating and Financial Review ("OFR") of the Companies Act 2006 can be found within the Chief Executive Officer's Business review on pages 3 to 19. The Company chose not to produce a voluntary OFR as these requirements are satisfied by the Chief Executive Officer's Business review. The Chief Executive Officer's Business review (which forms part of the Directors' report) comprises an analysis of the development and performance of the business and includes an assessment of future prospects, information about research and development activities, details of important events that have occurred since 31 March 2010 and Key Performance Indicators ("KPIs").

Details of parent and subsidiary undertakings are given in Notes 10 and 26 to the Financial statements, on page 49 and 63 respectively, and the Company has no branches outside the United Kingdom.

Business review

This has been discussed in the Chief Executive Officer's Business review on pages 3 to 19.

Results and dividends

The profit and loss account on page 30 gives the Company's financial results for the year.

The Company paid interim dividends totalling £307.9m during the year (2009: £222.0m).

The Company's dividend policy is:

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

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

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

The Board does not recommend a final dividend (2009: £nil), however, the Board has proposed a further interim dividend, see note 8 page 47.

Thames Water Utilities Limited

Directors' report (continued)

Directors

Details of the directors who served from 1 April 2009 to the date of this report are shown below. The constitution of the Board is covered in more detail in the Company's Corporate governance report, which can be found on pages 25 to 27.

All Board members from 1 April 2009 to 31 March 2010 inclusive were Non-Executive Directors ("NEDs") throughout the period, with the exception of Martin Baggs who replaced David Owens as CEO upon his resignation, David Owens (resigned 2 December 2009), Stephen Shine (Chief Operating Officer), and Mark Braithwaite (Chief Financial Officer).

Directors serving from 1 April 2009 to the date of this report are as follows:

Sir Peter Mason KBE – Chairman
L F Abraira (appointed 1 January 2010)
M W Baggs
E Beckley
R Blomfield-Smith
S J Box (until 8 March 2010)
M W Braithwaite
C R Deacon
S Kolenc (resigned 1 January 2010)
D W Owens (resigned 2 December 2009)
M J Pavia
K Roseke (appointed 1 January 2010)
A F C DeP Santos (resigned 1 January 2010)
D J Shah
S F Shine
W Smit
M S W Stanley

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

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

Material financial instruments

Financial risk management is covered on page 6 of the Chief Executive Officer's Business review.

Thames Water Utilities Limited

Directors' report (continued)

Research and development activities

This has been noted in the Chief Executive Officer's Business review on page 17

Employee involvement

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

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

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

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

Employment of disabled persons

The Company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995. The Company has policies and procedures in place that aim to ensure that both job applicants and employees with disabilities have equality of opportunity, are treated fairly and have a safe and practical workplace, free from discrimination, bullying, harassment or victimisation

Through disability and attendance management policies, support and training is provided for employees who become disabled during the course of their employment so that they continue to work in a position appropriate to their experience and abilities

Policy and practice on payment of creditors

The Company's policy is to pay all suppliers, contractors and service providers according to pre-agreed terms. During the year under review, the average amount due to trade creditors represented 67 days (2009 70 days) purchases received from these creditors

Market value of land and buildings

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

Thames Water Utilities Limited

Directors' report (continued)

Political and charitable donations and expenditure

No political donations were made by the Company (2009 £nil) The Company made charitable donations totalling £471,500 (2009 £744,085) Details of these charitable donations are

- £154,054 (2009 £152,385) to the Charities Aid Foundation
- £nil (2009 £7,800) to WaterAid
- £60,000 (2009 £60,000) to Thames 21, a range of charities which assist in cleaning rivers and streams within the Thames Valley
- £nil (2009 £43,500) to improve the River Wandle in South London
- £197,446 (2009 £nil) of donations to educational and recreational Ten for Ten projects
- £60,000 (2009 £2,500) of other donations including a £30,000 donation to the Haiti relief effort

Going concern

The directors believe, after due and careful enquiry, that the Company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2010 financial statements Further information is set out in note 1 'Basis of preparation' on page 35

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 they ought to have taken as a director to make themselves 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 and for the benefit of other persons who are directors of associated companies 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

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



Signed on behalf of the Board
Martin Baggs
Chief Executive Officer

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Utilities Limited

Statement of directors' responsibilities in respect of the Annual report and 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
- 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

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

Thames Water Utilities Limited

Corporate governance report

Compliance Regime

The term 'corporate governance' is generally taken to refer to the supervision of how a company is run and how the risks to its business are managed. It embraces regulation, corporation structure and the function of the Board of Directors. This statement is made in order to comply with Regulatory requirements.

The Company's shareholders and directors are all committed to maintaining high standards of corporate governance. This commitment is underpinned by the fact that, under the terms of its Licence from Ofwat, the Company is required to pay particular regard to the Combined Code on Corporate Governance (the "Code"), which is something that generally applies only to companies whose shares are listed on the London Stock Exchange. The introduction acknowledges that departure from the Code's provisions may be justifiable in particular circumstances. As the Company is a wholly-owned subsidiary in a privately-owned group, the Board considers that a significant number of the provisions of the Code are not directly applicable.

Board Membership

Matters reserved to the Board are set out in the Shareholders' Agreement. The Board is confident that it acts as independently of the shareholders as is feasible and that it takes decisions objectively in the best interests of the Company. It also believes that it has demonstrated its commitment to ensuring that the Company's obligations to its stakeholders are understood and met, and that the necessary financial and management resources and systems of planning and internal control, are in place to fulfil these obligations. Supported by the CEO and the EMT, the Board continues to take positive action towards regenerating the Company's values and standards and establishing a clear strategic direction for the future.

The Board is chaired by Sir Peter Mason, KBE. Sir Peter has had a long and distinguished career in the engineering and construction industries, including Private Finance Initiatives and design and project management. He has also held several public service appointments, primarily with the Department for Trade and Industry (now part of the Department for Business Innovation and Skills). Sir Peter's external appointments include, Senior Independent Director of BAE Systems plc and Chairman of Acergy SA. Owing to his directorships in other group companies, Sir Peter is considered not to be independent and neither was he upon his appointment. Sir Peter's responsibilities as Chairman include leadership of the Board, ensuring its effectiveness, setting its agenda and ensuring effective communication with the Company's shareholders. Additionally, he is responsible for ensuring that the directors receive accurate, timely and clear information and that constructive relations exist between the Board and the EMT.

The directors have specialist knowledge of the water industry and other regulated utilities. The Board and Ofwat consider that Michael Pavia (former Chief Financial Officer of the London Electricity Group) and Willem Smit (former Managing Director of the regulated utility, TXU Europe) are independent non-executive directors.

During January 2010, the Board conducted a detailed evaluation of its own performance and that of its committees by means of a written questionnaire and selective interviews with a sample of Board members. The results of the evaluation were considered and discussed by the Board in March 2010 and the results will be used to re-assess effectiveness during the year.

Thames Water Utilities Limited

Corporate governance report (continued)

Committees of the Board

The four standing committees of the Board are as follows

- Audit and Risk Review
- Regulatory
- Health, Safety and Environment
- Compensation and HR

Each committee has written terms of reference and the collective function of the Committees is to exercise oversight on behalf of the Board and to provide advice to the Board. Other committees are formed as and when required to deal with specific matters, for example the Thames Tideway Tunnel Project.

Membership of the committees throughout the year ended 31 March 2010 is set out below

Audit and Risk Review Committee ("ARRC")	S Box (Chairman until 8 March 2010), M Pavia (appointed Chairman* 10 June 2010), M W Baggs (resigned 27 November 2009), E Beckley (appointed 27 November 2009) and R Blomfield-Smith
Regulatory Committee	M W Baggs (Chairman), E Beckley, S Box (until 8 March 2010) and D Shah
Health, Safety and Environment Committee	M Pavia (Chairman), M W Baggs, S Kolenc (appointed 27 July 2009) and L Webb (resigned 27 June 2009)
Compensation and HR Committee	M Stanley (Chairman), C Deacon, Sir Peter Mason and W Smit

*M Pavia has been the acting Chairman of the ARRC since 8 March 2010

The Board reviews risk management arrangements and the effectiveness of the Company's internal control systems through the ARRC. The primary objectives of the ARRC are the preservation of good financial practices throughout the Company, ensuring that robust controls are in place to support the integrity of those practices, reviewing risk management processes, reviewing the Company's interim and annual financial statements and the June Return to the Water Services Regulatory Authority and the provision, by way of (amongst other things) meetings, of a line of communication between the Board and external auditors.

Thames Water Utilities Limited

Corporate governance report (continued)

Internal Control

The Board has overall responsibility for the Company's system of internal control. The system is designed to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable, not absolute assurance, against material misstatement or loss.

The key features of the system of internal control and risk management are as follows:

- A control environment with clearly defined organisation structures operating within a framework of policies and procedures covering every aspect of the business
- Comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years
- Regular monitoring of risks and control systems throughout the year, supported by the use of risk registers
- A self-certification process whereby management is required to confirm that the system of internal control is operating effectively
- An internal audit function providing independent scrutiny of internal control systems and risk management procedures
- A review of reports produced by internal and external audit

The directors routinely review the effectiveness of the system of internal control and risk management, principally by means of:

- Regular presentations to the ARRC and EMT by heads of individual business units and functional heads, describing their risk management strategies and detailing the status of significant business risks
- Reports of significant changes to the Company's overall risk profile, which are also reported to the ARRC
- Standing reports from the Internal Audit Department to the ARRC
- Reports to the ARRC on the results of the self-certification process and independent reports thereon by the Internal Audit Department

Auditors' independence and objectivity

The ARRC monitors regularly the non-audit services provided to the Company by the external auditors. The auditors do not:

- Self review
- Make management decisions for the Company
- Have a mutuality of financial interest with the Company
- Act in the role of advocate for the Company

The ARRC also meets with the auditors in private. Approval of the ARRC is required for any services provided by the external auditors where the fee is likely to be in excess of £100,000. Details of the fees paid to the external auditors during the year ended 31 March 2010 for audit and non-audit services are set out in Note 3 to the financial statements on page 43 of this Annual report and financial statements.



KPMG Audit Plc
8 Salisbury Square
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United Kingdom

Independent Auditors' report to the members of Thames Water Utilities Limited

We have audited the financial statements of Thames Water Utilities Limited for the year ended 31 March 2010 as set out on pages 30 to 64. 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 24, 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

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

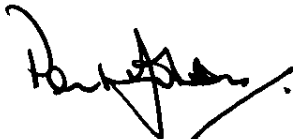
Opinion on other matter prescribed by the Companies Act 2006

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

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



Paul Johnson (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
8 Salisbury Square
London
EC4Y 8BB
10 June 2010

Thames Water Utilities Limited

Profit and loss account for the year ended 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Turnover		1,623.8	1,558.2
Operating costs	3	(952.7)	(952.9)
Operating profit		671.1	605.3
Profit on sale of fixed assets	4	37.9	8.2
Interest payable and similar charges	6	(304.5)	(292.9)
Interest receivable	6	63.9	117.4
Other finance expense	25	(14.8)	(2.9)
Profit on ordinary activities before taxation		453.6	435.1
Taxation on profit on ordinary activities	7	(122.6)	(120.3)
Profit for the financial year	20	331.0	314.8

All amounts above relate to continuing operations

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 financial year		331.0	314.8
Actuarial loss on pension scheme	25	(105.4)	(133.0)
Deferred tax relating to actuarial loss		29.5	37.2
Total recognised gains in the year		255.1	219.0

Thames Water Utilities Limited

Balance sheet as at 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Fixed assets			
Tangible assets	9	7,532.4	7,123.8
Investments	10	0.1	0.1
		7,532.5	7,123.9
Current assets			
Stocks	11	7.7	6.1
Debtors amounts falling due within one year	12	603.0	606.0
Debtors amounts falling due after more than one year	13	1,180.0	1,180.0
		1,783.0	1,786.0
Investments	16	573.2	321.6
Cash at bank and in hand	16	5.9	204.2
		2,369.8	2,317.9
Creditors' amounts falling due within one year	14	(1,350.5)	(1,110.7)
Net current assets		1,019.3	1,207.2
Total assets less current liabilities		8,551.8	8,331.1
Creditors: amounts falling due after more than one year	15	(5,789.7)	(5,663.1)
Provisions for liabilities and charges	17	(1,098.3)	(1,011.9)
Net assets excluding pension liabilities		1,663.8	1,656.1
Net pension liabilities	25	(107.4)	(46.9)
Net assets including pension liabilities		1,556.4	1,609.2
Capital and reserves			
Called-up share capital	18	1,029.0	1,029.0
Share premium account	19	100.0	100.0
Profit and loss account	20	427.4	480.2
Total shareholder's funds	21	1,556.4	1,609.2

The notes on pages 35 to 64 form part of these financial statements

The financial statements were approved by the Board of Directors on 10 June 2010 and signed on its behalf by



Mark Braithwaite
Chief Financial Officer

Thames Water Utilities Limited

Cash flow statement for the year ended 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Net cash inflow from operating activities	(a)	1,011.8	915.2
Returns on investments and servicing of finance			
Interest received		200.5	63.8
Interest paid		(298.1)	(208.8)
Interest element in finance lease payments		(10.5)	(12.7)
Net cash outflow from returns on investments and servicing of finance			
		(108.1)	(157.7)
Taxation		(76.0)	(70.2)
Capital expenditure and financial investment			
Gross cost of purchased fixed assets		(724.7)	(915.5)
Infrastructure renewals expenditure		(71.3)	(104.8)
Receipt of grants and contributions		43.1	32.1
Sale proceeds of fixed assets	(d)	39.9	8.7
Net cash outflow for capital expenditure and financial investment			
		(713.0)	(979.5)
Equity dividends paid		(307.9)	(222.0)
		(193.2)	(514.2)
Management of liquid resources			
Increase in short term deposits		(251.6)	(306.0)
Net cash outflow before financing			
		(444.8)	(820.2)
Financing			
Capital element in finance lease rebate/(payment)		(5.4)	4.6
New loans		454.7	1,320.3
Repayment of loans		(202.8)	(366.3)
Net cash inflow from financing			
	(b) & (c)	246.5	958.6
(Decrease)/increase in cash			
	(b) & (c)	(198.3)	138.4

Interest received of £200.5m includes £116.9m received from Thames Water Utilities Holdings Limited which is not included in the adjusted interest cover ratio calculations as defined in the Chief Executive's Report on page 8

Thames Water Utilities Limited

Notes to the cash flow statement for the year ended 31 March

(a) Reconciliation of operating profit to net cash inflow from operating activities

	Note	31 March 2010 £m	31 March 2009 £m
Operating profit		671.1	605.3
Depreciation (infrastructure renewals charge)	3	114.0	114.0
Depreciation (non infrastructure)	3	229.5	224.4
Difference between pension charge and cash contributions		(36.9)	(34.7)
(Increase)/decrease in stocks		(1.6)	0.9
(Increase)/decrease in debtors and prepaid expenses		(62.2)	24.5
Increase/(decrease) in creditors and accrued expenses		117.1	(0.2)
Decrease in provisions		(4.7)	(4.0)
Release of deferred income		(14.6)	(15.0)
Net cash inflow from operating activities		1,011.8	915.2

(b) Reconciliation of net cash flow to movement in net debt

	Note	31 March 2010 £m	31 March 2009 £m
(Decrease)/increase in cash in the year		(198.3)	138.4
Cash inflow from increase in liquid resources		251.6	306.0
Cash inflow from movement in net debt and financing		(246.5)	(958.6)
Increase in net debt resulting from cashflows		(193.2)	(514.2)
Non-cash increase in net debt		(39.8)	(55.7)
Total increase in net debt		(233.0)	(569.9)
Opening net debt		(5,316.4)	(4,746.5)
Closing net debt	(c)	(5,549.4)	(5,316.4)

The non-cash increase in net debt comprises amortisation of bond fees and the carrying value accretion by RPI, of a number of RPI index-linked bonds and swaps. This adjustment for RPI index-linked bonds and swaps is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

Thames Water Utilities Limited

Notes to the cash flow statement for the year ended 31 March (continued)

(c) Analysis of movement in net debt

	As at 1 April 2009 £m	Cash flow £m	Other non- cash movements £m	As at 31 March 2010 £m
Cash at bank and in hand	204.2	(198.3)	-	5.9
Short term deposits	321.6	251.6	-	573.2
	525.8	53.3	-	579.1
Debt due within one year	(353.2)	(191.4)	-	(544.6)
Debt due after more than one year	(5,279.9)	(60.5)	(39.8)	(5,380.2)
Finance leases	(209.1)	5.4	-	(203.7)
	(5,842.2)	(246.5)	(39.8)	(6,128.5)
Total	(5,316.4)	(193.2)	(39.8)	(5,549.4)

(d) Profit on disposal of fixed assets

The proceeds received regarding the profit on the sale of fixed assets for the year ending 31 March 2010 of £39.9m (2009 £8.7m) have been included within Capital expenditure and financial investment

Thames Water Utilities 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 to the financial statements, except as noted below

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 2006. An explanation of this departure from the requirements of the Act is given in note 1(b) below

The Company has not prepared consolidated group financial statements, as permitted under section 400 of the Companies Act 2006. The Company and its subsidiaries are included in the consolidated financial statements of its parent company Kemble Water Holdings Limited, a company registered in the United Kingdom

Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Chief Executive Officer's Business review on pages 3 to 19. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Chief Executive Officer's Business review on pages 7 to 8. In addition, it includes details of the Company's Treasury policy, capital structure and financial risk management

The Company meets its capital programme requirements by raising new debt. Day to day working capital requirements are funded by the business. During the year £454.7m of new facilities were secured and there is no requirement to raise additional finance to meet future project obligations. There is also committed facilities with a group of banks of £1,105m, which is rarely used. Of the £1,105m, £355m 364 day facilities is due for renewal by 30 August 2010 with the remainder maturing in September 2012. The current economic conditions create uncertainty particularly over (a) the level of revenue earned from regulatory activities, (b) the increased occurrence of bad debts, and (c) the availability of bank finance in the foreseeable future. The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facility

The directors believe, after due and careful enquiry, that the Company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2010 financial statements

Changes to accounting policies

The same accounting policies used for the period ended 31 March 2009 have been applied in these financial statements, except as noted below

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

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below

(a) Revenue recognition

Revenue represents the fair value of the income receivable in the ordinary course of business for goods and services provided and are recognised in accordance with FRS 5 'Reporting the Substance of Transactions'. No adjustment is made to reduce revenue by an estimated bad debt charge to reflect the fair value as it is not deemed material. Where relevant, revenue includes an estimate of the sales value of water supplied and waste water charges to customers between the date of the last meter reading and the period end, exclusive of value added tax. The estimated usage is based upon historical data, judgement and assumptions, actual results could differ from these estimates, which would result in operating revenues being adjusted in the period that the revision to the estimates is determined. For customers who do not have a meter, the receivable billed is dependent upon the rateable value of the property, as assessed by an independent rating officer.

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

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

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

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

The Company recognises all revenue at the time of delivery. Should the Company consider that the criteria for revenue recognition are not met for a transaction, revenue recognition would be delayed until such time as the transaction becomes fully earned. Payments received in advance of delivery are recorded as deferred revenue.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

2 Principal accounting policies (continued)

(b) Tangible fixed assets

Tangible fixed assets comprise infrastructure assets (mains, sewers and pumped raw water storage reservoirs and sludge pipelines), and other assets (including land, buildings, properties, over ground plant and equipment)

Directly attributable costs are capitalised within fixed assets. These costs include employee costs and other internal costs that are incremental to the business due to the scale and nature of the capital implementation programme of the Company. Interest costs are not capitalised.

The estimated useful economic lives of fixed assets are based on management's judgement and experience. When management identifies that actual useful lives differ materially from the estimates used to calculate depreciation, that charge is adjusted prospectively.

The carrying values of fixed assets are also reviewed for impairment where there has been a trigger event by assessing the present value of estimated future cash flows and net realisable value compared with net book value. The calculation of estimated future cash flows and residual values is based on the directors' best estimates of future prices, output and costs and is therefore subjective.

• Infrastructure assets

Infrastructure assets comprise a network of systems. In the UK Water and Waste regulated business, all expenditure on infrastructure assets is capitalised at cost, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as IRC within depreciation.

Following the completion of the Company's assessment of the infrastructure renewals expenditure requirement to the end of AMP 7 for the Final Business Plan, the Company now considers that it would be appropriate to reflect in its regulatory and statutory accounts for 2009 and 2010 an infrastructure renewals charge consistent with its expenditure plans for the AMP 5 to AMP 7 (2010-2025) periods.

• Capital contributions

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 1 to the Companies Act 2006, which requires fixed assets to be stated at their purchase price without deduction of contributions, which are accordingly accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have a determinable finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account. The financial effect of this departure is disclosed in note 9.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(b) Tangible fixed assets (continued)

• Other assets

All other assets, comprising plant and equipment and land and buildings, are stated at cost less accumulated depreciation

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably

Freehold land is not depreciated and assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, down to zero, based on management's judgement and experience, which are principally as follows

Buildings	10 - 60 years
Operational structures	5 - 100 years
Other	20 - 60 years
Fixtures, fittings, vehicles and computers	3 - 40 years
Fixed and mobile plant	5 - 60 years

Depreciation methods, residual values and useful lives are re-assessed annually and, if necessary, changes are accounted for prospectively

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account

(c) Impairment of tangible fixed assets

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

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

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

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

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(d) Stocks

Stocks are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(e) Taxation

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

- **Current taxation**

Current taxation, 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.

- **Deferred taxation**

Deferred taxation 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, except as otherwise required by FRS19.

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 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) Leased assets

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

- **Finance leases**

Finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease to the first break clause.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(f) Leased assets (continued)

• Operating leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease

(g) Pension and other post retirement benefits

The Company operates two large defined benefit pension schemes. The Company accounts for these schemes in accordance with FRS 17 'Retirement Benefits'. The schemes are the Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"), which are independently administered funds, for the substantial majority of its employees. Actuarial valuations are carried out as determined by the pension scheme trustees using the projected unit credit method for both pension schemes at intervals of not more than three years, the rates of contribution payable and the pension cost being determined on the advice of the actuaries, having regard to the results of these valuations. The Company believes that the assumptions utilised in recording obligations under the two schemes are reasonable based on prior experience, market conditions and the advice of scheme actuaries. However, actual results may differ from such assumptions. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates (a complete actuarial valuation is performed every three years). Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair value).

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

The cost of providing pension benefits to employees is included in the profit and loss account within the cost of employee benefits. The difference between the expected return on scheme assets and interest on scheme liabilities are included within other finance income/expense in the profit and loss account.

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

In addition, the Company also operates two closed defined contribution pension schemes. The Company has no further payment obligations for these schemes, however, defined funds for individuals are held within these schemes.

(h) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange ruling at the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the year.

(i) Cash

Cash includes cash at bank and in hand, deposits, and 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.

(j) Debtors

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

(k) Creditors

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

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(l) Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

• Borrowings

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

• Financial instruments and derivatives

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

The Company currently does not apply FRS 26 'Financial Instruments Recognition and Measurement', and accordingly the disclosure requirements of FRS 29 'Financial Instruments Disclosures' are not applicable. Therefore, the presentation requirements of FRS 25 'Financial Instruments Presentation' have been applied. However, certain voluntary disclosures have been prepared to aid understanding and comparability with prior year.

Foreign currency and interest rate swaps are accounted for on an amortised cost basis in accordance with FRS 4 'Capital Instruments'. Swaps are included in the appropriate caption in note 16.

(m) Accruals and deferred income

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

(n) Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(o) Accounting for provisions and contingencies

The Company is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

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. Insurance provisions are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts. Provisions are recorded in the balance sheet at their full value and are not therefore discounted.

(p) Related party disclosures

The Company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8 'Related party disclosures', which requires the disclosure of the details of material transactions between, the reporting entity and any related parties within the Kemble Water Holdings Limited Group, on the grounds that it is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered in the United Kingdom.

(q) 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.

(r) Provision for doubtful debts

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

2 Segmental analysis

The directors consider that the Company has one class of business and this is conducted wholly within the United Kingdom.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

3 Operating costs

Analysis of operating costs by type of expense

	Note	31 March 2010 £m	31 March 2009 (restated *) £m
Staff costs	5	200.8	215 0
Materials and consumables		135.2	130 0
Other operating charges		437.9	421 8
Depreciation			
Owned assets (infrastructure renewals charge)	9	114.0	114 0
Owned assets (non-infrastructure)	9	219.9	214 8
Assets held under finance leases (non-infrastructure)	9	9.6	9 6
Rental under operating leases			
Hire of plant and machinery		3.1	3 9
Other		7.2	6 8
Research and development		3.5	3 5
Other operating income		(8.1)	(7 7)
Foreign currency loss/(gain)		0.8	(0 3)
		1,123.9	1,111 4
Own work capitalised		(171.2)	(158 5)
		952.7	952 9

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

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

	31 March 2010 £'000	31 March 2009 £'000
Fees payable to current auditors:		
Fees payable to the Company's auditors for the audit of the Company's accounts	187	180
Fees payable to the Company's auditors and its associates for other services		
Other services pursuant to legislation	77	133
Other services relating to taxation	4	35
All other services	78	25
Total aggregate remuneration	346	373
Fees payable to previous auditors:		
Fees payable to the Company's auditors and its associates for other services		
Other services pursuant to legislation	-	65
All other services	-	43
Audit fees in respect of the Company's pension schemes	-	59
Total aggregate remuneration	-	167

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

4 Profit on sale of fixed assets

	31 March 2010 £m	31 March 2009 £m
Profit on disposal of fixed assets	37.9	8.2
Taxation attributable, included in the charge for the period	4.7	1.0

5 Information regarding directors and employees

Aggregate directors' emoluments

	31 March 2010 £'000	31 March 2009 £'000
Salary	916	988
Pension	346	180
Bonus	1,641	1,099
Other benefits	985	41
Total aggregate emoluments	3,888	2,308

At 31 March 2010 £39,898 is accruing to 2 directors (2009 £49,660 for 3 directors) under the Group's defined benefit scheme

Included in the above, is £938,000 paid to David Owens on leaving office in recognition of significant achievements over the previous three years (2009 £nil)

Highest paid director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid director in respect of work done for the Company during the year was £1,247,711 (2009 £770,436) and accrued pension under the Group's defined benefit scheme was £25,824 (2009 £20,740)

Employee information

The average number of persons employed by the Company, including executive directors, during the year was

	31 March 2010 Number	31 March 2009 Number
Support	292	398
Operations	4,803	4,677
Total employee numbers	5,095	5,075

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

5 Information regarding directors and employees (continued)

Employment costs including executive directors' remuneration were

	Note	31 March 2010 £m	31 March 2009 £m
Salaries and wages		169.1	178.2
Social security costs		15.1	15.1
Pension costs	25	17.6	15.3
Severance costs		0.9	8.4
Total		202.7	217.0
Employment costs included within research and development		(1.9)	(2.0)
Net employment costs		200.8	215.0

6 Net interest payable and similar charges

	31 March 2010 £m	31 March 2009 £m
Bank loans, overdrafts and other loans		
Group loans	(214.8)	(244.8)
Bank loans	(34.5)	(26.7)
Other loans	(45.4)	(10.8)
Finance charges in respect of finance leases	(9.8)	(10.6)
Interest payable and similar charges	(304.5)	(292.9)
Interest receivable		
Group loans	28.3	73.1
Other loans	4.2	9.3
Swaps	31.4	35.0
Interest receivable	63.9	117.4
Net interest payable and similar charges	(240.6)	(175.5)

Amounts receivable on swaps relate to interest rates and cross-currency swaps taken out to hedge rates on external borrowings. See note 16, page 53

The net interest receivable on swaps is the aggregate effect of all swaps held in the Company

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

7 Taxation

(a) Analysis of charge in the year

	Note	31 March 2010 £m	31 March 2009 £m
Current tax			
Amounts payable in respect of corporation tax for the year		59.7	62.6
Adjustment in respect of prior years		(12.2)	(36.1)
Total current tax	7(b)	47.5	26.5
Deferred tax			
Origination and reversal of timing differences		57.4	49.8
Timing difference on pension cost charge		5.9	8.9
Adjustments in respect of prior years		11.8	35.1
Total deferred tax		75.1	93.8
Taxation on profit on ordinary activities		122.6	120.3

Of the deferred tax charge as at 31 March 2010 of £75.1m (2009 £93.8m), a deferred tax charge for the year ended 31 March 2010 of £69.2m (2009 £84.9m) is shown as a movement within note 17 (provisions for liabilities and charges), and a deferred tax charge for the year ended 31 March 2010 of £5.9m (2009 £8.9m) is shown within note 25 (pension schemes)

(b) Factors affecting tax charge for the year

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

	Note	31 March 2010 £m	31 March 2009 £m
Profit on ordinary activities before tax		453.6	435.1
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 28% (2009 28%)		127.0	121.8
Effects of			
Income not taxable (intra-group disposals of property) less disallowable expenditure		(4.0)	(0.5)
Capital allowances for the year in excess of depreciation and other timing differences		(57.4)	(49.8)
Pension cost charge lower than pension cost relief		(5.9)	(8.9)
Adjustments to tax charge in respect of prior years		(12.2)	(36.1)
Current tax charge for the year		47.5	26.5

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

8 Dividends

The aggregate amount of dividends comprises	Note	31 March 2010 £m	31 March 2009 £m
Dividends paid in respect of prior year but not recognised as liabilities in that year			
Third interim paid 11 4p (2009 nil) per ordinary share		116.9	-
Fourth interim paid 5 8p (2009 nil) per ordinary share		60.0	-
Interim dividends paid in respect of the current year			
First interim paid 12 7p (2009 12 7p) per ordinary share		131.0	131.0
Second interim paid nil (2009 8 8p) per ordinary share		-	91.0
	20 & 21	307.9	222.0

As a post balance sheet event, on 10 June 2010 the directors approved a second interim dividend of £28.2m (2.7p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend will be paid to Thames Water Utilities Holdings Limited (TWUHL) on 24 June 2010, and will be used by TWUHL to settle inter-company interest owing to Thames Water Utilities Limited. On the same day, the directors also approved a further interim dividend of £132.3m (12.8p per ordinary share) in respect of the year ended 31 March 2010. This interim dividend will be paid in two tranches of £75.0m to TWUHL in June 2010 and £57.3m in September 2010.

9 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2009	2,465.6	3,979.6	4,502.4	-	10,947.6
Reclassification 1	(221.8)	(611.4)	(820.0)	1,653.2	-
Reclassification 2	(108.2)	108.2	-	-	-
At 1 April 2009 restated	2,135.6	3,476.4	3,682.4	1,653.2	10,947.6
Additions	-	-	-	782.5	782.5
Transfers between items	139.3	627.9	492.2	(1,259.4)	-
Disposals	(0.4)	(2.3)	(0.6)	-	(3.3)
At 31 March 2010	2,274.5	4,102.0	4,174.0	1,176.3	11,726.8
Capital contributions					
At 1 April 2009	-	-	560.7	-	560.7
Additions	-	-	28.4	-	28.4
At 31 March 2010	-	-	589.1	-	589.1
Depreciation					
At 1 April 2009	618.1	1,818.3	826.7	-	3,263.1
Reclassification 2	(68.0)	68.0	-	-	-
At 1 April 2009 restated	550.1	1,886.3	826.7	-	3,263.1
Provided during the year	48.2	181.3	114.0	-	343.5
Disposals	(0.1)	(1.2)	-	-	(1.3)
At 31 March 2010	598.2	2,066.4	940.7	-	3,605.3
Net Book Value					
At 31 March 2010	1,676.3	2,035.6	2,644.2	1,176.3	7,532.4
At 31 March 2009 restated	1,585.5	1,590.1	2,295.0	1,653.2	7,123.8

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

9 Tangible fixed assets (continued)

The net book value of land and buildings is analysed as follows

	31 March 2010 £m	31 March 2009 (restated *) £m
Freehold land and buildings	1,670.8	1,579.5
Leasehold – over 50 years	2.7	2.9
Leasehold – under 50 years	2.8	3.1
	1,676.3	1,585.5

- The directors have reclassified Assets in course of construction as a separate disclosure within the above table. Previously these assets were shown within the asset categories to which it relates.
- The directors have also undertaken a substantive review of its assets as part of the implementation of the Company's new Electronic Reporting System SAP – Finance, with the result that certain assets have been reclassified as considered to more accurately reflect the asset class. The gross book values and associated depreciation have therefore been reclassified accordingly.

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

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

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

	Total £m
Cost	
At 1 April 2009	272.5
Additions	-
At 31 March 2010	272.5
Depreciation	
At 1 April 2009	126.9
Provided during the year	9.6
At 31 March 2010	136.5
Net Book Value	
At 31 March 2010	136.0
At 31 March 2009	145.6

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

10 Fixed asset investments

	31 March 2010 £m	31 March 2009 £m
Cost of shares in subsidiaries	0.1	0.1

At 31 March 2010 the Company held the allotted share capital of the following undertakings

Name of undertaking	Nominal value and class of shares held	Proportion of nominal value of issued shares held	Activity
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Finance Company
Thames Water Utilities Cayman Finance Holdings Limited	\$1 Ordinary	100%	Finance Company

Thames Water Utilities Finance Limited was incorporated and registered in Great Britain. Thames Water Utilities Cayman Finance Holdings Limited was incorporated and registered in the Cayman Islands.

At 31 March 2010 Thames Water Utilities Finance Limited had net liabilities of £32.1m (2009 assets £96,000) and incurred a loss for the year ended 31 March 2010 of £32.2m (2009 profit £43,000).

At 31 March 2010 Thames Water Utilities Cayman Finance Holdings Limited had net assets of £1 (2009 £1). No profit or loss had been made in the year (2009 £nil).

11 Stocks

	31 March 2010 £m	31 March 2009 £m
Raw materials and consumables	7.7	6.1

12 Debtors: amounts falling due within one year

	31 March 2010 £m	31 March 2009 £m
Trade debtors	242.5	208.4
Amounts owed by group undertakings		
- Interest	28.2	116.9
- Non interest	4.0	1.7
Amounts receivable in respect of corporation tax	13.0	11.9
Amounts receivable in respect of group relief	1.8	-
Other debtors	52.1	49.3
Insurance claims receivable	75.7	53.7
Prepayments and accrued income	185.7	164.1
	603.0	606.0

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

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

Amounts owed by group undertakings are comprised of

- Interest receivable of £28.2m (2009 £116.9m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking, on a loan of £1,180.0m, of which £28.2m (2009 £116.9m) is included within debtors amounts falling due within one year and £nil (2009 £nil) within debtors amounts falling due after more than one year

Repayment of the interest (£28.2m) will be received on 24 June 2010

- All other amounts are unsecured, interest free and payable on demand

13 Debtors: amounts falling due after more than one year

	31 March 2010 £m	31 March 2009 £m
Amounts owed by group undertakings	1,180.0	1,180.0

Amounts owed by group undertakings are comprised of

- An unsecured loan of £1,180.0m (2009 £1,180.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking. The directors do not anticipate any repayment of principal within the next twelve months

Interest is charged at Libor + 0.35%

14 Creditors: amounts falling due within one year

	31 March 2010 £m	31 March 2009 £m
Secured bank loans	144.6	133.1
Obligations under finance leases	8.4	5.8
Trade creditors		
- Operating	247.1	179.6
- Capital	201.6	207.9
Amounts owed to group undertakings		
- Secured loan amounts	400.0	220.1
- Interest	90.8	89.5
- Non interest	0.5	0.7
Amounts payable in respect of group relief	-	25.6
Other taxation and social security payable	8.0	4.3
Accruals and deferred income	249.5	244.1
	1,350.5	1,110.7

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

15 Creditors: amounts falling due after more than one year

	31 March 2010 £m	31 March 2009 £m
Secured bank loans	619.7	423.8
Obligations under finance leases	195.3	203.3
Amounts owed to group undertakings (see below)	4,760.5	4,856.1
Accruals and deferred income	214.2	179.9
	5,789.7	5,663.1

Accruals and deferred income includes £36.6m (2009 £nil) of which £1.8m (2009 £nil) is included within creditors amounts falling due within one year and £34.8m (2009 £nil) within creditors amounts falling due after more than one year

The Company had a contractual agreement to receive compensation for incremental operating costs (over a 30 year period) resulting from the relocation of operational assets from land at Perry Oaks. During the year the Company received £37.7m as full and final settlement for the remaining amount. This is held in deferred income and released to turnover over the remaining 25 year term of the original contract.

	31 March 2010 £m	31 March 2009 £m
Amounts owed to group undertakings are:		
Inter-company secured loans		
- Within one year	400.0	220.1
- After more than one year	4,760.5	4,856.1
	5,160.5	5,076.2
Non-loan amounts due within one year		
- Interest	90.8	89.5
- Non interest	0.5	0.7
	5,251.8	5,166.4

Secured bank loans

Each Obligor (the companies within the Securitisation Group) has entered into the Security Trust and Inter-creditor Deed ("STID") with the Security Trustee pursuant to which Thames Water Utilities Holdings Limited will guarantee the obligations of each other Obligor under the finance documents and the Company and its wholly owned subsidiaries will guarantee the obligations of each other under the finance documents, in each case to the Security Trustee.

Amounts due to group undertakings in respect of non-interest amounts are unsecured, interest free and payable on demand.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

15 Creditors: amounts falling due after more than one year (continued)

Loan amounts owed to group undertakings include

- £2,883 1m (2009 £2,956 2m) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £250 0m (2009 £70 1m) is included within creditors due within one year and £2,633 1m (2009 £2,886 1m) within creditors due after more than one year
- £2,139 9m (2009 £1,982 7m) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking, of which £nil (2009 £nil) is included within creditors due within one year and £2,139 9m (2009 £1,982 7m) within creditors due after more than one year
- £150 0m (2009 £150 0m) of Subordinated debt owed to Thames Water Limited, a parent undertaking of which £150 0m (2009 £150 0m) is included within creditors due within one year and £nil (2009 £nil) within creditors due after more than one year

Details of maturity of loans falling due after more than one year are detailed in note 16

16 Financial instruments

FRS 25 requires the disclosure of the funding and treasury policy together with further details on financial assets and liabilities

Funding and treasury policy

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

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

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

Short-term debtors and creditors have been excluded from the financial instruments disclosures.

Interest rate risk profile of financial liabilities and assets

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

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Financial liabilities

	Total at floating rates		Total at fixed rates *		Total book value		Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2010 £m	2009 £m	2010 £m	2009 £m	2010 £m	2009 £m	2010 %	2009 %	2010 Years	2009 Years
Bank loans and overdraft										
- £ Sterling	397.2	467.8	367.1	89.1	764.3	556.9	2.4	6.9	17.1	37.4
Other loans and finance leases **										
- £ Sterling	350.3	252.5	5,013.9	5,032.8	5,364.2	5,285.3	5.1	4.3	23.8	24.2
	747.5	720.3	5,381.0	5,121.9	6,128.5	5,842.2	4.9	4.4	23.4	24.4

* Included in fixed rate liabilities are index linked loans/swaps at a fixed coupon rate and RPI indexation

** Includes inter-company debt

The Company's interest rate and cross currency swaps convert £34.1m (2009 £39.5m) of floating rate borrowing to fixed rate and £235.0m (2009 £261.9m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £632.8m (2009 £684.0m) of foreign currency borrowing through conversion to Sterling. Index linked swaps of £894.1m (2009 £894.1m) swapped inter-company fixed rate debt to index linked debt. All swaps are included at their notional amount, in addition total accretion on the index linked swaps is £44.0m (2009 £12.7m).

Short-term floating rate loans bear interest at rates linked to LIBOR. Base rate is the benchmark rate for all cash at bank.

	Total at floating rates		Total at book value	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Short term deposits	573.2	321.6	573.2	321.6
Cash in bank and in hand	5.9	204.2	5.9	204.2
	579.1	525.8	579.1	525.8

Currency risk

The Company is not exposed to any significant currency risk after taking the effects of its cross currency swaps into consideration.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Company's financial instruments.

	Book value		Fair value	
	31 March 2010 £m	31 March 2009 £m	31 March 2010 £m	31 March 2009 £m
Primary financial instruments				
Financial assets				
- Short term deposits	573.2	321.6	573.2	321.6
- Cash at bank and in hand	5.9	204.2	5.9	204.2
Financial liabilities				
- Bank loans	(694.0)	(541.9)	(628.0)	(549.6)
- Other loans and finance leases *	(5,364.2)	(5,285.3)	(5,425.9)	(5,339.6)
Derivative financial instruments				
- Interest rate swaps	-	-	(6.4)	(7.2)
- Cross currency swaps	(25.0)	(2.0)	(35.7)	1.4
- Index linked swaps	(45.3)	(13.0)	(283.8)	(132.6)
- Forward currency options	-	-	0.6	-
Total	(5,549.4)	(5,316.4)	(5,800.1)	(5,501.8)

* Includes inter-company debt

Thames Water Utilities Limited does not itself hold bonds

Other loans include bonds issued by group undertakings and external providers, which are publicly traded and loaned to Thames Water Utilities Limited. Fair values for these have been calculated using the 31 March 2010 quoted prices.

Mark-to-market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments.

Book values of primary financial instruments include the effect of any hedging instrument. Therefore, the effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Maturities	31 March 2010 £m	31 March 2009 £m
Bank loans and overdrafts		
- Within one year	144.6	133.1
- Between one and two years	(6.4)	145.0
- Between two and five years	20.4	5.6
- After more than five years	605.7	273.2
	764.3	556.9
Other loans inc inter-company		
- Within one year	400.0	220.1
- Between one and two years	10.3	250.0
- Between two and five years	549.6	473.6
- After more than five years	4,200.6	4,132.5
	5,160.5	5,076.2
Finance leases		
- Within one year	8.4	5.8
- Between one and two years	9.4	8.3
- Between two and five years	138.5	95.6
- After more than five years	47.4	99.4
	203.7	209.1
Total borrowing	6,128.5	5,842.2

Loans are repayable between 2010 and 2062

Loans wholly repayable after more than five years, excluding finance leases are

	31 March 2010 £m	31 March 2009 £m
Bank loans	605.7	273.2
Other loans including inter-company	4,214.7	4,132.6
	4,820.4	4,405.8

Other secured loans repayable to Group undertakings in order of maturity include

£250m 4.75% Fixed rate bond due 2010	£50m 3.85% Index linked bond due 2040
€500m 6.13% Fixed rate bond due 2013	£50m 1.98% Index linked bond due 2042
£200m 4.90% Fixed rate bond due 2015	£55m 2.09% Index linked bond due 2042
£400m 6.57% Fixed rate bond due 2018	£100m 1.85% Index linked bond due 2047
£200m 5.05% Fixed rate bond due 2020	£200m 1.82% Index linked bond due 2049
£225m 6.59% Fixed rate bond due 2021	£300m 1.68% Index linked bond due 2053
£175m 3.38% Index linked bond due 2021	£300m 1.68% Index linked bond due 2055
£330m 6.75% Fixed rate bond due 2028	£200m 1.77% Index linked bond due 2057
£200m 6.50% Fixed rate bond due 2032	\$156m 3 month US\$ libor + 0.95% Index linked bond due 2060
£600m 5.13% Fixed rate bond due 2037	£350m 1.76% Index linked bond due 2062

See note 15, page 51 for details of secured bank loans

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

16 Financial instruments (continued)

Maturities (continued)

Loans repayable by instalments after more than five years hence are

	31 March 2010 £m	31 March 2009 £m
Finance leases	47.4	99.3

The ranges of interest rates on outstanding loans are 1.23% to 8.35% (2009 1.56% to 8.35%)

These interest rates are those contracted on the underlying borrowing before taking account of interest rate protection. There are no interest free loans.

Borrowing facilities

At 31 March 2010 the Company had access to committed facilities of £1,105.0m (2009 £1,055.0m) of which £nil (2009 £nil) had been drawn at the balance sheet date, through its subsidiary company Thames Water Utilities Cayman Finance Limited.

17 Provisions for liabilities and charges

	Deferred tax £m	Insurance liabilities £m	Restructuring £m	Other £m	Total £m
At 1 April 2009	926.3	53.7	9.3	22.6	1,011.9
Utilised during the year	-	-	(6.4)	(1.3)	(7.7)
Charge/(credit) to profit and loss for the year	69.2	22.0	(0.6)	3.5	94.1
At 31 March 2010	995.5	75.7	2.3	24.8	1,098.3

The insurance provision is in respect of insurance claims notified. A debtor in respect of these obligations is included in note 12 (see page 49) representing the reimbursement value from captive and third party insurance companies.

The restructuring provision principally relates to severance costs as a result of the Company's restructuring and reorganisation. This provision is expected to be utilised over the next year.

Other provisions principally relate to a number of legal claims against the Company and represents management's best estimate of the value of settlement and costs. It is estimated that some claims will be settled in more than one year.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

17 Provisions for liabilities and charges (continued)

The elements of deferred tax are as follows

	Note	31 March 2010 £m	31 March 2009 £m
Accelerated capital allowances		1,000.1	932.0
Other timing differences		(4.6)	(5.7)
		995.5	926.3
Total deferred tax provision:			
Included above		995.5	926.3
Deferred tax asset recognised on pension deficit	25	(41.8)	(18.2)
		953.7	908.1

At 31 March 2010 there are no amounts of deferred tax unprovided for (2009 £nil)

The pension liability per note 25 is shown net of deferred tax

18 Called up share capital

	31 March 2010 £m	31 March 2009 £m
Allotted, called up and fully paid		
1,029,050,000 (2009 1,029,050,000) ordinary shares of £1 each	1,029.0	1,029.0

19 Share premium account

	31 March 2010 £m	31 March 2009 £m
At 1 April and 31 March	100.0	100.0

Premium of 25p on issue of 400 million £1 ordinary shares

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

20 Profit and loss account

	Note	31 March 2010 £m	31 March 2009 £m
At 1 April		480.2	483.2
Profit for the year		331.0	314.8
Dividends paid	8	(307.9)	(222.0)
Retained profit		23.1	92.8
Actuarial loss on pension scheme	25	(105.4)	(133.0)
Movement on deferred tax relating to pension scheme		29.5	37.2
At 31 March including total pension liability		427.4	480.2

21 Reconciliation of movements in shareholder's funds

	Note	31 March 2010 £m	31 March 2009 £m
At 1 April		1,609.2	1,612.2
Profit for the year		331.0	314.8
Dividends paid	8	(307.9)	(222.0)
Retained profit		23.1	92.8
Actuarial loss on pension scheme	25	(105.4)	(133.0)
Movement on deferred tax relating to pension scheme		29.5	37.2
		(52.8)	(3.0)
At 31 March including total pension liability		1,556.4	1,609.2

22 Capital commitments

	31 March 2010 £m	31 March 2009 £m
Contracted for but not provided	1,045.3	296.3

As part of its ongoing review of contractual arrangements, the Company has negotiated a number of large capital contracts for the £4.9bn capital programme in AMP 5.

In addition to these commitments, the Company has long-term capital investment plans to provide for future growth.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

23 Contingencies

There are claims arising in the normal course of business, which are in the process of negotiation

The Company has set aside amounts considered appropriate for all legal and similar claims as per note 17

24 Operating leases

At 31 March 2010 the Company was committed to making the following annual payments in respect of non-cancellable operating leases

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

See note 16 'Financial instruments' on page 52 for further information regarding obligations under finance leases

25 Pension schemes

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

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

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

In addition to the ongoing cost of the UK Pension arrangements, the Company operates arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the year ended 31 March 2010 payments amounted to £3.3m (2009 £2.1m)

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

The recent exceptional volatility on the credit markets has impacted the pension valuation as calculated under the requirements of FRS17

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Thames Water Group has taken advice from Mercer in respect of the funding position of the Group pension schemes

Net liability by pension schemes before deferred tax

	31 March 2010 £m	31 March 2009 £m
Thames Water Pension Scheme		
Deficit in scheme	(166.6)	(91.9)
Thames Water Mirror Image Scheme		
Surplus in scheme	17.4	26.8
Liability before deferred tax asset	(149.2)	(65.1)

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

Reconciliation of funded status to balance sheet:

	31 March 2010 £m	31 March 2009 £m
Fair value of scheme assets	1,317.4	1,040.3
Present value of scheme liabilities	(1,466.6)	(1,105.4)
Deficit in scheme	(149.2)	(65.1)
Liability recognised on the balance sheet	(149.2)	(65.1)
Deferred tax asset	41.8	18.2
Net pension liability	(107.4)	(46.9)

Movement in the present value of scheme liabilities:

	31 March 2010 £m	31 March 2009 £m
Opening present value of scheme liabilities	1,105.4	1,098.9
Current service cost Thames Water Utilities Limited	17.6	15.3
Current service cost Other Thames Water Group participating companies	1.4	0.6
Interest cost	72.7	74.5
Contribution by scheme participants	0.2	5.4
Actuarial losses/(gains) on scheme liabilities	326.0	(37.7)
Net benefit paid out	(60.0)	(53.7)
Termination pension cost	3.3	2.1
Closing present value of scheme liabilities	1,466.6	1,105.4

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Movement in fair value of scheme assets:

	31 March 2010 £m	31 March 2009 £m
Opening fair value of scheme assets	1,040.3	1,214.8
Expected return on scheme assets	57.9	71.6
Actuarial gains/(losses) on scheme assets	220.6	(250.4)
Contributions by the employer	53.7	49.9
Contributions by Other Thames Water Group participating companies	1.4	0.6
Contributions by scheme participants	0.2	5.4
Termination pension costs	3.3	2.1
Net benefits paid out	(60.0)	(53.7)
Closing fair value of scheme assets	1,317.4	1,040.3

Expense recognised in the profit and loss account:

	31 March 2010 £m	31 March 2009 £m
Current service cost	17.6	15.3
Interest cost	72.7	74.5
Expected return on scheme assets	(57.9)	(71.6)
Total expense recognised in the profit and loss account	32.4	18.2

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

	31 March 2010 £m	31 March 2009 £m
Operating costs - staff costs	17.6	15.3
Other finance expense	14.8	2.9
Total expense charged in the profit and loss account	32.4	18.2

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	220.6	(250.4)
Experience losses arising on the scheme liabilities	-	(44.3)
Changes in assumptions underlying the present value of scheme liabilities	(326.0)	82.0
Adjustment relating to irrecoverable surplus	-	79.7
Actuarial loss recognised in the Statement of total recognised gains and losses	(105.4)	(133.0)
Cumulative amount of losses recognised in the Statement of total recognised gains and losses	(309.3)	(203.9)

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

Fair value of scheme assets and return on these assets:

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

	31 March 2010		31 March 2009	
	Long-term expected rate of return	Value £m	Long-term expected rate of return	Value £m
Equities	8.5%	435.9	8.0%	360.3
Bonds	5.5%	231.0	5.5%	219.3
Gilts	4.25-4.5%	530.9	3.75-4.0%	398.0
Property	7.5%	81.1	7.0%	59.5
Other assets	4.5%	38.5	4.0%	3.2
Weighted average expected long-term rate of return/total fair value of assets	6.1%	1,317.4	5.7%	1,040.3

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

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

	31 March 2010	31 March 2009
Price inflation	3.5%	3.0%
Salary increases	4.5%	4.0%
Pension increases	3.5%	3.0%
Discount rate for scheme liabilities	5.6%	6.7%

In valuing the liabilities of the pension schemes at 31 March 2010, mortality assumptions have been made as indicated below. These mortality assumptions are based on the recent actual mortality experience of members within the schemes and the assumptions also allow for future mortality improvements.

The assumptions are that TWMIPS members and TWPS members who joined the Scheme before 1 January 1995 who retire in 2028 at age 60 will live on average for a further 26 years (2009 26 years) after retirement if they are male and for a further 28 years (2009 28 years) after retirement if they are female. TWPS members who joined the Scheme after 1 January 1995 who retire in 2028 at age 60 are assumed to live on average for a further 28 years (2009 28 years) after retirement if they are male and for a further 29 years (2009 29 years) after retirement if they are female.

In addition, it is assumed that TWMIPS pensioners and TWPS pensioners who joined the Scheme before 1 January 1995 and are currently aged 60 will live on average for a further 24 years (2009 24 years) if they are male and a further 26 years (2009 26 years) if they are female. TWPS pensioners who joined the Scheme after 1 January 1995 and are currently aged 60 are assumed to live on average for a further 26 years (2009 26 years) if they are male and for a further 28 years (2009 28 years) if they are female.

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

25 Pension schemes (continued)

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

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	Year to 2005 £m
Fair value of scheme assets	1,317.4	1,040.3	1,214.8	1,246.4	1,154.9
Present value of scheme liabilities	(1,466.6)	(1,105.4)	(1,098.9)	(1,205.9)	(1,229.1)
(Deficit)/surplus in scheme	(149.2)	(65.1)	115.9	40.5	(74.2)

Experience adjustments:

	31 March 2010 £m	31 March 2009 £m	31 March 2008 £m	31 March 2007 £m	Year to 2005 £m
Experience gains/(losses) on scheme assets					
Amounts	220.6	(250.4)	(102.7)	7.1	98.4
Percentage of scheme assets	16.7%	24.1%	8.5%	0.6%	8.5%
Experience (losses)/gains on scheme liabilities					
Amounts	-	(44.3)	(5.4)	11.9	24.7
Percentage of scheme liabilities	-	4.0%	0.5%	1.0%	2.0%
Total amount recognised in the Statement of total gains and losses					
Amounts	(105.4)	(133.0)	3.9	81.2	34.9
Percentage of present value of scheme liabilities	7.2%	12.0%	0.4%	6.7%	2.8%

The Kemble Water Holdings Limited group expects to contribute approximately £60.2m to the defined benefit schemes in the next financial year

26 Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom is the immediate parent company

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 that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the 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

Thames Water Utilities Limited

Notes to the Financial statements for the year ended 31 March

26 Intermediate and ultimate parent company and controlling party (continued)

Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Funds 1 and 2 ("MEIF 1 & 2"), wholesale investment funds which make long-term investments in infrastructure and related businesses located across Europe. The directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the largest group to consolidate these financial statements.

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

MEIF 1 & 2 invests in businesses which

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

MEIF 1 & 2 aim to deliver sustainable cash yields and moderate capital growth from their diversified portfolios of quality infrastructure investments.

MEIF 1 & 2 are managed by Macquarie Capital Funds (Europe) Limited ("MCFEL"). MCFEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Services Authority under the UK Financial Services and Markets Act 2000. MCFEL is resourced by executives of Macquarie Capital Funds.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Explanatory note

The regulatory accounts and required regulatory information on pages 66 to 90 are provided to comply with Condition F of the Instrument of Appointment of Thames Water Utilities Limited as a water and sewerage undertaker under the Water Industry Act 1991

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines ("RAG's") issued by Ofwat

There are differences between UK Generally Accepted Accounting Practice and the RAG's. Where different treatments are specified under each, the RAGs take precedence

The regulatory financial statements should be read in conjunction with the statutory Annual report and financial statements ("AR&A"). The AR&A include the Chief Executive Officer's business review (pages 3 to 19). In addition the Directors' report (pages 20 to 23) includes a statement as to the disclosure of information to auditors (page 23), the dividend policy of the Company which also applies to the appointed business (page 20) and information in respect of the Company's charitable donations (page 23), which details amounts given to charitable trusts for customers who were unable to settle their outstanding water bills

Statement of directors' responsibilities for regulatory information

Further to the requirements of Company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat

This additionally requires the directors to

- Confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months
- Confirm that, in their opinion, the Company has sufficient rights and assets, which would enable a special administrator to manage the affairs, business and property of the Company
- Confirm that, in their opinion, the Company has contracts with any associate Company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker
- Report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities
- Undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length
- Keep proper accounting records, which comply with Condition F

These responsibilities are additional to those already set out in the statutory financial statements

Ring fencing

In the opinion of the directors, the Company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year. This relates to the availability of rights and assets in the event of a special administration order

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory historical cost profit and loss account for the year ended 31 March

	2010			2009		
	Appointed business £m	Non-Appointed business £m	Total £m	Appointed business £m	Non-Appointed business £m	Total £m
Turnover (Note 2)	1,593.1	30.7	1,623.8	1,537.0	21.2	1,558.2
Operating costs	(712.3)	(10.9)	(723.2)	(716.7)	(11.8)	(728.5)
Historical cost depreciation ¹	(229.2)	(0.3)	(229.5)	(224.1)	(0.3)	(224.4)
Operating income	37.9	-	37.9	8.2	-	8.2
Operating profit	689.5	19.5	709.0	604.4	9.1	613.5
Other expense	(14.8)	-	(14.8)	(2.9)	-	(2.9)
Net interest payable	(240.4)	(0.2)	(240.6)	(176.0)	0.5	(175.5)
Profit on ordinary activities before taxation	434.3	19.3	453.6	425.5	9.6	435.1
Taxation						
- Current tax	(42.1)	(5.4)	(47.5)	(23.8)	(2.7)	(26.5)
- Deferred tax	(75.1)	-	(75.1)	(93.8)	-	(93.8)
	(117.2)	(5.4)	(122.6)	(117.6)	(2.7)	(120.3)
Profit for the year	317.1	13.9	331.0	307.9	6.9	314.8
Dividend	(281.2)	(26.7)	(307.9)	(215.1)	(6.9)	(222.0)
Retained profit/(loss) for the year	35.9	(12.8)	23.1	92.8	-	92.8

¹ The historical cost depreciation has been analysed out separately in order to comply with the presentational requirements of RAG 3.06

Statement of total recognised gains and losses (historical cost accounting) for the appointed business for the year ended 31 March

	31 March 2010	31 March 2009
	£m	£m
Profit for the year	317.1	307.9
Actuarial loss on pension schemes	(105.4)	(133.0)
Deferred tax relating to actuarial loss	29.5	37.2
Total recognised gains in the year	241.2	212.1

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory historical cost balance sheet at 31 March

	2010			2009 (restated *)		
	Appointed business £m	Non- Appointed business £m	Total £m	Appointed business £m	Non- Appointed business £m	Total £m
Fixed assets						
Tangible assets	7,532 5	8 9	7,541 4	7,086 2	3 9	7,090 1
Investments - other	0 1	-	0 1	0 1	-	0 1
Total fixed assets	7,532 6	8 9	7,541 5	7,086 3	3 9	7,090 2
Current assets						
Stocks	7 7	-	7 7	6 1	-	6 1
Debtors amounts falling due within one year	599 1	3 9	603 0	597 1	8 9	606 0
Debtors amounts falling due after more than one year	1,180 0	-	1,180 0	1,180 0	-	1,180 0
Cash at bank and in hand	1,779 1	3 9	1,783 0	1,777 1	8 9	1,786 0
Short term deposits	5 9	-	5 9	204 2	-	204 2
Infrastructure renewals prepayment	573 2	-	573 2	321 6	-	321 6
	-	-	-	33 7	-	33 7
Total current assets	2,365 9	3 9	2,369 8	2,342 7	8 9	2,351 6
Creditors amounts falling due within one year						
Creditors	(776 9)	(12 8)	(789 7)	(751 7)	-	(751 7)
Borrowings	(553 0)	-	(553 0)	(359 0)	-	(359 0)
Infrastructure renewals accrual	(9 0)	-	(9 0)	-	-	-
Total creditors	(1,338 9)	(12 8)	(1,351 7)	(1,110 7)	-	(1,110 7)
Net current assets/(liabilities)	1,027 0	(8 9)	1,018 1	1,232 0	8 9	1,240 9
Total assets less current liabilities	8,559 6	-	8,559 6	8,318 3	12 8	8,331 1
Creditors amounts falling due after more than one year						
Borrowings	(5,575 5)	-	(5,575 5)	(5,483 2)	-	(5,483 2)
Other creditors	(77 3)	-	(77 3)	(36 5)	-	(36 5)
Total creditors	(5,652 8)	-	(5,652 8)	(5,519 7)	-	(5,519 7)
Provisions for liabilities and charges						
Deferred tax provision	(995 5)	-	(995 5)	(926 3)	-	(926 3)
Deferred income – grants and contributions	(144 7)	-	(144 7)	(143 4)	-	(143 4)
Other provisions	(102 8)	-	(102 8)	(85 6)	-	(85 6)
Post employment liabilities	(107 4)	-	(107 4)	(46 9)	-	(46 9)
Net assets employed	1,556 4	-	1,556 4	1,596 4	12 8	1,609 2
Capital and reserves						
Called-up share capital	1,029 0	-	1,029 0	1,029 0	-	1,029 0
Share premium	100 0	-	100 0	100 0	-	100 0
Profit and loss account	427 4	-	427 4	467 4	12 8	480 2
Capital and reserves	1,556 4	-	1,556 4	1,596 4	12 8	1,609 2

* The Company has reclassified Deferred income – grants and contributions at 31 March 2009 (£36 5m) to Other creditors within Creditors amounts falling due after more than one year to classify SWAP interest premium (£10 1m) and requisitioning income (£26 4m) in accordance with the requirements of RAG3 06

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Historical cost reconciliation between statutory and regulatory accounts at 31 March

	2010 Statutory UK GAAP £m	Regulatory RAG 3 £m	Explanation
Profit and loss account			
Operating profit	671 1	709 0	The difference of £37.9m is due to the statutory accounts profit on sale of assets is shown below operating result. Ofwat accounting guidelines state that this should be classified within operating costs as 'operating income' for regulatory accounts.
Profit before taxation	453 6	453 6	Profit before taxation is unaffected by this re-classification.
Balance sheet			
<u>Fixed assets</u>			
Tangible fixed assets (net book value)	7,532 4	7,541 4	The difference of £9.0m is attributable to the infrastructure renewals (accrual) (2009 £33.7m prepayment) as this is excluded from the fixed assets net book value in the regulatory accounts. This is in line with RAG 3.06 as FRS 15 is not applied for infrastructure renewals accounting for regulatory accounting purposes. For more detail see page 76.
<u>Current assets</u>			
Infrastructure renewals prepayment	-	(9 0)	The difference of £9.0m reflects the reclassification of infrastructure renewals accrual as described above.
<u>Short-term and long-term creditors</u>			
Deferred income – grants and contributions	144 7	-	Deferred grants and contributions of £144.7m (2009 £143.4m) within the statutory accounts are analysed between creditors amounts falling due within one year (£7.8m) and creditors amounts falling due after more than one year (£136.9m). This is in contrast with the regulatory accounts, which shows total deferred grants and contributions within provisions for liabilities and charges.
Provision for liabilities and charges	-	144 7	

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Additional information required by the licence

Basis of preparation

In accordance with Condition F of the Instrument of Appointment, these regulatory financial statements have been prepared to show separately in respect of the appointed business, non-appointed business and total business, a profit and loss account and balance sheet prepared on a historical cost basis

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 financial statements have been prepared in accordance with the historical cost convention and, except for the classification of profit on the sale of fixed assets as explained in note (a) below, the treatment of infrastructure renewals expenditure as explained in note (b) below and the treatment of certain capital contributions as explained in note (c) below, have been prepared in accordance with the Companies Act 2006. The departures from applicable UK Accounting Standards are necessary to comply with regulatory reporting requirements laid down by the Water Services Regulation Authority ("Ofwat")

Changes to accounting policies

The same accounting policies used for the period ended 31 March 2009 have been applied in these financial statements excepted as noted below

The Company has reclassified Deferred income – grants and contributions at 31 March 2009 (£36.5m) to Other creditors within Creditors amounts falling due after more than one year to classify SWAP interest premium (£10.1m) and requisitioning income (£26.4m) in accordance with the requirements of RAG3 06

Infrastructure renewals charge

Principles underpinning infrastructure renewals charge:

For the first three years of the AMP 4 period, the infrastructure renewals charge in the Company's statutory and regulatory accounts was based upon the medium term view of infrastructure maintenance required to achieve stable serviceability by March 2010. In the Company's June Return 2008 it was stated that the directors' view would be revised following completion of their detailed long-term assessment of maintenance requirements undertaken as part of the Business Plan submission for the 2009 Price Review

Following the completion of the Company's assessment of the infrastructure renewals expenditure requirement to the end of AMP 7 for the Final Business Plan, the Company now considers that it would be appropriate to reflect in the Company's regulatory and statutory accounts for 2009 and 2010 an infrastructure renewals charge consistent with its expenditure plans for the AMP 5 to AMP 7 (2010-2025) periods

(a) Profit on sale of fixed assets

Profit and loss on sale of fixed assets has been included within operating profit, as operating income, in accordance with RAG 3. This represents a departure from FRS 3 as adopted in the Company's 31 March 2010 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Basis of preparation (continued)

(b) Infrastructure renewals expenditure

Infrastructure renewals expenditure ("IRE") has been accounted for in accordance with RAG 3 in these financial statements and is consistent with the reporting of IRE in the Company's regulatory historical cost financial statements for the year ended 31 March 2009. Accordingly, IRE net of depreciation has been included within debtors.

This treatment of reporting IRE net of depreciation within debtors in the regulatory historical cost financial statements for the year ended 31 March 2010 represents a departure from the accounting policy adopted in the Company's 31 March 2010 statutory financial statements for infrastructure renewals expenditure and renewals accounting per FRS 15, which requires this amount to be included within fixed assets.

Reconciliation to the tangible fixed assets shown in the statutory financial statements with the regulatory historical cost financial statements is shown on page 76.

(c) Capital contributions

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Companies Act 2006, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the latter accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have a determinable finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account.

(d) Allocation of costs

All direct costs are allocated immediately to the activity to which they relate. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs. Indirect costs include administrative expenses and the provision of common services.

Direct costs attributable to the provision of services other than the Appointed Business are separately allocated and identified as 'Non-Appointed'. Indirect costs, relating to non-appointed activities, are recovered as a fixed percentage of direct costs based upon the analysis of operating costs.

(e) Revenue

There are no differences between the accounting policy for revenue under the statutory accounts and the policy for the regulatory accounts.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance

Compensation & HR committee

The Company operates a Compensation & HR Committee ("Committee") which broadly functions as both a remuneration and a nomination committee. It comprises four Non-Executive Directors, one of whom is independent, and is chaired by Martin Stanley. The other members are Willem Smit (independent Non-Executive Director), Sir Peter Mason KBE and Christopher Deacon.

The Committee's responsibilities include, but are not limited to, making recommendations to the Board on the Company's executive remuneration policy and directors' terms of appointment. During the year, the Committee advised the Board of Directors and received advice and input from various Directors and specialist staff within the Company, including the Chief Executive Officer and the Director of Human Resources (both of whom are invited to attend from time to time). No individuals are involved in the determination of their own remuneration.

To ensure that the Company's remuneration practices are competitive, the Committee has access to detailed external research on market data and trends from experienced specialist remuneration consultants. In August 2009, the Committee appointed PricewaterhouseCoopers as remuneration advisers to the Committee. As part of their appointment, they were asked to undertake a complete review of the remuneration package for the executive team.

The Committee considers carefully the blend of remuneration linked to regulatory performance and remuneration linked to other performance measures in order to produce well balanced short-term and long-term incentive plans leading to value creation and a high quality service to customers.

Remuneration policy

The Committee bases its decision-making with respect to remuneration policy on a number of underlying principles, which can be summarised as follows:

- Arrangements should attract, retain, motivate and reward high calibre directors and executives
- Packages should be aligned with the interests of the Company's stakeholders, in particular its shareholders and its customers
- Packages should be commensurate with those provided by other companies of similar size and complexity, taking into account individual contribution and experience
- Policy should establish firm links between an executive's performance and remuneration and between the Company's performance and the executive's total remuneration
- Packages should include a mix of basic salary plus performance related incentives. Further detail is included within the bonus section on page 72 which indicates how Directors' pay is linked to standards of performance.

The Committee will continue to review arrangements regularly to ensure that they remain effective and appropriate to the Company's circumstances and prospects, and to monitor the level of potential awards.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

Remuneration of executive directors

The remuneration arrangements for executive directors comprise the following elements

- Base salary and benefits
- Bonuses
- Long Term Incentive Schemes (LTIS)
- Post retirement benefits

Details of each of the above elements are set out on the following pages

Base salaries and benefits

Base salaries are normally reviewed annually with any changes taking effect from the commencement of the financial year. Base salaries are a fixed sum payable monthly.

In 2009, it was agreed that, in the light of the current economic circumstances, no pay rise would be awarded to the executive directors. As part of the review of the executive remuneration package, the existing Executive Directors received a pay increase on 1 April 2010.

In addition to base salary, the Executive Directors receive a car or cash allowance, private medical insurance, a defined benefit pension scheme, life assurance and 25 days' holiday. All of these benefits have been reviewed in 2010 to ensure that the overall remuneration package is competitive against companies of a similar size and complexity.

None of the base salaries or benefits are linked to business or individual performance.

Bonuses

Executive Directors are eligible to participate in bonus schemes, which are designed to motivate them to achieve the Company's key operational and strategic objectives.

The amount of any annual incentive award is determined by and at the discretion of the Committee taking account of and making a judgement in the context of the balance of all matters relevant to overall performance. The Kemble Water Holdings Group ("Group") Board believes that this is the most appropriate means of aligning directors' remuneration to performance.

Executive directors' annual bonus plan measures 2009/10

The 2009/10 annual bonus plan aimed to reward significant improvement in the Group's financial performance. The financial measures used in the annual bonus plan for the CEO and CFO are Group capital expenditure, Group operating cash flow, Group cash flow before funding and Group Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) targets. The financial metrics used in the COO's annual bonus plan are net operating costs, Group Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA), Group capital expenditure and Group operating cashflow. These targets were selected as being the most critical for the organisation during 2009/10.

In addition, there is a financial underpin on the personal element of the 2009/10 bonus in that no payment is made against the personal element of the annual bonus unless the Group cashflow before funding business plan target is achieved.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

Although most of the annual bonus financial targets were based on Group performance, these are largely determined by the financial performance of the regulated business. Only Stephen Shine had a specific financial target relating to operating expenditure in the regulated business.

The bonus was paid on the basis of performance against financial measures and personal objectives. As the main focus of the Group is now on the regulatory business a percentage of the bonus relating to financial measures is deemed to be in relation to regulatory performance and one of the personal objectives for Stephen Shine and Mark Braithwaite related to OPA which is also linked to regulatory performance. In recognition of the best ever financial and operational performance of the Group in the year, the following bonuses were paid to directors in relation to regulatory measures.

	Bonus related to regulatory measures
Martin Baggs	£157,500
David Owens	-
Mark Braithwaite	£237,708
Stephen Shine	£305,625

Executive directors' annual bonus plan measures 2010/11

The 2010/11 annual bonus plan will mirror the 2009/10 plan. Maintaining the OPA score will form a part of the personal objectives. The gateway on the personal element of the bonus will continue to be a Group cashflow before funding target.

Long Term Incentive Schemes ("LTIS")

As an element of the retention strategy, the Company's executive directors and senior management team, are from time to time invited to participate in an LTIS. There is no automatic right to participate and each year executives and managers are selected at the discretion of the Board.

LTIS 2007

As a result of new ownership, an LTIS was introduced in May 2007. Under this scheme, a conditional award of cash units representing 25% of the executive directors 2007/08 annual bonus could be made to participants. The awards would be deferred for a two-year period which ended on 31 March 2010, at which point they vested and payments were made, based on an assessment of performance against regulatory targets. Participants had to continue to be employed until the vesting date, or have left employment due to a 'good-leaver' reason to receive the award at vesting, otherwise the award was forfeited. Between 100% and 400% of the deferred cash award could vest based on performance against the "Overall Performance Assessment" (OPA) score.

Based on the Company's estimated end of year OPA outcome 400% of the deferred cash award vested on 31 March 2010.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

The following table provides a breakdown of the payments and scheme interests under the LTIS 2007 in respect of Executive directors who served during the year ending 31 March 2010

Director	Number of £1 cash units at 1 April 2009	Accrued during year	Awarded during year	Awards vesting during year	Number of £1 cash units at 31 March 2010
	£'000	£'000	£'000	£'000	£'000
Martin Baggs	-	-	-	-	-
David Owens	-	-	-	-	-
Mark Braithwaite	91.2	71.3	-	(162.5)	-
Stephen Shine	143.2	230.9	-	(374.1)	-

LTIS 2008

A new, stand-alone LTIS was operated in 2008, in which the Executive Directors will participate. The plan period will run from 1 April 2008 to 31 March 2011 and payment will be made in July 2011 following Board approval of the audited accounts. The plan will be based on four cumulative financial measures, being Group EBITDA, Group Cash Flow Before Funding, Distributions and Group Capital Expenditure. These measures were selected as being critical for the Group's value creation.

The measures will be reviewed annually to make any required amendments, taking into account business acquisitions, capital restructuring, long-term debt draw-downs and any refinancing of the Company (including fees paid for any refinancing).

Payment will be made in full if all four measures have been achieved over each of the three financial years which form the performance period. No payment will be made under the plan if one or more measures have not been achieved. None of this is linked specifically to regulatory performance.

LTIS 2010

A new five year LTIS is being introduced in April 2010 and participants will be selected from key strategic positions across the Company. The plan period will run from 1 April 2010 to 31 March 2015. The plan focuses on the key objectives for the next regulatory period which are critical to the Company's business plan as follows:

Measurement Area		Overall Weighting
Financial Performance	Delivering on core financials over AMP5	40%
Sustainability	Delivering on measures that ensure a sustainable future and success beyond AMP5	40%
Regulatory and Customer	Improving the Company's scores under Ofwat's core measures	20%

Payments under the plan will start in 2013 and will continue until 2017.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Link between directors' remuneration and standards of regulatory performance (continued)

Service contracts

Reflecting current market practice, the Executive Directors do not hold service contracts that provide for a notice period longer than one year. It is not the Committee's intention to recommend the appointment of any new Executive Directors with contracts that provide for a longer notice period.

The Committee endorses the principle of mitigation of loss on early termination of a service contract and generally seeks to achieve that objective where possible and appropriate. In the event that the Company wished to terminate an Executive Director's contract other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it would need to give either 12 months' notice or make a payment in lieu of salary and benefits.

Recognition of significant achievements

On 2 December 2009, David Owens left the Company and a payment was made to him on leaving office in recognition of significant achievements over the previous three years (see note 5, page 44).

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Reconciliation of tangible fixed assets shown in the statutory financial statements and their regulatory financial equivalents:

	Other assets £m	Infra- structure assets £m	Total £m
Cost			
At 31 March 2010 as per statutory accounts (FRS 15)	7,552.8	4,174.0	11,726.8
Infrastructure renewals expenditure capitalised in previous years (restated see below)	-	(861.3)	(861.3)
Infrastructure renewals expenditure capitalised in the year	-	(71.3)	(71.3)
Disposals in prior years	-	0.9	0.9
Cost at 31 March 2010 per regulatory accounts (RAG 3)	7,552.8	3,242.3	10,795.1
Capital contributions			
Contributions at 31 March 2010 as per statutory accounts (FRS 15)	-	589.1	589.1
Contributions at 31 March 2010 as per regulatory accounts (RAG 3)	-	589.1	589.1
Depreciation			
At 31 March 2010 as per statutory accounts (FRS 15)	2,664.6	940.7	3,605.3
Infrastructure renewals charge in previous years	-	(827.6)	(827.6)
Infrastructure renewals charge in the year	-	(114.0)	(114.0)
Disposals in prior years	-	0.9	0.9
Depreciation at 31 March 2010 per regulatory accounts (RAG 3)	2,664.6	-	2,664.6
Net book value			
At 31 March 2010 as per statutory accounts (FRS 15)	4,888.2	2,644.2	7,532.4
Adjustment for infrastructure renewals accounting (see below)	-	9.0	9.0
At 31 March 2010 per regulatory accounts (RAG 3)	4,888.2	2,653.2	7,541.4
Adjustment for infrastructure renewals accounting:			
		Infra-structure assets £m	
RAG 3 net infrastructure renewals reclassification:			
Infrastructure renewals prepayment at 31 March 2009			33.7
Infrastructure renewals expenditure capitalised in the year			71.3
Infrastructure renewals charge in the year			(114.0)
Infrastructure renewals accrual at 31 March 2010			(9.0)

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost profit and loss account for the appointed business for the year ended 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Turnover	2	1,593.1	1,537.0
Current cost operating costs	3	(1,044.3)	(1,039.6)
Operating income	2	37.6	7.8
Working capital adjustment	2	1.2	8.4
Current cost operating profit		587.6	513.6
Net interest		(255.2)	(178.9)
Financing adjustment		11.0	53.5
Current cost profit on ordinary activities before taxation		343.4	388.2
Taxation			
- Current tax		(42.1)	(23.8)
- Deferred tax		(75.1)	(93.8)
Current cost profit attributable to shareholders		226.2	270.6
Dividends		(281.2)	(215.1)
Current cost (loss)/profit retained		(55.0)	55.5

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost balance sheet for the appointed business at 31 March

	Note	31 March 2010 £m	31 March 2009 £m
Fixed assets			
Tangible assets	4c	51,240.5	48,808.9
Third party contributions since 31 March 1990		(934.9)	(872.3)
		50,305.6	47,936.6
Working capital			
Cash	5	(262.5)	(257.4)
Short term deposits		5.9	204.2
Infrastructure renewals (accrual)/prepayment		573.2	321.6
		(9.0)	33.7
Net operating assets		50,613.2	48,238.7
Non operating assets and liabilities			
Borrowings		(553.0)	(359.0)
Non-trade debtors		157.9	212.8
Non-trade creditors due within one year		(78.5)	(115.8)
Investment – loan to group company		1,180.0	1,180.0
Investments – other		0.1	0.1
Corporation tax receivable		13.0	11.9
Total non operating assets and liabilities		719.5	930.0
Creditors' amounts falling due after more than one year			
Borrowings		(5,575.5)	(5,483.2)
Other creditors		(77.3)	(36.5)
Total creditors falling due after more than one year		(5,652.8)	(5,519.7)
Provisions for liabilities and charges			
Deferred tax provision		(995.5)	(926.3)
Post employment liability		(107.4)	(46.9)
Other provisions		(102.8)	(85.6)
Total provisions		(1,205.7)	(1,058.8)
Net assets		44,474.2	42,590.2
Capital and reserves			
Called up share capital		1,029.0	1,029.0
Share premium		100.0	100.0
Profit and loss account		(765.3)	(634.3)
Current cost reserve	6	44,110.5	42,095.5
Total capital and reserves		44,474.2	42,590.2

The notes on pages 80 to 90 form part of these regulatory current cost financial statements

The regulatory current cost financial statements were approved by the Board of Directors on 10 June 2010

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Regulatory current cost statement of cash flows for the year ended 31 March

	Notes	Appointed business £m	2010 Non-Appointed business £m	Total £m	Appointed business £m	2009 Non-Appointed business £m	Total £m
Net cash inflow from operating activities	(a)	974 2	37 6	1,011 8	905 8	9 4	915 2
Returns on investments and servicing of finance							
Interest received		200 5	-	200 5	63 3	0 5	63 8
Interest paid		(297 9)	(0 2)	(298 1)	(208 8)	-	(208 8)
Interest element of finance lease payments		(10 5)	-	(10 5)	(12 7)	-	(12 7)
Net cash outflow from returns on investments and servicing of finance		(107 9)	(0 2)	(108 1)	(158 2)	0 5	(157 7)
Taxation paid		(70 6)	(5 4)	(76 0)	(67 5)	(2 7)	(70 2)
Capital expenditure and financial investment							
Gross cost of purchased fixed assets		(719 4)	(5 3)	(724 7)	(915 2)	(0 3)	(915 5)
Infrastructure renewals expenditure		(71 3)	-	(71 3)	(104 8)	-	(104 8)
Receipt of grants and contributions		43.1	-	43 1	32.1	-	32 1
Disposal of fixed assets		39 9	-	39 9	8 7	-	8 7
Net cash outflow from investing activities		(707 7)	(5 3)	(713 0)	(979 2)	(0 3)	(979 5)
Equity dividends paid		(281 2)	(26 7)	(307 9)	(215 1)	(6 9)	(222 0)
Management of liquid resources							
Net cash inflow from management of liquid resources		(251 6)	-	(251 6)	(306 0)	-	(306 0)
Net cash outflow before financing		(444 8)	-	(444 8)	(820 2)	-	(820 2)
Financing							
Capital element in finance lease rebate/(payment)		(5 4)	-	(5 4)	4 6	-	4 6
New loans		454 7	-	454 7	1,320 3	-	1,320 3
Repayment of loans		(202 8)	-	(202 8)	(366 3)	-	(366 3)
Net cash inflow from financing	(b)	246 5	-	246 5	958 6	-	958 6
(Decrease)/Increase in cash	(b)	(198 3)	-	(198 3)	138 4	-	138 4

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to regulatory current cost statement of cash flows for the year ended 31 March

(a) Reconciliation of current cost operating profit to net cash flow from operating activities for the appointed business

	31 March 2010 £m	31 March 2009 £m
Current cost operating profit	587.6	513.6
Working capital adjustment	(1.2)	(8.4)
Movement in working capital (excluding short term capital creditors)	11.4	12.9
Current cost depreciation	331.8	324.0
Current cost profit on sale of fixed assets	(37.6)	(7.8)
Infrastructure renewals charge	114.0	114.0
Other non-cash profit and loss items (including provisions)	(31.8)	(42.5)
Net cash flow from operating activities	974.2	905.8

(b) Reconciliation of net cash flow to movement in net debt for the Appointed business

	Note	31 March 2010 £m	31 March 2009 £m
(Decrease)/increase in cash in the period		(198.3)	138.4
Cash inflow from increase in liquid resources		251.6	306.0
Cash inflow from movement in net debt and financing		(246.5)	(958.6)
Increase in net debt resulting from cashflows		(193.2)	(514.2)
Non-cash increase in net debt		(39.8)	(55.7)
Total increase in net debt		(233.0)	(569.9)
Opening net debt		(5,316.4)	(4,746.5)
Closing net debt	7	(5,549.4)	(5,316.4)

Non-cash increase in net debt comprises amortisation of bond fees and the carrying value accretion by RPI, of a number of RPI index-linked bonds and swaps. This adjustment for RPI index-linked bonds and swaps is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March

1 Current cost accounting policies

These financial statements have been prepared in accordance with guidance issued by the Water Services Regulation Authority for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of which assets are valued at their current cost value to the business.

These financial statements have been prepared in accordance with applicable Regulatory Accounting Guidelines (RAG). In respect of cost allocations, the Company has continued to allocate costs by cost centre as in previous years rather than on an activity based method, which is the preferred system under RAG 3.

The principal current cost accounting policies used are the same as those adopted in the regulatory historical cost financial statements, except as set out below.

Changes to accounting policies

The same accounting policies used for the year ended 31 March 2009 have been applied in these financial statements except as noted below.

(a) Valuation bases for determining the current cost of fixed assets

(i) Review of asset valuations

The Company undertook a review of the "modern equivalent asset" (MEA) values at 31 March 1998 as one aspect of the 1999 Periodic Review. This involved a comprehensive review of the asset stock at the time, as well as the unit costs underpinning the valuations. The Company has, on an ongoing basis, recognised improved information regarding the physical asset stock. All such changes are on a basis consistent with the valuations established in the 1999 review.

In accordance with Ofwat's General Guidance Note the revised MEA revaluation method has not been adopted in these current cost accounts. The revised revaluation method will be adopted in next year's MEA values.

(ii) Tangible fixed assets

The assets have been valued in accordance with RAG 1.04, on an MEA basis. Depreciation is charged over the estimated remaining economic life of the asset. Infrastructure assets are not depreciated.

Additions during the year are taken at their historical cost values. Disposals are stated at the value of the replacement assets.

• Land and buildings

Non-specialised operational properties are valued on the basis of estimated open market value for existing use at 31 March 1991, indexed since that date by the movement in the RPI, except for certain properties which have been valued at 31 March 1995 by professionally qualified employees of the Company.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually, between periodic reviews of replacement costs, by adjusting for inflation as measured by changes in the RPI.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March

(a) Valuation bases for determining the current cost of fixed assets (continued)

(ii) Tangible fixed assets (continued)

• Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, and sludge pipelines are stated at their MEA (see page 100) value, in a manner as described above. Due to the nature of these assets, the MEA value is calculated based on the length of sewer or pipe, or the capacity of the asset.

Following the repeal of Section 24 of the Public Health Act 1936 by the Water Act 1989, the Company assumed responsibility for the maintenance and operation of a significant length of additional sewers. The Company has estimated the length of these pipes in order to include their asset values in these accounts. The value is £5,891m (2009 £5,640m) based upon a pipe length of 19,000km (2009 19,000km). Adjustments may be required to those estimates in future years as more accurate information becomes available.

• Specialised/non-specialised assets

Specialised operational assets include those assets, used routinely in operating the business, which are directly attributable to water supply or sewerage services.

Non-specialised assets are those assets used routinely within the business, which cannot be directly attributed to either part of the business.

• Surplus land

Surplus land is valued at recoverable amounts less, where appropriate, that part of any proceeds to be passed on to customers under Condition B of the Licence.

(iii) Capital contributions

All third party capital contributions received since 31 March 1990 are carried forward as deferred income to the extent that any balance has not been credited to revenue, or deducted from net operating assets in the case of infrastructure assets. The balance carried forward is restated for the change in the RPI for the year.

(b) Real finance capital maintenance adjustments

The following adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

(i) **Depreciation adjustment** - this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.

(ii) **Working capital adjustment** - this is calculated by applying the change in the RPI over the year to the working capital of the Company at the beginning of the year.

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

Notes to the regulatory current cost financial statements for the year ended 31 March

(b) Real finance capital maintenance adjustments (continued)

- (iii) **Disposal of fixed assets adjustment** - this is the difference between the book values of realised assets in the current cost financial statements and in the historical cost financial statements
- (iv) **Financing adjustment** - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital, but excluding index rate linked debt and the deferred tax provision

(c) Operating costs

In note 3, direct costs incurred with associated companies are less than 20% of the total operating costs of the business before interest and tax. Therefore the costs have been allocated across the appropriate headings in accordance with RAG 3

2 Analysis of turnover, operating income and working capital adjustment for the appointed business

	Water supply £m	2010 Sewerage services £m	Appointed business £m	Water supply £m	2009 Sewerage services £m	Appointed business £m
Turnover						
Unmeasured	453.0	440.9	893.9	442.6	433.6	876.2
Measured	315.2	296.6	611.8	292.6	272.4	565.0
Trade effluent	-	6.1	6.1	-	5.7	5.7
Large user and special agreement	30.8	25.7	56.5	35.9	26.4	62.3
Rechargeable works	2.9	6.0	8.9	1.3	8.3	9.6
Bulk supplies/inter-company payments	2.9	0.0	2.9	2.8	-	2.8
Other appointed business (third party)	-	-	-	-	-	-
Third party services (excl non-potable water)	5.8	6.0	11.8	4.1	8.3	12.4
Other sources	5.6	7.4	13.0	8.4	7.0	15.4
Total turnover	810.4	782.7	1593.1	783.6	753.4	1,537.0
Operating income						
Current cost profit on disposal fixed assets	33.8	3.8	37.6	6.7	1.1	7.8
Working capital adjustment						
Working capital adjustment	0.6	0.6	1.2	4.3	4.1	8.4

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

3(a) Operating costs and associated fixed asset book values (year ended 31 March 2010)

	Water supply			Sewerage services			
	Resource & treatment £m	Distribution £m	Water supply total £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service total £m
Direct costs							
Employment costs	11 0	19 9	30 9	7 6	17 0	6 5	31 1
Power	13 9	28 4	42 3	7 9	23 9	3 1	34 9
Hired and contracted services	5 8	59 6	65 4	29 1	22 4	32 7	84 2
Materials and consumables	7 0	0 2	7 2	0 9	6 1	7 7	14 7
Service charges	14 2	-	14 2	1 0	3 8	-	4 8
Bulk supply imports	0 5	-	0 5	-	-	-	-
Other direct costs	0 8	2 9	3 7	1 0	0 3	0 2	1 5
Total direct costs	53 2	111 0	164 2	47 5	73 5	50 2	171 2
General & support expenditure	12 6	51 3	63 9	11 4	8 2	6 0	25 6
Total functional expenditure	65 8	162 3	228 1	58 9	81 7	56 2	196 8
Business activities							
Customer services			35 9				37 4
Scientific services			4 5				1 3
Other business activities			4 0				4 0
Business activities sub-total			44 4				42 7
Local authority rates			24 7				29 6
Doubtful debts			18 3				16 2
Exceptional items			-				-
Total opex less third party services			315 5				285 3
Third party services - opex			1 4				2 6
Total operating expenditure			316 9				287 9
Capital maintenance							
Infrastructure renewals charges	2 2	69 8	72 0	42 0	-	-	42 0
Current cost depreciation							
- service activities	82 0	61 0	143 0	28 4	113 9	44 8	187 1
- business activities			0 8				0 9
Amortisation of grants			(1 6)				(4 7)
Total capital maintenance			214 2				225 3
Total operating costs			531 1				513.2
CCA (MEA) values							
Services activities	2,729 5	9,291 5	12,021 0	35,572 9	2,596 2	684 0	38,853 1
Business activities			8 4				11 6
Service totals			12,029 4				38,864.7

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

3(b) Operating costs and associated fixed asset book values (year ended 31 March 2009)

	Water supply			Sewerage services			
	Resource & treatment £m	Distribution £m	Water supply total £m	Sewerage £m	Sewage treatment £m	Sludge treatment & disposal £m	Sewerage service total £m
Direct costs							
Employment costs	13 0	19 7	32 7	6 3	13 7	6 7	26 7
Power	12 0	28 8	40 8	8 6	23 8	5 3	37 7
Hired and contracted services	3 2	69 1	72 3	29 5	21 3	31 9	82 7
Materials and consumables	8 1	1 3	9 4	0 4	6 1	5 6	12 1
Service charges	3 2	-	3 2	1 2	3 5	-	4 7
Bulk supply imports	0 1	-	0 1	-	-	-	-
Other direct costs	-	0 9	0 9	1 1	-	0 4	1 5
Total direct costs	39 6	119 8	159 4	47 1	68 4	49 9	165 4
General & support expenditure	13 9	52 4	66 3	11 3	8 6	6 5	26 4
Total functional expenditure	53 5	172 2	225 7	58 4	77 0	56 4	191 8
Business activities							
Customer services			29 9				31 1
Scientific services			4 1				1 1
Other business activities			4 1				4 1
Business activities sub-total			38 1				36 3
Local authority rates			23 8				28 5
Doubtful debts			18 2				17 5
Exceptional items			4 8				18 2
Total opex less third party services			310 6				292 3
Third party services - opex			3 2				3 1
Total operating expenditure			313 8				295 4
Capital maintenance							
Infrastructure renewals charges	5 8	66 2	72 0	42 0	-	-	42 0
Current cost depreciation							
- service activities	84 0	57 0	141 0	26 3	108 5	43 4	178 2
- business activities			2 2				2 7
Amortisation of grants			(2 8)				(4 9)
Total capital maintenance			212 4				218 0
Total operating costs			526.2				513 4
CCA (MEA) values							
Services activities	2,459 7	8,982 9	11,442 6	34,229 9	2,465 3	642 5	37,337 7
Business activities			13 7				14 9
Service totals			11,456.3				37,352 6

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

4 (a) Current Cost Analysis of Fixed Assets by Asset Type as at 31 March 2010

Water Services

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 1 April 2009	4,032.3	53.0	9,208.2	169.2	13,462.7
RPI adjustment	179.3	2.4	409.7	7.6	599.0
Disposals	(34.8)	(0.5)	* (128.4)	(37.2)	(200.9)
Additions	117.5	1.5	240.4	59.4	418.8
At 31 March 2010	4,294.3	56.4	9,729.9	199.0	14,279.6
Depreciation					
At 1 April 2009	1,839.5	24.2	-	142.7	2,006.4
RPI adjustment	81.8	1.1	-	6.4	89.3
Disposals	(33.8)	(0.5)	-	(37.2)	(71.5)
Charge for year	90.6	1.2	-	52.0	143.8
At 31 March 2010	1,978.1	26.0	-	163.9	2,168.0
Net book value					
At 31 March 2010	2,316.2	30.4	9,729.9	35.1	12,111.6
At 31 March 2009	2,192.8	28.8	9,208.2	26.5	11,456.3

* Note The disposal of £128.4m (2009 £188.2m) of infrastructure assets, shown above, relates to the MEA value of the length of main abandoned in 2009 as a result of the Victorian mains replacement programme. The corresponding entry, shown in note 6 is against the current cost reserve

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

4 (b) Current Cost Analysis of Fixed Assets by Asset Type as at 31 March 2010

Sewerage Services

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 1 April 2009	6,774.3	43.1	33,415.1	257.6	40,490.1
RPI adjustment	301.4	1.8	1,486.6	11.4	1,801.2
Disposals	(82.5)	(0.5)	-	(23.1)	(106.1)
Additions	146.8	0.9	131.3	25.0	304.0
At 31 March 2010	7,140.0	45.3	35,033.0	270.9	42,489.2
Depreciation					
At 1 April 2009	2,881.3	27.8	-	228.4	3,137.5
RPI adjustment	128.6	0.8	-	10.2	139.6
Disposals	(81.1)	(0.5)	-	(23.2)	(104.8)
Charge for year	164.5	1.0	-	22.5	188.0
At 31 March 2010	3,093.3	29.1	-	237.9	3,360.3
Net book value					
At 31 March 2010	4,046.7	16.2	35,033.0	33.0	39,128.9
At 31 March 2009	3,893.0	15.3	33,415.1	29.2	37,352.6

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

4 (c) Current Cost Analysis of Fixed Assets by Asset Type at 31 March 2010

Total

	Specialised operational assets £m	Non- specialised operational properties £m	Infrastructure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 1 April 2009	10,806.6	96.1	42,623.3	426.8	53,952.8
RPI adjustment	480.7	4.2	1,896.3	19.0	2,400.2
Disposals	(117.3)	(1.0)	* (128.4)	(60.3)	(307.0)
Additions	264.3	2.4	371.7	84.4	722.8
At 31 March 2010	11,434.3	101.7	44,762.9	469.9	56,768.8
Depreciation					
At 1 April 2009	4,720.8	52.0	-	371.1	5,143.9
RPI adjustment	210.4	1.9	-	16.6	228.9
Disposals	(114.9)	(1.0)	-	(60.4)	(176.3)
Charge for year	255.1	2.2	-	74.5	331.8
At 31 March 2010	5,071.4	55.1	-	401.8	5,528.3
Net book value					
At 31 March 2010	6,362.9	46.6	44,762.9	68.1	51,240.5
At 31 March 2009	6,085.8	44.1	42,623.3	55.7	48,808.9

* Please see the note to table 4a in respect of the infrastructure assets disposal value

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

5 Current cost working capital

	31 March 2010 £m	31 March 2009 £m
Stocks	7.7	6.1
Trade debtors		
- Measured household	68.3	56.6
- Unmeasured household	115.5	97.4
- Measured non-household	44.1	42.1
- Unmeasured non-household	1.7	2.0
- Other	12.9	10.3
Measured income accrual	141.4	129.7
Prepayments and other debtors	44.3	34.4
Trade creditors	(247.1)	(179.6)
Deferred income – customer advance receipts	(88.7)	(98.8)
Capital creditors	(201.6)	(207.9)
Accruals and other creditors	(161.0)	(149.7)
Total working capital	(262.5)	(257.4)

6 Movement on current cost reserve

	2010 £m	2009 £m
Balance at 1 April	42,095.5	42,533.4
RPI adjustments		
- Fixed assets	2,188.0	(183.4)
- Working capital	(1.2)	(8.4)
- Financing	(11.0)	(53.5)
- Grant and third party contributions	(32.4)	(5.0)
- Mains replacement adjustment (see note 4a)	(128.4)	(188.2)
- Other	-	0.6
Balance at 31 March	44,110.5	42,095.5

Thames Water Utilities Limited

Regulatory accounts and required regulatory information

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

7 Net debt analysis

March 2010

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Maturity profile				
Less than one year	(345 6)	(207 4)	-	(553 0)
Between one and two years	(4 8)	(8 5)	-	(13 3)
Between two and five years	(359 1)	(349 3)	-	(708 4)
Between five and twenty years	(1,366 8)	(182 4)	(516 0)	(2,065 2)
In more than twenty years	(933 5)	-	(1,855 1)	(2,788 6)
Total borrowings	(3,009 8)	(747 6)	(2,371 1)	(6 128 5)
Cash	5 9	-	-	5 9
Short term deposits	573 2	-	-	573 2
Net debt	(2,430 7)	(747 6)	(2,371.1)	(5 549.4)

March 2009

	Interest rate risk profile			Total £m
	Fixed rate £m	Floating rate £m	Index linked £m	
Maturity profile				
Less than one year	(275 8)	(83 2)	-	(359 0)
Between one and two years	(345 9)	(57 4)	-	(403 3)
Between two and five years	(339 8)	(235 0)	-	(574 8)
Between five and twenty years	(1,406 2)	(194 7)	(214 8)	(1,815 7)
In more than twenty years	(1,044 0)	-	(1,645 4)	(2,689 4)
Total borrowings	(3,411 7)	(570 3)	(1,860 2)	(5,842 2)
Cash	204 2	-	-	204 2
Short term deposits	321 6	-	-	321 6
Net debt	(2,885.9)	(570.3)	(1,860.2)	(5,316.4)

All values in the above tables are post interest and cross currency rate swaps

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009

Rolling five-year summary

Regulatory current cost profit and loss account for the Appointed business for the year ended 31 March 2010 with corresponding amounts for prior periods (at 2010 prices)

	2010 £m	2009 £m	2008 * £m	2007 * £m	2006 * £m
Turnover	1,593.1	1544.2	1,504.6	1,493.0	1,510.2
Current cost operating costs	(1,044.3)	(1,044.4)	(1,057.2)	(1,153.8)	(1,094.1)
Operating income	37.6	7.8	25.8	8.1	10.3
Working capital adjustment	1.2	8.4	8.1	6.8	5.1
Current cost operating profit	587.6	516	481.3	354.1	431.5
Net interest	(255.2)	(179.7)	(177.4)	(182.6)	(161.3)
Financing adjustment	11.0	53.7	99.2	132.9	101.5
Current cost profit on ordinary activities before taxation	343.4	390.0	403.1	304.4	371.7
Taxation					
- Current tax	(42.1)	(23.9)	(111.9)	(56.4)	(80.3)
- Deferred tax	(75.1)	(94.2)	73.5	(25.0)	(29.4)
Current cost profit on ordinary activities after taxation	226.2	271.9	364.7	223.0	262.0
Dividends	(281.2)	(216.1)	(100.9)	(566.3)	(302.0)
Current cost (loss)/profit retained	(55.0)	55.8	263.8	(343.3)	(40.0)

Corresponding amounts have been stated at current year prices using movements in the average RPI

* Current cost operating costs in 2008, 2007 and 2006 (restated) include the reclassification of active leakage costs from capital to operating costs and in 2008 and 2007 the treatment of income from energy generation and the national grid reserve, which is now included in current cost operating cost for the appointed business

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Rolling five-year summary

Regulatory current cost balance sheet for the appointed business at 31 March 2010 with corresponding amounts for prior periods (at 2010 prices)

	2010 £m	2009 £m	2008 * £m	2007 * £m	2006 * £m
Fixed assets					
Tangible assets	51,240.5	50,980.2	50,617.6	50,367.9	50,094.2
Third party contributions since 31 March 1990	(934.9)	(911.1)	(892.7)	(853.9)	(810.6)
	50,305.6	50,069.1	49,724.9	49,514.0	49,283.6
Working capital	(262.5)	(268.8)	(293.9)	(221.1)	(149.3)
Cash	5.9	213.3	68.5	96.6	13.6
Short term deposits	573.2	335.9	16.2	121.4	-
Infrastructure renewals prepayment /(accrual)	(9.0)	35.2	38.2	(35.2)	(44.7)
Net operating assets	50,613.2	50,384.7	49,553.9	49,475.7	49,103.2
Non operating assets and liabilities					
Borrowings	(553.0)	(375.0)	(381.2)	(22.9)	(449.1)
Non-trade debtors	157.9	222.3	95.5	79.5	115.5
Non-trade creditors due within one year	(78.5)	(121.0)	(108.8)	(94.0)	(85.6)
Investment – loan to group company	1,180.0	1,232.5	1,273.4	-	-
Investments – other	0.1	0.1	0.1	0.1	0.1
Corporation tax receivable/(payable)	13.0	12.4	(8.0)	-	(36.3)
Total non operating assets and liabilities	719.5	971.3	871.0	(37.3)	(455.4)
Creditors amounts falling due after more than one year					
Borrowings	(5,575.5)	(5,727.1)	(4,642.5)	(3,689.2)	(2,521.9)
Other creditors	(77.3)	(38.1)	(25.8)	-	-
Total creditors falling due after more than one year	(5,652.8)	(5,765.2)	(4,668.3)	(3,689.2)	(2,521.9)
Provisions for liabilities and charges					
Deferred tax provision	(995.5)	(967.5)	(875.5)	(989.7)	(1,012.2)
Post employment (liability)/asset	(107.4)	(49.0)	27.2	12.0	(29.8)
Other provisions	(102.8)	(89.4)	(81.9)	(76.2)	(69.3)
Total provisions	(1,205.7)	(1,105.9)	(930.2)	(1,053.9)	(1,111.3)
Net assets	44,474.2	44,484.9	44,826.4	44,695.3	45,014.6
Capital and reserves					
Called up share capital	1,029.0	1,074.8	1,070.7	1,111.1	1,164.7
Share premium	100.0	104.4	104.1	108.0	113.1
Profit and loss account	(765.3)	(662.5)	(618.1)	(919.7)	(639.0)
Current cost reserve	44,110.5	43,968.2	44,269.7	44,395.9	44,375.8
Total capital and reserves	44,474.2	44,484.9	44,826.4	44,695.3	45,014.6

Corresponding amounts have been stated at current year prices using movements in the year-end RPI

* Current cost operating costs in 2008, 2007 and 2006 (restated) include the reclassification of insurance liabilities from non-trade creditors to other provisions

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Regulatory Capital Value (RCV)

	2010 £m
Opening RCV (March 2009 prices)	7,180
Indexation to year end (March 2010 prices)	319
<hr/>	
Opening RCV at year end prices	7,499
Capital expenditure (excluding infrastructure renewals expenditure)	670
Infrastructure renewals expenditure	125
Grants and contributions	(44)
Depreciation	(374)
Infrastructure renewals charge	(108)
Out performance of past regulatory assumptions	(47)
<hr/>	
Closing RCV (March 2010)	7,721
<hr/>	
Average RCV (2009/2010 year average prices)	7,441

The figures quoted reflect those used by Ofwat at the 2004 Periodic Review to set prices for 2009/2010, as published by Ofwat in RD 09/10. All costs have been indexed to March 2010 prices (RPI index) except for the average RCV, which is shown at year average prices (RPI index) in accordance with Ofwat's convention.

Differences between the figures shown above and actual costs/income will not affect price limits in the current period. Capital efficiencies will be taken into account in the calculation for the next price review.

RAG 5 Intra-group trade

During the year there were no contracts in excess of 0.5% (£8.1m) of the Company's turnover with any subsidiary of the Thames Water group of companies.

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed.

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

RAG 5 Directors' interests information

Listed below are details of directorships held by Thames Water Utilities Limited directors at 31 March 2010 in associated companies that have traded with the regulated business during the year

Directorships held in Associated Companies

The following directors held directorships in Thames Water Limited and Thames Water Utilities Holdings Limited

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

The following directors have formally appointed alternate directors to represent them when they are unavailable. These alternate directors also held alternate directorships in Thames Water Limited and Thames Water Utilities Holdings Limited

Director	Alternate Director
L F Abraira (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)
S Kolenc (resigned 1 January 2010)	L Webb (resigned 1 January 2010)
C R Deacon	R D Israel
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)

Thames Water Utilities Limited conducts its appointed business so as to ensure arm's length trading and avoidance of cross-subsidy in the spirit of Condition F of the Instrument of Appointment

No directorships are held by Thames Water Utilities Limited directors in circumstances, which, might, in practice, result in conflicts of interest in intra-group trading relationships

Thames Water Utilities Limited

Supplementary regulatory information for the year ended 31 March 2009 (continued)

Directors' Certificate under Condition F6A of the Company's Appointment

This is to certify that at their meeting on 10 June 2010 the directors of Thames Water Utilities Limited ("the Appointee") resolved as follows

- That, in the opinion of the directors', the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment(s))
- That, in the opinion of the directors', the Appointee will, for at least the next 12 months, have available to it
 - (a) Management resources
 - (b) Systems of planning and internal control

Which are sufficient to enable it to carry out those functions as required by sub-paragraph 6A 1(1)

- That, in the opinion of the directors', all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and a sewerage undertaker

The main factors the director's have taken into account in compliance with the Directors' Certificate under condition F6A of the Company's appointment are

- That the processes and systems of internal control operated as expected
- That the Appointee operated as if it were substantially the Appointee's sole business and that the Appointee were a separate public limited Company
- That financial resources and facilities are adequate to enable the Appointee to meet its regulatory obligations
- The net worth of the Company and the strength of the Company's key performance indicators as shown on pages 5 and 8 of the Chief Executive Officer's Business review
- The strong investment grade ratings as shown on page 7 of the Chief Executive Officer's Business review
- Borrowing facilities, which include significant, undrawn bank facilities
- Parental support provided by the ultimate holding company, which will provide financial support



M Braithwaite
Chief Financial Officer
10 June 2010



KPMG Audit Plc
8 Salisbury Square
London E14 5AG
United Kingdom

Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited

We have audited the Regulatory Accounts of Thames Water Utilities Limited ("the Company") on pages 66 to 95 which comprise

- The regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts
- The regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost balance sheet, the current cost cash flow statement and the related notes to the current cost financial statements including the statement of accounting policies

The financial reporting framework that has been applied in their preparation is Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention

The Regulatory Accounts are separate from the statutory financial statements of the Company. There are differences between UK Generally Accepted Accounting Practices ("UK GAAP") and the basis of preparation of information provided in the Regulatory Accounts because the Regulatory Accounting Guidelines specify alternative treatment or disclosure in certain respects. Where the Regulatory Accounting Guidelines do not specifically address an accounting issue, then they require UK GAAP to be followed. Financial information other than that prepared on the basis of an acceptable financial reporting framework, such as UK GAAP does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in financial statements prepared in accordance with the Companies Act 2006.

This report is made, on terms that have been agreed, solely to the Company and the Water Services Regulation Authority ("the WSRA") in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("the Regulatory Licence"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under the Regulatory Licence to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, 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 WSRA, for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the WSRA, the Directors and Auditors

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no assessment.

The directors' responsibilities for preparing the Regulatory Accounts in accordance with Regulatory Accounting Guidelines are set out in the statement of directors' responsibilities for regulatory information on page 65.

Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited (continued)

Our responsibility is to audit the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, except as stated in the "Basis of audit of the Regulatory Accounts" below, and having regard to the guidance contained in Audit 05/03 "Reporting to Regulators of Regulated Entities" International Standards on Auditing (UK and Ireland) require us to comply with the Auditing Practices Board's *Ethical Standards for Auditors*

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, and the reasonableness of significant accounting estimates made by the directors. In view of the purpose for which these Regulatory Accounts have been prepared, however, we did not evaluate the overall adequacy of the presentation of the information which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland)

Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory accounts of the Company (our "Statutory" audit) was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state in a Statutory auditor's report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume any responsibility to anyone other than the Company and the Company's members as a body, for our Statutory audit work, for our Statutory audit report, or for the opinions we have formed in respect of that Statutory audit.

The regulatory historical cost accounting statements on pages 66 to 76 have been drawn up in accordance with Regulatory Accounting Guideline 3.06 in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly that the relevant sections of Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK GAAP, and a reconciliation of the balance sheet drawn up on this basis with that drawn up under Companies Act 2006 is given on page 76.

Opinion on the Regulatory Accounts

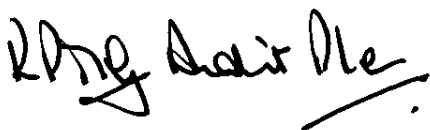
In our opinion the Regulatory Accounts of the Company for the year ended 31 March 2010 fairly present in accordance with Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on page 35 to 42, 69 to 70 and 81 to 83, the state of the Company's affairs at 31 March 2010 on an historical cost and current cost basis, the historical cost and current cost profit for the year and the current cost cash flow for the year and have been properly prepared in accordance with those conditions, guidelines and accounting policies.

In respect of this information we report that in our opinion

- a) Proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F of the instrument

Independent Auditors' report to the Water Services Regulation Authority and the Directors of Thames Water Utilities Limited (continued)

- b) The information is in agreement with the appointee's accounting records and has been properly prepared in accordance with the requirements of Condition F and, as appropriate, Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA
- c) The regulatory historical cost accounting statements on pages 66 to 76 present fairly, under the historical cost convention, the revenues and costs, assets and liabilities of the appointee and its appointed business in accordance with the Company's Instrument of Appointment and Regulatory Accounting Guideline 2 03, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA
- d) The regulatory current cost accounting statements on pages 77 to 90 have been properly prepared in accordance with Regulatory Accounting Guideline 1 04, Regulatory Accounting Guideline 3 06 and Regulatory Accounting Guideline 4 03 issued by the WSRA



KPMG Audit Plc

*Chartered Accountants
London*

10 June 2010

Thames Water Utilities Limited

Glossary of regulatory terms

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information notably in the five-year Asset Management Plan process

Appointed Business – The appointed business comprises the regulated activities of the Company which are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991

Arm's-length trading – Arm's-length trading is where the Company treats the associate companies on the same basis as external third parties

Asset Management Plan (AMP) – A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP3 covered the investment period April 2000 to March 2005. AMP4 covers the investment period April 2005 to March 2010.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

Capital Incentive Scheme ("CIS") – This will be the new capital expenditure incentive mechanism introduced by Ofwat to take effect in AMP 5. Under this mechanism Ofwat sets a baseline capital expenditure plan, which they believe companies should be able to deliver. Companies are rewarded or penalised during the AMP 5 for submitting a business plan, which is lower or higher than the baseline respectively. Companies will then be further rewarded or penalised at the start of AMP6 for underspending or overspending against that business plan.

CIS will apply to capital expenditure only, not to operational expenditure and will not apply to large projects such as the Lee Tunnel.

Final determination – This is the conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year period. It is accompanied by a determination of the allowable 'K' factor for the forthcoming five-year period.

Financing adjustment – The impact of general inflation (RPI) on the real value of net finance for the business.

K factor – The annual increase, set by Ofwat, in charges that companies in the water industry can make. The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula $RPI + \text{or} - 'K' + 'U'$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. 'K' is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and 'U' is the amount of 'K' not taken up by a company in previous years.

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Thames Water Utilities Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Thames Water Utilities Limited

Glossary of regulatory terms (continued)

Modern Equivalent Asset (MEA) – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing, or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

Monitoring plan – The document required by Ofwat after the outcome of a price review that sets out annual targets for delivery against the Final Determination. The June Return is the annual submission to Ofwat that allows the regulator to track progress against the Monitoring Plan.

Non-appointed business – The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

Overall Performance Assessment (“OPA”) – This is the measure used by Ofwat to assess the performance of water only and water and sewerage companies within the industry. Ofwat uses a scoring system, up to a maximum of 437.5 whereby it compares companies performance across the industry.

Periodic Review (PR) – The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the K factor – see above).

Price limit – This is the name given to the combination of the Retail Price Index (RPI), ‘K’ and ‘U’.

Regulatory Accounting Guidelines (RAG) – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Retail Price Index (RPI) – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.

Regulatory Capital Value (RCV) – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Thames Water Utilities Limited

Glossary of regulatory terms (continued)

Third-party contributions since 1989/90 – Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material

Working capital adjustment – The impact of general inflation (RPI) on the real value of working capital to the business