

Registered no 5957999 (England & Wales)

Kemble Water Eurobond Plc

Annual report and financial statements

For the year ended 31 March 2011

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Kemble Water Eurobond Plc

Annual report and financial statements for the year ended 31 March

	Page
Directors and advisors	1
Directors' report	2
Statement of directors' responsibilities	4
Independent auditor's report	5
Profit and loss account	7
Balance sheet	8
Notes to the financial statements	9

Kemble Water Eurobond Plc

Directors and advisors

Directors

Sir Peter Mason KBE (Chairman)
E Beckley
R Blomfield-Smith
C R Deacon
Dr P Dyer
R Gadsby
G I W Parsons
A F C DeP Santos
D J Shah OBE
M S W Stanley
R E Verrion

Registered auditor

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

Company Secretary and registered office

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

Kemble Water Eurobond Plc

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2011

Review of business, principal activities and future developments

The Company's principal activity is to make certain financing arrangements on behalf of the Kemble Water Holdings Limited group of companies ("the Group") and to be an intermediate holding company in the Group

The major transactions of the Company relate to interest arising on its borrowings from other group companies and on monies lent to its immediate subsidiary, Kemble Water Liberty Limited. There is no other income or expenses within this company

The registered company number is 5957999

Results and dividends

The profit and loss account for the year is set out on page 7. The directors do not propose a dividend for the year (2010: £Nil)

Principal risk and uncertainties

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

Financial risk management

Financial risk management is addressed in more detail in section (g) of the Accounting policies on page 10

Directors

The directors who held office during the year ended 31 March 2011 and to the date of signing were

Sir Peter Mason KBE – Chairman
L Abaira (resigned 1 January 2011)
M W Baggs (resigned 10 June 2010)
E Beckley
R Blomfield-Smith
C R Deacon
Dr P Dyer
R Gadsby (appointed 10 June 2010)
C Lynam (resigned 10 June 2010)
G I W Parsons (appointed 10 June 2010)
K Roseke (resigned 1 January 2011)
A F C DeP Santos (appointed 1 January 2011)
D J Shah OBE
M S W Stanley
R E Verrion (appointed 1 January 2011)

During the year under review, none of the directors had significant contracts with the Company or any other body corporate other than their contracts of service, except as disclosed in note 5 to the accounts

Kemble Water Eurobond Plc

Directors' Report (continued)

Directors (continued)

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

Director	Alternate Director
L F Abaira (resigned 1 January 2011)	D Mora (resigned 1 January 2011)
E Beckley	G I W Parsons (appointed 7 June 2010, resigned 4 August 2010, appointed 22 March 2011)
	S M L Leong (appointed 4 August 2010, resigned 11 February 2011)
R Blomfield-Smith	K Boesenberg
C R Deacon	R D Israel
C Lynam (resigned 10 June 2010)	M W Baggs (resigned 10 June 2010)
G I W Parsons (appointed 10 June 2010)	S M L Leong (appointed 22 July 2010, resigned 11 February 2011)
K Roseke (resigned 1 January 2011)	S Kolenc (resigned 1 January 2011)
A F C DeP Santos	M C Guerreiro (appointed 1 January 2011)
D J Shah OBE	R E Verrion (resigned 1 January 2011)
	L Webb (appointed 1 January 2011)
R E Verrion (appointed 1 January 2011)	S Kolenc (appointed 1 January 2011)

Investments

In the opinion of the directors, the value of the investment in the subsidiary is not less than the values included in the financial statements

Political and charitable donations and expenditure

No charitable or political donations were made by the Company during the year (2010 £Nil)

Disclosure of information to the auditor

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

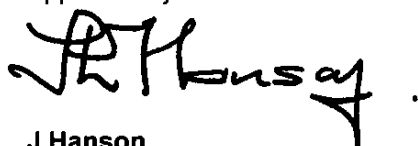
Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report

Auditor

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

Approved by the Board of Directors on 9 June 2011 and signed on its behalf by



J Hanson
Company Secretary

Kemble Water Eurobond Plc

Statement of Directors' Responsibilities in Respect of the Directors' Report and the Financial Statements

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

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, the directors are required to

- select suitable accounting policies and then apply them consistently,
- make judgements and estimates that are reasonable and prudent,
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business

The directors are responsible for keeping 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

Kemble Water Eurobond Plc

Independent Auditor's Report to the Members of Kemble Water Eurobond Plc

We have audited the financial statements of Kemble Water Eurobond Plc for the year ended 31 March 2011 set out on pages 7 to 14. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the Company's affairs as at 31 March 2011 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Kemble Water Eurobond Plc

Independent Auditor's Report to the Members of Kemble Water Eurobond Plc (continued)

Matters on which we are required to report by exception

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

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements are not in agreement with the accounting records or returns, or
- certain disclosures of directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit



W Meredith (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

9 June 2011

Kemble Water Eurobond Plc

Profit and loss account for the year ended 31 March

	Note	31 March 2011 £'000	31 March 2010 £'000
Interest payable and similar charges	3	(393,988)	(392,358)
Interest receivable and similar income	4	414,180	414,180
Profit on ordinary activities before taxation		20,192	21,822
Taxation on profit on ordinary activities	6	(5,654)	(6,110)
Profit for the year	12	14,538	15,712

All amounts relate to continuing activities

The Company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented

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

The notes from pages 9 to 14 form part of these financial statements

Kemble Water Eurobond Plc

Balance sheet as at 31 March

	Note	31 March 2011 £'000	31 March 2010 £'000
Fixed assets			
Fixed asset Investments	7	1,000	1,000
Current assets			
Debtors	8	3,430,780	3,166,600
Creditors: amounts falling due within one year	9	(3,055,113)	(2,805,471)
Net current assets		375,667	361,129
Total assets less current liabilities		376,667	362,129
Creditors: amounts falling due after more than one year	10	(310,400)	(310,400)
Net assets		66,267	51,729
Capital and reserves			
Called-up share capital	11	1,000	1,000
Profit and loss account	12	65,267	50,729
Shareholder's funds	13	66,267	51,729

The notes on pages 9 to 14 form part of these financial statements

The financial statements on pages 7 to 14 were approved by the Board of Directors on 9 June 2011 and signed on its behalf by



Sir Peter Mason KBE
Chairman

Company registration number 5957999

Kemble Water Eurobond Plc

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 the Company considered material in relation to the financial statements

Basis of preparation

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

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

Going concern

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

Summary of significant accounting policies

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

(a) Investments

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

(b) Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address given in note 14.

(c) Cash flow

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

(d) Dividends

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

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

(e) Taxation

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

Kemble Water Eurobond Plc

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies (continued)

(e) Taxation (continued)

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the year 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 can differ from the net profit as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other years and it may further exclude items that are never taxable or deductible

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

Deferred taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date

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

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

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

(f) 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 to 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 year in which they arise

(g) Financial risk management

The Company has access to the Group Executive Management Team and receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken

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

The Company's treasury operations are managed centrally by a small specialist team, which operates with the delegated authority of, and under policies approved by, the Board of Directors

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

Kemble Water Eurobond Plc

Notes to the financial statements for the year ended 31 March

2 Operating costs

The auditor's remuneration for the year (for audit services only) is £2,100 and is borne by Thames Water Limited (2010 £2,000 borne by Thames Water Limited) No other fees were payable to KPMG Audit Plc in respect of this year (2010 £nil)

3 Interest payable and similar charges

	31 March 2011 £'000	31 March 2010 £'000
Interest payable on loan notes	(35,680)	(34,050)
Interest payable to ultimate parent undertaking	(358,308)	(358,308)
	(393,988)	(392,358)

4 Interest receivable and similar income

	31 March 2011 £'000	31 March 2010 £'000
Interest receivable from immediate subsidiary undertaking	414,180	414,180

5 Information regarding directors

The current directors receive emoluments in respect of their services as directors of Kemble Water Holdings Limited, the ultimate parent company No emoluments were paid in respect of their roles of directors of the Company and there are no retirement benefits accruing in either year

Aggregate emoluments for the Group are disclosed in the financial statements of the ultimate parent company

During the year, an indirect subsidiary of the Company made payments of £40,000 (2010 £222,500) to C R Deacon, a director, for consultancy services

6 Taxation on profit on ordinary activities

	31 March 2011 £'000	31 March 2010 £'000
Current year:		
Amounts payable in respect of Group relief	(5,654)	(6,110)

The tax assessed for the year is equal (2010 equal) to the standard rate of corporation tax in the UK of 28% (2010 28%) There is no tax charge or credit for deferred tax There are no amounts of deferred tax unprovided

Factors affecting the future tax rate

On 23 March 2011 the Chancellor announced the reduction in the main rate of UK corporation tax to 26% with effect from 1 April 2011 This change became substantively enacted on 29 March 2011 and therefore the effect of the rate reduction creates a reduction in the deferred tax asset which has been included in the figures above

Kemble Water Eurobond Plc

Notes to the financial statements for the year ended 31 March

7 Fixed asset investments

	Interests in Group undertaking £'000
Cost	
At 31 March 2011 and 1 April 2010	1,000

The investment relates to Kemble Water Liberty Limited

For details of Group undertakings, see the table below

	Year end	% owner -ship	Country of incorporation	Description of shares held	Nature of business
Interests in Group undertakings					
Direct:					
Kemble Water Liberty Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Indirect (through Kemble Water Liberty Limited):					
Kemble Water Structure Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Kemble Water Finance Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Kemble Water Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Thames Water Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Thames Water Utilities Limited	31 March	100	England & Wales	Ordinary £1	Regulated Water Operations
Thames Water Utilities Finance Limited	31 March	100	England & Wales	Ordinary £1	Finance Company
Thames Water Utilities Cayman Finance Limited	31 March	100	Cayman Islands	Ordinary \$1	Finance Company
Kennet Properties Limited	31 March	100	England & Wales	Ordinary £1	Property
Thames Water Investments Limited	31 March	100	England & Wales	Ordinary £1	Property

In accordance with S410 of the Companies Act 2006, information is given only with respect to such undertakings whose financial position principally affects the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

Kemble Water Eurobond Plc

Notes to the financial statements for the year ended 31 March

8 Debtors

	31 March 2011 £'000	31 March 2010 £'000
Amounts owed by subsidiary undertaking	3,430,780	3,166,600
Amounts owed by subsidiary undertaking are	31 March 2011 £'000	31 March 2010 £'000
Inter-company loan	2,301,000	2,301,000
Non-loan amounts	1,129,780	865,600
	3,430,780	3,166,600

Amounts due from the subsidiary undertaking are, unsecured, interest free and repayable on demand, except a loan of £2,301 0m (2010 £2,301 0m) to the direct subsidiary undertaking, Kemble Water Liberty Limited, which incurs interest at 18% (2010 18%)

9 Creditors' amounts falling due within one year

	31 March 2011 £'000	31 March 2010 £'000
Amounts owed to ultimate parent undertaking	3,011,849	2,768,646
Amounts owed to fellow subsidiary undertakings	20,585	14,475
Interest payable on loan notes (see note 10)	17,025	16,240
Group relief payable	5,654	6,110
	3,055,113	2,805,471

Interest payable on the loan notes (note 10) is unsecured, can be deferred if the directors consider there are insufficient cash flows, and incurs interest at 11%

	31 March 2011 £'000	31 March 2010 £'000
Amounts owed to ultimate parent undertaking are		
Inter-company loan	1,990,600	1,990,600
Non-loan amounts	1,021,249	778,046
	3,011,849	2,768,646

Amounts due to ultimate parent undertaking are unsecured, interest free and repayable on demand, except a loan of £1,990 6m (2010 £1,990 6m) from the ultimate parent company, Kemble Water Holdings Limited, which incurs interest at 18% (2010 18%)

Kemble Water Eurobond Plc

Notes to the financial statements for the year ended 31 March

10 Creditors: amounts falling due after more than one year

	31 March 2011 £'000	31 March 2010 £'000
Loan notes	310,400	310,400

Loan notes are unsecured, wholly repayable in 2021, and incur interest at 11%

11 Called-up share capital

	31 March 2011 £'000	31 March 2010 £'000
Allotted, called-up and fully paid 1,000,000 ordinary shares of £1 each	1,000	1,000

12 Profit and loss account

	31 March 2011 £'000	31 March 2010 £'000
At the beginning of the year	50,729	35,017
Profit for the year	14,538	15,712
At the end of the year	65,267	50,729

13 Reconciliation of movements in shareholder's funds

	31 March 2011 £'000	31 March 2010 £'000
Opening shareholder's funds	51,729	36,017
Profit for the year	14,538	15,712
Closing shareholder's funds	66,267	51,729

14 Immediate and ultimate parent company and controlling party

The directors consider the immediate and ultimate parent company and controlling party to be Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest and smallest group to consolidate these financial statements

Copies of the accounts of all of the above companies may be obtained from the Company Secretarial Department, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB