

Registered no: 02366661 (England and Wales)

## **Thames Water Utilities Limited**

Interim report and financial statements

For the six month period ended 30 September 2011

# Thames Water Utilities Limited

## Contents

	<b>Pages</b>
Report of the Chief Executive Officer	1 - 4
Report of the Chief Financial Officer	5 - 8
Responsibility statement of the directors	9
Independent review report	10
Condensed profit and loss account	11
Condensed statement of total recognised gains and losses	11
Condensed balance sheet	12
Condensed cash flow statement	13
Notes to the financial statements	14 - 22

# Thames Water Utilities Limited

## Report of the Chief Executive Officer for the six month period ended 30 September 2011

This report presents a business and financial overview for Thames Water Utilities Limited ("the Company"). The principal activity of the Company (Registered number: 02366661) continues to be the provision of water and wastewater services.

This report has been prepared in accordance with pronouncements on interim reporting issued by the Accounting Standards Board and the voluntarily applied Disclosure and Transparency Rules as stated in the responsibility statement of the directors (see page 9).

### Business review

#### Financial Performance

The Company's operating profit, including the exceptional pension curtailment gain of £40.0m (see note 2, page 15), for the six months to 30 September 2011 was £373.6m. Underlying operating performance increased by £25.4m to £333.6m compared to £308.2m for the six months to 30 September 2010 ("the prior period"), which is explained in the Chief Financial Officer's report on page 5. Operating expenditure is in line with expectations, despite increases in costs such as energy, materials and rates. Underlying profit for the period <sup>1</sup> of £117.0m is broadly in line with the prior period of £119.9m.

Capital expenditure for the six months to 30 September 2011 was £533.2m compared to £315.0m for the prior period, reflecting the Company's commitment to delivering nearly £5bn of investment over this regulatory period from April 2010 to March 2015 ("AMP5").

#### Operating Performance

On 26 October 2011, the Water Services Regulation Authority ("Ofwat") published its report on the water companies' performance for 2010/11. Ofwat reported that the regulatory targets it set the Company were achieved across the operational performance areas of customer experience, reliability and availability and environmental impact. The Company's good operational performance included outperforming its leakage target despite the harsh winter of 2010/11. In the report, Ofwat expressed concern about the information the Company keeps on properties at risk of sewer flooding. Ofwat is considering the issue and what action, if any, it may take. The Company is committed to resolving the issue with Ofwat; it has provided relevant documentation and is meeting with Ofwat regularly to discuss the issue. Ofwat has said that it expects to make a decision on this issue by April 2012.

The Company has maintained its operational performance for the six months to 30 September 2011. As a result, the Company is on track to meet all of its operational targets with the exception of pollution incidents where the Company is at risk of incurring more incidents than its target for 2011/12. Where these incidents have occurred the Company has taken all remedial actions necessary, working with the Environment Agency to limit the impact. The Company has also put in place a nineteen point plan to limit the occurrence and minimise the impact of these incidents going forward.

On 26 October 2011, Ofwat also published the results of the Service Incentive Mechanism ("SIM") scores for the water companies for 2010/11. SIM is a new mechanism introduced by Ofwat for this regulatory period. It is designed to measure the quality of service provided to customers. Based on their relative performance Ofwat will make financial adjustments to the water companies' allowances when it next sets prices. SIM was in an introductory trial period for the year ending 31 March 2011; Ofwat will not include the results of the SIM for that year in setting any financial adjustments. The Company's score, for the year ending 31 March 2011, was 3.92, giving it a mid-table position compared to the performance of other Water and Sewerage Companies ("WaSC"). The Company is committed to improving the service it provides to its customers and has recruited a new Customer Service Director, Natalie Beckerman. Natalie has a wealth of experience in customer service and is leading a transformation programme to deliver significant improvements in the Company's customer service over the next few years.

<sup>1</sup> Underlying profit for the period excludes the post tax exceptional pension curtailment gain of £29.6m.

# **Thames Water Utilities Limited**

## **Report of the Chief Executive Officer for the six month period ended 30 September 2011 (continued)**

### **Business review (continued)**

#### **Health and safety**

The Company continues to have a key focus on health and safety. It has developed its 'one-safety hub', a shared facility enabling the Company and its contractors to share best practise in health and safety. In the current financial year the Company has also reviewed and enhanced its health and safety systems and held further health and safety conferences for the Company's employees and its contractors. However, it is with regret that the Company has to report that two employees of its contractors suffered fatal injuries in two separate incidents. The first of these occurred in June 2011 where the contractor was working in an excavation. The second occurred in October 2011, where the contractor was struck by a vehicle when working in a roadway. Full investigations are being carried out on both incidents.

#### **Thames Tunnel**

The Thames Tunnel is needed to help tackle the 39 million tonnes of untreated sewage that on average overflows annually into the River Thames from London's Victorian sewerage network.

On 3 November 2011, Richard Benyon, Parliamentary Under-Secretary for Natural Environment and Fisheries, made a statement to Parliament confirming the Government's support for the Thames Tunnel project. On the following day the Company commenced a 14 week consultation on the plans for the proposed tunnel, including its preferred sites for the tunnel's construction and operation.

#### **Regulatory reform**

Ofwat is continuing its review of the regulation of the Water Industry. Ofwat's review seeks to reduce the regulatory burden on WaSC whilst addressing future challenges to the industry. A number of consultative documents have been issued by Ofwat to meet these objectives.

In August 2011, Ofwat published a decision that in developing business plans for the next price control companies should engage with their customers to a greater extent than they have in the past.

On 31 October 2011, the Department for Environment, Food and Rural Affairs ("Defra"), introduced draft regulations to expand the business retail market. Subject to Parliamentary approval, Defra expects to reduce the market threshold from 50 ML (mega litres) per year to 5 ML per year by the end of 2011. The Company welcomes the Government's decision to allow businesses to choose their water supplier and the opportunity to demonstrate the value of its high quality service.

In addition, the Government is also reviewing the future challenges facing the industry and is expected to publish its Water White Paper on the long term direction for the industry in the winter of 2011.

The Company has been and will continue to be actively involved in the public debate on reform. The Company has sought to ensure that any reforms build on the successful record of the industry and thereby deliver for customers and other stakeholders.

#### **Transfer of privately owned sewers and lateral drains**

On 1 July 2011, The 'Water Industry (Schemes for Adoptions of Private Sewers 2011)' came into force, whereby all privately owned sewers and lateral drains connected to an existing public sewer became the responsibility of sewerage undertakers.

As a result, 40,000 kilometres of privately owned sewers and lateral drains were transferred on 1 October 2011 to the Company, an increase of 60% in the sewer network for which the Company is now responsible.

# **Thames Water Utilities Limited**

## **Report of the Chief Executive Officer for the six month period ended 30 September 2011 (continued)**

### **Business review (continued)**

#### **Transfer of privately owned sewers and lateral drains (continued)**

The Company welcomes the clarity and peace of mind that the change in law will bring for its customers in the event of a sewer collapse or blockage. The Company expects that the number of blockages that it has to tackle will increase from 55,000 a year to around 250,000, increasing operating costs by approximately £35.0m a year.

#### **Water Resource Management Plan Public Inquiry**

In March 2011, Defra published the Planning Inspector's report on the public inquiry into the Company's revised draft Water Resources Management Plan 2009 ("WRMP 2009"). The report's recommendations were accepted by the Secretary of State of Defra, including a requirement for additional work to the Company's WRMP 2009.

Defra issued instructions on the amendments the Company needed to make to this plan so that it meets the minimum requirements recommended by the Inspector, and also certain issues to be taken into account for the next plan, Water Resources Management Plan 2014. Public consultation on the revised draft plan will take place during December 2011 and January 2012. The Company expects to produce an updated plan, taking account of stakeholder comments, in February 2012 for submission to Defra, for consideration by the Secretary of State.

#### **Transforming Thames – Making Tomorrow Better**

The Company has continued to improve both its operational and financial performance whilst implementing the key change initiatives of the Transforming Thames project. The culture of continuous improvement this has engendered within the organisation provides a strong platform for the future of the Company.

An integrated delivery plan has been compiled to ensure that all the key change initiatives being undertaken across the business, such as the Delivering Performance Excellence, Work Asset Management and Information ("WAMI"), Supervisory Control And Data Acquisition, Customer Service Transformation and Information Technology strategy programmes, are aligned to the Company's strategy and that interdependencies are identified, recognised and managed across all functions.

The WAMI solution is being implemented from 14 November 2011 and by March 2012 over 4,800 employees and contractors should have the WAMI capability.

Amongst its benefits will be:

- An improved customer experience with information available to inform customers when issues will be resolved using their preferred communication channel – letter, email or text during events that affect them.
- The solution should ensure that the right person is at the right place at the right time with the right tools.
- Improved management of data regarding all aspects of the Company's assets.

These benefits will help to improve the Company's performance, as measured by the SIM, and help it to reduce costs by over £100m during the current regulatory period.

The Company has recently reviewed its management structure and has made a number of changes to ensure full alignment with its strategy. These changes are part of the journey to make Thames Water the company of choice for customers by delivering the improved customer services and further efficiencies that the Company is committed to achieving.

# **Thames Water Utilities Limited**

## **Report of the Chief Executive Officer for the six month period ended 30 September 2011 (continued)**

### **Business review (continued)**

#### **Transforming Thames – Making Tomorrow Better (continued)**

As a result, the Company in addition to the appointment of Natalie Beckerman has made the following changes to its Executive team:

- Piers Clark joined the Company in May 2011 as Commercial Director.
- Michael Gerrard joined the Company in May 2011 as Managing Director for the Thames Tunnel.

Stuart Siddall (Chief Financial Officer) joined the Company in September 2011 and was also appointed to the Board of Directors (as an Executive Director) following the resignation of Mark Braithwaite. I would like to take this opportunity to thank Mark for the significant contribution he has made to the progress of the business over the last four years and wish him well in his future career.



**Martin Baggs**  
Chief Executive Officer

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2011

### Financial overview

#### Financial Key Performance Indicators (KPIs)

The Company's financial KPIs are as follows:

Performance Measure	Six months to 30 September 2011 £m	Six months to 30 September 2010 £m
Turnover	850.8	813.7
Operating expenditure (1)	308.7	311.4
Operating profit	373.6	308.2
Underlying operating performance (2)	333.6	308.2
Total capital expenditure (3)	533.2	315.0

#### Methodology and calculation of financial KPIs

1. Operating expenditure: Operating costs excluding exceptional item (2011/12 pension curtailment gain), amortisation, depreciation and Infrastructure Renewals Charge ("IRC"), see note 2, page 15 to the financial statements.
2. Underlying operating performance: Operating profit excluding exceptional item (pre-tax).
3. Total capital expenditure: Total expenditure on tangible fixed assets including contributions received, see note 5 to the financial statements.

#### Turnover

Turnover for the six month period ended 30 September 2011 was £850.8m (2010: £813.7m), an increase of £37.1m (4.6%) compared to the prior period. Real price increases as agreed with Ofwat (0.4%), together with increases linked to the Retail Price Index ("RPI") increased turnover by £40.4m. This has been partly offset by lower metered consumption reflecting customers' continued wise use of water.

#### Operating expenditure

Operating expenditure, excluding exceptional item, see note 2 page 15, for the six month period ended 30 September 2011 has reduced by £2.7m (0.9%) to £308.7m (2010: £311.4m) compared to the prior period. A provision release in respect of certain legal claims has contributed to the reduction in operating costs. However, despite inflationary pressures with average RPI of 5.6%, and increased bad debts reflecting the current economic crisis, underlying operating costs are in line with the Company's expectations, whilst delivering its regulatory outputs.

#### Underlying operating performance

Underlying operating performance has improved by £25.4m to £333.6m (2010: £308.2m). This improvement is due to the increase in turnover and reduced operating expenditure described above, offset by an increase in depreciation and IRC of £11.3m, reflecting the high level of capital investment over the first two years of AMP5.

#### Net interest payable and similar charges

Net interest payable and similar charges for the six month period ended 30 September 2011 was £227.7m (2010: £194.8m), an increase of £32.9m (16.9%) compared to the prior period. Included within this figure is £19.7m (2010: £9.8m) of inter-company interest receivable from the upstream loan to Thames Water Utilities Holdings Limited (see note 6). Excluding this inter-company interest, the net interest payable and similar charges figure was £247.4m (2010: £204.6m). The increase in interest expense is largely due to the increase in net debt of approximately £1bn compared to the prior period, driven by the funding required in delivering the Company's capital investment programme.

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2011 (continued)

### Financial overview (continued)

#### Net cash flow before financing activities

Net cash outflow before financing activities of £85.9m (2010: outflow: £396.5m) has decreased by £310.6m compared to the prior period. During the period there was an upstream loan made to the immediate parent company of £150.0m (2010: £685.0m). This item has been included within Net cash outflow from capital investment and financial investment activities.

Excluding this upstream loan, net cash flow before financing activities was an inflow of £64.1m (2010: inflow £288.5m), a decrease of £224.4m, principally as a result of the increase in capital expenditure, as discussed below, and an increase in net cash outflow from returns from investments and servicing of finance, reflecting the increase in net debt (see note 13, page 21).

#### Balance sheet

Net assets as at 30 September 2011 are £50.9m lower than 31 March 2011, reflecting profit for the period of £146.6m, dividend payments of £179.5m and a post tax actuarial loss in relation to the pension schemes in the period of £18.0m. The dividend payments are further explained in note 4 to the financial statements.

#### Capital expenditure

Capital expenditure for the six months to 30 September 2011 was £533.2m compared to £315.0m for the prior period. The Company, during the first year of the AMP5 ended 31 March 2011 delivered over £1bn of investment and is on course to deliver a further £1bn in the current financial year which is in line with the Final Determination.

#### Other financial indicators

During the period the Company paid three interim dividends totalling £179.5m of which £24.4m related to the year ended 31 March 2011 and £155.1m related to the current financial period.

On 24 November 2011, the Board of Directors approved an interim dividend of £100.0m (9.7p per ordinary share) in respect of the year ended 31 March 2012.

#### Financing

As at 30 September 2011, the Company had undrawn committed facilities in place with a syndicate of twelve relationship banks to the value of £1.2bn. These facilities, together with surplus cash, provide the Company with the necessary liquidity to fund the operation of the business for at least the next eighteen months.

During the period, the Company issued a £100.0m index linked bond, maturing in 2022 and repaid a 2bn Yen (£9.2m) 3.0% fixed rate bond.

Until 31 March 2010, all debt issued by the Securitisation Group (being Thames Water Utilities Holdings Limited, the Company and its wholly owned subsidiaries) 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%.

From 1 April 2010, the Company and the Securitisation Group is able to issue Subordinated Debt ("Class B"), with an increase in the combined Class A and Class B (together "Senior") net debt/RCV ratio to a limit of 85%. As at 30 September 2011, the Company had in issue £850.0m (2010: £850.0m) of Class B bonds.

The RCV is calculated by Ofwat annually and was £8,849.0m at 31 March 2011.

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2011 (continued)

### Principal risks and uncertainties

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 Executive Team.

The Company is exposed to a number of potential risks and uncertainties that could have a material impact on its long-term performance. These potential risks and uncertainties are detailed fully in the Annual report and financial statements for the year ended 31 March 2011 and summarised below:

- Delivery of the Thames Tideway Tunnel
- Price Review 2014 ("PR14") determination
- Failure to meet regulatory targets
- Managing increased competition in the water industry
- Transfer of private drains and sewers
- Employee pension scheme funding
- Failure to maintain adequate funding arrangements
- Future changes in laws or regulations
- Failure of a major asset
- The effects of climate change and long-term changes in weather patterns
- Shortage of skilled labour
- Impact of low inflation or deflation
- Customer experience measures

### Non-financial performance measures – service performance overview

#### Summary

In 2010/11 the Company continued to improve its service performance, with particular achievements in the areas of leakage, security of supply and sewage treatment works compliance. The Company is continuing to target improvements in customer satisfaction.

#### Leakage

For the year ended 31 March 2011, despite the coldest start to a winter for 100 years, the Company met its annual leakage target for the fifth consecutive year. Between 2005 and 2011, the Company has reduced leakage by 27%. Due to the very high levels of leakage control activity applied towards the end of 2010/11 to recover from the impact of the exceptionally cold winter, the Company started 2011/12 in a very good position. This performance has been maintained with leakage control activities being delivered to plan, which is reflected in the Company's year-to-date leakage position being ahead of target for the period.

# Thames Water Utilities Limited

## Report of the Chief Financial Officer for the six month period ended 30 September 2011 (continued)

### Non-financial performance measures – service performance overview (continued)

#### Security of water supply

During 2010/11, the Company achieved a security of water supply score of 100 for all its customers, two years ahead of target. This compares to a score of only 22 in 2005/06, at the start of the previous AMP period. The Company is forecasting to maintain its security of supply score for 2011/12.

#### Drinking water quality and sewage works compliance

The Company continues to achieve high levels of performance for both water quality and sewage works compliance, achieving 99.97% compliance for drinking water quality standards at the customer's tap and 100% compliance with effluent quality standards for our sewage treatment works.

#### Pollution incidents

From January to September 2011, the Company has recorded nineteen Category 1 and 2 pollution incidents, seven of which were consent compliant. The Company recognise that pollution incidents are unacceptable, and are working with its staff and customers to reduce the number and impact of pollution incidents.

#### Service Incentive Mechanism (SIM)

Ofwat introduced SIM to be a key measure of company performance for AMP5. SIM replaces the previous measure, 'Overall Performance Assessment', to focus on the quality of customer service the Company delivers. This measure combines quantitative performance metrics (unwanted contacts i.e. number of written complaints) and qualitative information (customer satisfaction surveys) to assess company performance.

The measure is continuing to evolve and a 'horizontal' audit has recently been completed to review the consistency of company approaches across the industry. 2011/12 will be the first year that companies' SIM performance is formally assessed. For 2010/11, which was the first full year test of SIM, the Company achieved a SIM score of 65 (29 quantitative; 37 qualitative)<sup>2</sup>, placing it 5th out of 10 WaSC, and 13th out of all 21 industry companies. Customers' experiences and their resultant satisfaction of dealing with the Company are of critical importance. Customer focused action plans are being put in place to drive continuous improvements in this area.



**Stuart Siddall**  
Chief Financial Officer

<sup>2</sup> Ofwat's Service Incentive Mechanism (SIM) 2010-11 – company performance report. All scores are calculated by Ofwat from unrounded data, so the two component scores do not add up to the total out of 100 because of rounding.

# Thames Water Utilities Limited

## Responsibility statement of the directors in respect of the half yearly financial report

The directors have voluntarily complied with the Disclosure and Transparency Rules, except in the case of applying DTR 4.2.8R in respect of related party transactions on the grounds that the Company is exempt as it does not issue listed shares. The Company is required under licence condition 6A.5B to publish information about its interim results as if it was subject to the Listing Rules of the Financial Services Authority.

The directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with the Statement "Half yearly financial reports" issued by the UK Accounting Standards Board.
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the "Disclosure and Transparency Rules", being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year.

The directors of the Company are listed in the Company's Annual report and financial statements for the year ended 31 March 2011. Subsequent to the publication of the Annual report and financial statements for the year ended 31 March 2011, the following appointments and resignations have been made:

### Executive directors

M W Braithwaite (resigned 20 September 2011)  
S J Siddall (appointed 20 September 2011)

### Non Executive Directors

A F C DeP Santos (resigned 4 August 2011)  
M C Guerreiro – alternate director to A F C DeP Santos (resigned 4 August 2011)  
L F Abreira (appointed 4 August 2011)

The above statement of directors' responsibilities was approved on 24 November 2011.

By order of the Board



**Stuart Siddall**  
**Chief Financial Officer**

# Thames Water Utilities Limited

## Independent review report to Thames Water Utilities Limited for the six month period ended 30 September 2011

### Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2011, which comprises the condensed profit and loss account, the condensed balance sheet, the condensed cash flow statement, the condensed statement of total recognised gains and losses and the related explanatory notes. We have read the other information contained in the half yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

### Directors' responsibilities

The half yearly report is the responsibility of, and has been approved by, the directors.

The annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half yearly report has been prepared in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the Annual report and financial statements for the year ended 31 March 2011.

### Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half yearly report based on our review.

### Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half yearly financial report for the six months ended 30 September 2011 is not prepared, in all material respects, in accordance with the basis of preparation set out in note 1 and the accounting policies adopted in the Annual report and financial statements for the year ended 31 March 2011.



**Paul Johnson**

For and on behalf of KPMG Audit Plc  
Chartered Accountants  
London  
24 November 2011

# Thames Water Utilities Limited

## Condensed profit and loss account for the six month period ended 30 September 2011

	Note	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Turnover		850.8	813.7	1,623.1
Operating costs before exceptional item		(516.9)	(508.3)	(1,022.9)
Exceptional item: pension curtailment gain	2	40.0	-	-
Total operating costs	2	(476.9)	(508.3)	(1,022.9)
Operating (expense)/income		(0.3)	2.8	10.9
<b>Operating profit</b>		<b>373.6</b>	<b>308.2</b>	<b>611.1</b>
Net interest payable and similar charges		(227.7)	(194.8)	(398.3)
Other finance expense		(0.3)	(2.5)	(4.3)
<b>Profit on ordinary activities before taxation</b>		<b>145.6</b>	<b>110.9</b>	<b>208.5</b>
Taxation on profit on ordinary activities	3	1.0	9.0	16.7
<b>Profit for the period</b>	9	<b>146.6</b>	<b>119.9</b>	<b>225.2</b>

All amounts above relate to continuing operations.

There are no differences between the profit on ordinary activities before taxation for the periods as stated above and their historical cost equivalents.

## Condensed statement of total recognised gains and losses for the six month period ended 30 September 2011

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Profit for the period	146.6	119.9	225.2
Actuarial loss on pension scheme	(23.2)	(12.6)	(1.1)
Deferred tax relating to actuarial loss	5.2	1.9	(3.2)
<b>Total recognised gains for the period</b>	<b>128.6</b>	<b>109.2</b>	<b>220.9</b>

# Thames Water Utilities Limited

## Condensed balance sheet at 30 September 2011

	Note	30 September 2011 (unaudited) £m	30 September 2010 (unaudited) £m	31 March 2011 (audited) £m
<b>Fixed assets</b>				
Tangible assets	5	8,457.7	7,673.4	8,162.2
Investments		0.1	0.1	0.1
		8,457.8	7,673.5	8,162.3
<b>Current assets</b>				
Stocks		9.4	8.3	8.2
Debtors:				
Amounts falling due within one year		956.7	902.6	621.9
Amounts falling due after more than one year	6	2,034.7	1,874.8	1,865.0
Total debtors		2,991.4	2,777.4	2,486.9
Investments		398.0	212.0	775.8
Cash at bank and in hand		6.2	4.3	3.6
		3,405.0	3,002.0	3,274.5
<b>Creditors: amounts falling due within one year</b>	7	(1,377.6)	(1,269.9)	(1,026.6)
<b>Net current assets</b>		2,027.4	1,732.1	2,247.9
<b>Total assets less current liabilities</b>		10,485.2	9,405.6	10,410.2
<b>Creditors: amounts due after more than one year</b>	7	(7,767.5)	(6,575.0)	(7,612.4)
Deferred income		(139.7)	(142.0)	(143.0)
Provisions for liabilities and charges	8	(1,042.5)	(1,064.1)	(1,054.3)
<b>Net asset excluding pension liabilities</b>		1,535.5	1,624.5	1,600.5
Net pension liabilities		(80.5)	(119.4)	(94.6)
<b>Net assets including pension liabilities</b>		1,455.0	1,505.1	1,505.9
<b>Capital and reserves</b>				
Called up share capital		1,029.0	1,029.0	1,029.0
Share premium account		100.0	100.0	100.0
Profit and loss account	9	326.0	376.1	376.9
<b>Total shareholder's funds</b>	10	1,455.0	1,505.1	1,505.9

The interim financial statements were approved by the Board of Directors on 24 November 2011 and signed on its behalf by:



**Stuart Siddall**  
Chief Financial Officer

# Thames Water Utilities Limited

## Condensed cash flow statement for the six month period ended 30 September 2011

	Note	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
<b>Net cash inflow from operating activities</b>	11	<b>538.8</b>	504.8	943.1
Net cash outflow from returns from investments and servicing of finance *		<b>(136.7)</b>	(83.6)	(165.4)
Taxation		<b>(0.3)</b>	(21.5)	(26.0)
Net cash outflow from capital investment and financial investment activities **		<b>(686.0)</b>	(996.9)	(1,534.0)
Dividends paid to Shareholders	4	<b>(179.5)</b>	(160.5)	(271.4)
Management of liquid resources	12	<b>377.8</b>	361.2	(202.6)
<b>Net cash outflow before financing activities</b>		<b>(85.9)</b>	(396.5)	(1,256.3)
<b>Financing</b>	12	<b>88.5</b>	394.9	1,254.0
<b>Increase/(decrease) in cash</b>	12	<b>2.6</b>	(1.6)	(2.3)

\*As described in note 4, the interim dividend of £24.4m (2010: £28.2m) in respect of the year ended 31 March 2011 was paid to Thames Water Utilities Holdings Limited and was used to settle inter-company interest owing to Thames Water Utilities Limited. This interest receivable is included within this caption.

\*\* Net cash outflow from capital investment and financial investment activities includes a loan of £150.0m (2010: £685.0) to Thames Water Utilities Holdings Limited.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011

### 1. Basis of preparation

These condensed interim financial statements ("the financial statements") for the period ended 30 September 2011 have been prepared in accordance with UK Generally Accepted Accounting Practice and with the historical cost convention, except as noted below, and on the basis of the accounting policies consistent with those set out in the regulatory disclosures of the Company's Annual report and financial statements for the year ended 31 March 2011.

The Company has not prepared consolidated group financial statements and therefore these statements represent Company only results. The Company has only one segment as defined in the Companies Act 2006 and SSAP 25 'Segmental Reporting' and has therefore not included segmental analysis within the financial statements.

The financial statements are consistent with the regulatory historic cost financial statements for the year ended 31 March 2011, which the Company prepares in accordance with Condition F of the Instrument of Appointment by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Industry Act 1991.

The financial statements do not include all the information required for full annual financial statements, do not comprise statutory accounts within the meaning of Section 396 of the Companies Act 2006, and should be read in conjunction with the Annual report and financial statements for the year ended 31 March 2011. The financial statements have been prepared in accordance with the UK Accounting Standards Board's Statement '*Half yearly financial reports*', and the requirements of the '*Disclosure and Transparency Rules*' issued by the Financial Services Authority. The financial statements have been reviewed by KPMG Audit Plc.

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, the treatment of infrastructure renewals expenditure and the treatment of certain capital contributions as explained 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 Ofwat.

#### Profit on sale of fixed assets

Profit on sale of fixed assets has been included within operating profit, as operating income, in accordance with Regulatory Accounting Guideline 3.06 ("RAG 3.06"). This represents a departure from FRS 3 '*Reporting Financial Performance*' as adopted in the Company's 31 March 2011 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit.

#### Infrastructure renewals expenditure

Infrastructure renewals expenditure ("IRE") has been accounted for in accordance with RAG 3.06 in the 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 2011. Accordingly IRE net of depreciation has been included within debtors.

The Company's 31 March 2011 statutory financial statements disclose IRE net of depreciation in accordance with FRS 15 '*Tangible Fixed Assets*', which requires this amount to be included within fixed assets. Within these financial statements, the Company in accordance with RAG 3.06 reports IRE net of depreciation within debtors and as a creditor in the regulatory historic cost financial statements for the year ended 31 March 2011. The effect of this reclassification on fixed assets is shown in note 5, page 18 of the financial statements.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 1. Basis of preparation (continued)

#### 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. As infrastructure assets are accounted under renewals accounting, related capital contributions are not recognised in the profit and loss account.

The statutory accounts for the year ended 31 March 2011 have been delivered to the Registrar of Companies. The auditors' report on these accounts was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain a statement under Section 498 of the Companies Act 2006.

The regulatory accounts for the year ended 31 March 2011 have been delivered to Ofwat. The auditors' report on these accounts confirmed that they contained the information required to comply 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.

### 2 Operating costs

	<b>Six months to 30 September 2011 (unaudited) £m</b>	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Operating costs before exceptional item and depreciation	<b>308.7</b>	311.4	629.6
Exceptional item – pension curtailment gain *	<b>(40.0)</b>	-	-
Depreciation – infrastructure renewals charge	<b>66.7</b>	67.3	132.4
Depreciation – non-infrastructure	<b>141.5</b>	129.6	260.9
	<b>476.9</b>	508.3	1,022.9

\* During the period a curtailment gain arising from changes to certain provisions, in respect of the Thames Water Pension Scheme, which came into effect on 1 May 2011, has been classified as an exceptional item. This gain arose as a result of changes to scheme benefits, which have reduced future liabilities. The directors consider that due to the materiality and one-off nature of this curtailment gain, it is appropriate to classify this as an exceptional item in order to show a true and fair view of the Company's underlying performance. The tax charge on this exceptional item is £10.4m.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 3 Taxation

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
<b>Analysis of credit in the period:</b>			
Current tax charge for the period	-	4.5	0.5
Deferred tax charge for the period	28.1	24.5	52.2
Timing difference on pension cost charge/(credit)	11.3	(0.6)	5.4
One-off deferred tax credit arising from change of tax rate *	(40.4)	(37.4)	(74.8)
	(1.0)	(9.0)	(16.7)
<b>Tax on items taken directly to equity:</b>			
Deferred tax relief on actuarial (losses)/gain on defined benefit pension schemes offset in reserves	(6.0)	(3.5)	0.6
One-off deferred tax charge arising from change of tax rate *	0.8	1.6	2.6
	(5.2)	(1.9)	3.2

The corporation tax charge is based upon UK corporation tax of 26% (half year to 30 September 2010 and full year to 31 March 2011, 28%).

The interim corporation tax charge for the half year to 30 September 2011 is based upon the forecast effective tax rate for the full year to 31 March 2012 applied to the profits earned in the six months to 30 September 2011.

\* During the period, there was a change in law reducing the corporation tax rate from 26% to 25% from 1 April 2012. The financial statements for the period reflect this change, a credit of £40.4m was taken to the profit and loss account and a charge of £0.8m was taken to reserves.

During the last financial year there was a change in law reducing the corporation tax rate from 28% to 26% from 1 April 2011. The interim financial statements for the six month period to 30 September 2010 reflected a change in UK corporation tax to 27% as substantially enacted at the balance sheet date, the effect of this change was a £37.4m credit to the profit and loss account. Subsequently, the Chancellor announced that the UK corporation tax rate would be further reduced to 26%, the effect of this change was a £74.8m credit to the profit and loss account as reflected in the full year to 31 March 2011.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 4 Dividends paid

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
<i>Interim dividends paid in respect of year ended 31 March 2010 but not recognised as liabilities in that year:</i>			
24 June 2010: 2.7p per ordinary share	-	28.2	28.2
24 June 2010: 7.3p per ordinary share	-	75.0	75.0
<i>Interim dividends paid in respect of year ended 31 March 2011 but not recognised as liabilities in that year</i>			
30 September 2010: 5.6p per ordinary share	-	57.3	57.3
30 November 2010: 7.3p per ordinary share	-	-	75.1
31 March 2011: 3.5p per ordinary share	-	-	35.8
11 April 2011: 2.4p per ordinary share	24.4	-	-
<i>Interim dividends paid in respect of current year</i>			
23 June 2011: 10.2p per ordinary share	105.1	-	-
30 September 2011: 4.86p per ordinary share	50.0	-	-
	<b>179.5</b>	160.5	271.4

The interim dividend of £24.4m in respect of the year ended 31 March 2011 was paid to Thames Water Utilities Holdings Limited and was used to settle inter-company interest owing to Thames Water Utilities Limited.

Interim dividend distributions are analysed below:

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Intra group debt service distribution	97.0	103.0	156.3
External dividend distributions	82.5	57.5	115.1
	<b>179.5</b>	160.5	271.4

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 5 Tangible fixed assets

	Land and buildings	Plant and equipment	Infrastructure assets	Assets in course of construction	Total
	£m	£m	£m	£m	£m
<b>UK GAAP (FRS 15) historic cost values</b>					
<b>Cost</b>					
At 1 April 2011	2,516.6	4,416.1	4,649.6	1,188.6	12,770.9
Additions	-	-	-	549.9	549.9
Transfer between items	25.6	129.2	143.4	(298.2)	-
Disposals	-	(9.6)	-	-	(9.6)
<b>At 30 September 2011</b>	<b>2,542.2</b>	<b>4,535.7</b>	<b>4,793.0</b>	<b>1,440.3</b>	<b>13,311.2</b>
<b>Capital Contributions</b>					
At 1 April 2011	-	-	631.2	-	631.2
Additions	-	-	16.7	-	16.7
<b>At 30 September 2011</b>	<b>-</b>	<b>-</b>	<b>647.9</b>	<b>-</b>	<b>647.9</b>
<b>Depreciation</b>					
At 1 April 2011	638.3	2,283.1	1,073.1	-	3,994.5
Provided during the period	20.3	121.2	66.7	-	208.2
Disposals	-	(5.2)	-	-	(5.2)
<b>At 30 September 2011</b>	<b>658.6</b>	<b>2,399.1</b>	<b>1,139.8</b>	<b>-</b>	<b>4,197.5</b>
<b>UK GAAP Net Book Value</b>					
<b>At 30 September 2011</b>	<b>1,883.6</b>	<b>2,136.6</b>	<b>3,005.3</b>	<b>1,440.3</b>	<b>8,465.8</b>
At 1 April 2011	1,878.3	2,133.0	2,945.3	1,188.6	8,145.2
<b>RAG3 net infrastructure renewal reclassification</b>					
Accrued at 1 April 2011	-	-	(17.0)	-	(17.0)
Infrastructure renewal expenditure in the period	-	-	91.8	-	91.8
Infrastructure renewal depreciation charge	-	-	(66.7)	-	(66.7)
<b>Prepayment at 30 September 2011</b>	<b>-</b>	<b>-</b>	<b>8.1</b>	<b>-</b>	<b>8.1</b>
<b>Regulatory historic cost net book value</b>					
<b>At 30 September 2011</b>	<b>1,883.6</b>	<b>2,136.6</b>	<b>2,997.2</b>	<b>1,440.3</b>	<b>8,457.7</b>
At 31 March 2011	1,878.3	2,133.0	2,962.3	1,188.6	8,162.2

### 6 Debtors: amounts falling due after more than one year

This comprises the following two items:

- a secured loan of £2,015.0m (2010: £1,865.0m) owed by Thames Water Utilities Holdings Limited, the immediate parent undertaking. The directors are not anticipating any repayment of the loan within the next 12 months.
- interest receivable of £19.7m (2010: £9.8m) owed by Thames Water Utilities Holdings Limited the immediate parent undertaking, on the loan of £2,015.0m (2010: £1,865.0m). Interest is charged at Libor + 0.35%.

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 7. Creditors

Included within total creditors are loan amounts owed to group undertakings as detailed below:

- £2,713.9m (2010: £2,702.2m) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking, of which £nil (2010: £50.8m) is included within creditors due within one year and £2,713.9m (2010: £2,651.4m) within creditors due after more than one year.
- £4,152.2m (2010: £2,995.0m) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking. The whole balance (2010: whole balance) is included within creditors due after more than one year.

### 8. Provisions for liabilities and charges

	Deferred tax £m	Insurance liabilities £m	Restructuring £m	Other £m	Total £m
At 1 April 2011 (audited)	972.9	53.7	1.8	25.9	1,054.3
Utilised during the period	-	-	(1.4)	-	(1.4)
(Credit)/charge to profit and loss for the period	(12.3)	0.7	0.2	1.0	(10.4)
At 30 September 2011 (unaudited)	960.6	54.4	0.6	26.9	1,042.5

The insurance provision is in respect of insurance claims notified and for claims incurred but which have not yet been notified. A debtor in respect of these obligations is recognised representing the reimbursement value from captive and third party insurance companies.

### 9. Profit and loss account

	Six months to 30 September 2011 (unaudited) £m
At the beginning of the year	376.9
Profit for the period	146.6
Dividends paid (note 4)	(179.5)
Retained loss	(32.9)
Actuarial loss on pension scheme	(23.2)
Deferred tax relating to actuarial loss on pension scheme	5.2
At the end of the period	326.0

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 10. Reconciliation of movements in shareholder's funds

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
At the beginning of the year	1,505.9	1,556.4	1,556.4
Profit for the period/year	146.6	119.9	225.2
Dividends paid	(179.5)	(160.5)	(271.4)
Retained loss	(32.9)	(40.6)	(46.2)
Actuarial loss on pension scheme	(23.2)	(12.6)	(1.1)
Movement on deferred tax relating to pension scheme	5.2	1.9	(3.2)
At the end of the period	1,455.0	1,505.1	1,505.9

### 11. Reconciliation of operating profit to net cash inflow from operating activities

	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Operating profit	373.6	308.2	611.1
Infrastructure renewals charge	66.7	67.3	132.4
Depreciation – non-infrastructure	141.5	129.6	260.9
Difference between pension charge and cash contributions	(40.7)	(0.6)	(26.8)
Loss/(profit) on sale of assets	0.3	(2.8)	(10.9)
Increase in stocks	(1.2)	(0.6)	(0.6)
Increase in debtors and prepaid expenses	(346.7)	(301.6)	(12.2)
Increase in creditors and accrued expenses	352.3	314.4	2.3
(Decrease)/increase in provisions	(0.2)	(3.2)	0.5
Deferred income release	(6.8)	(5.9)	(13.6)
Net cash inflow from operating activities	538.8	504.8	943.1

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 12 Reconciliation of net debt

	Note	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Opening net debt		(6,795.8)	(5,549.4)	(5,549.4)
Increase/(decrease) in cash		2.6	(1.6)	(2.3)
(Decrease)/increase in short term deposits		(377.8)	(361.2)	202.6
Movement on borrowings - cash		(88.5)	(394.9)	(1,254.0)
- non-cash		(106.3)	(98.9)	(192.7)
Closing net debt	13	(7,365.8)	(6,406.0)	(6,795.8)

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'.

### 13 Analysis of net debt

	Note	Six months to 30 September 2011 (unaudited) £m	Six months to 30 September 2010 (unaudited) £m	Year to 31 March 2011 (audited) £m
Cash at bank and in hand		6.2	4.3	3.6
Short term deposits		398.0	212.0	775.8
		404.2	216.3	779.4
Debt due within 1 year		-	(105.8)	(7.6)
Debt due after 1 year		(7,575.0)	(6,313.9)	(7,372.5)
Finance leases		(195.0)	(202.6)	(195.1)
		(7,770.0)	(6,622.3)	(7,575.2)
Total	12	(7,365.8)	(6,406.0)	(6,795.8)

Included within net debt are unamortised bond fees of £55.0m (2010: £43.4m).

# Thames Water Utilities Limited

## Notes to the financial statements for the six month period ended 30 September 2011 (continued)

### 14. Commitments

The Company's capital commitments as at 30 September 2011 amounted to £1,350.8m (2010: £1,358.0m).

### 15. 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.

### 16. 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 the 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 the 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.

Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Funds LP and Macquarie European Infrastructure Fund II LP ("MEIF 1 & 2"). The directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the largest group to consolidate the financial statements.

MEIF 1 and 2 are wholesale investment funds in which the investors are largely pension funds and institutional investors. On behalf of these investors, MEIF 1 and 2 make long-term investments in infrastructure and related businesses located across Europe, aiming to deliver sustainable cash yields and moderate capital growth from diversified portfolios of quality infrastructure investments.

MEIF 1 & 2 are managed by Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEL"). MIRAEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Services Authority. MIRAEL is resourced by executives of the Macquarie Infrastructure and Real Assets division of Macquarie Group.