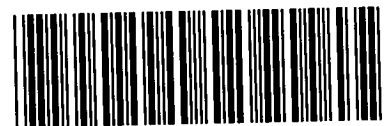


Registered no: 05957999 (England and Wales)

Kemble Water Eurobond Plc
Annual report and financial statements
For the year ended 31 March 2015

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Annual report and financial statements for the year ended 31 March 2015

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Directors and advisors

Directors

Sir Peter Mason KBE - Chairman

E Beckley

R Blomfield-Smith (resigned 13 March 2015, appointed 27 April 2015)

D Buffery (resigned 1 January 2015, appointed 13 March 2015)

R Greenleaf (appointed 13 March 2015)

G Lambert (appointed 15 October 2014)

P Noble (appointed 13 March 2015)

G Tucker (appointed 17 April 2015)

Y Wang (appointed 1 July 2014)

L Webb

Registered auditor

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

Company Secretary and registered office

D Hughes

Clearwater Court

Vastern Road

Reading

Berkshire

RG1 8DB

Strategic report

The directors present their strategic report for Kemble Water Eurobond Plc ("the Company") for the year ended 31 March 2015.

Business review

The principal activity of the Company 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 within the Group.

The major expenses of the Company relate to interest payable on borrowings with both external parties and other group companies. Additionally the Company has recognised interest receivable on monies lent to its immediate subsidiary entities Kemble Water Finance Limited and Thames Water Commercial Ventures Holdings Limited.

Results and performance

For the financial year ended 31 March 2015 the Company made a profit before tax of £53.8m (2014: profit of £325.1m). The prior period performance included a dividend in specie of £471.1m arising from the restructure of subsidiary group companies and consequently a similar transaction has not occurred in the current financial period.

Principal risks and uncertainties

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

The Group's annual report is available from the address in note 15 to the financial statements on page 15.

Future outlook

The Company is expected to continue to act as an intermediate holding company within the Group and make certain financing arrangements on behalf of the Group for the foreseeable future.

This strategic report was approved by the Board of Directors on 4 June 2015 and signed on its behalf by:



Sir Peter Mason KBE
Chairman

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report

The directors present their report and the audited financial statements of Kemble Water Eurobond Plc for the year ended 31 March 2015. The directors consider that the annual report and the audited financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance and strategy.

The registered company number is 05957999.

Future outlook

The future outlook of the Company is discussed in the strategic report.

Directors

The directors who held office during the year ended 31 March 2015 and to the date of signing were:

Sir Peter Mason KBE - Chairman
 E Beckley
 R Blomfield-Smith (resigned 13 March 2015, appointed 27 April 2015)
 D Buffery (resigned 1 January 2015, appointed 13 March 2015)
 C R Deacon (resigned 17 April 2015)
 Dr P Dyer (resigned 13 March 2015)
 S Eaves (resigned 15 October 2014)
 R Greenleaf (appointed 13 March 2015)
 C Heathcote (appointed 22 July 2014, resigned 13 March 2015)
 N Horler (appointed 14 April 2014, resigned 13 March 2015)
 G Lambert (appointed 15 October 2014)
 P Noble (appointed 13 March 2015)
 K Roseke (appointed 13 March 2015, resigned 27 April 2015)
 D J Shah OBE (resigned 13 March 2015)
 C Van Heijningen (appointed 1 January 2015, resigned 13 March 2015)
 G Tucker (appointed 17 April 2015)
 Y Wang (appointed 1 July 2014)
 L Webb
 D Xu (resigned 1 July 2014)

During the year under review, none of the directors had any contracts with the Company or any other body corporate other than their contracts of service except as disclosed in note 6 to the accounts.

Directors are allowed to appoint an alternate director to represent them if they are unable to attend a meeting. The following directors have formally appointed alternate directors to represent them when they are unavailable:

Director		Alternate Director	
E Beckley		G Parsons	(resigned 11 September 2014)
		R Greenleaf	(appointed 11 September 2014, resigned 13 March 2015)
R Blomfield-Smith	(resigned 13 March 2015, appointed 27 April 2015)	D Rees	(appointed 27 April 2015)
D Buffery	(resigned 1 January 2015, appointed 13 March 2015)	D Rees	(appointed 22 April 2014, resigned 1 January 2015)
		R-J Bakker	(appointed 13 March 2015)
G Lambert	(appointed 15 October 2014)	M Hill	(appointed 15 October 2014, resigned 13 March 2015)
P Noble	(appointed 13 March 2015)	P Hofbauer	(appointed 13 March 2015)
G Tucker	(appointed 17 April 2015)	C Deacon	(appointed 17 April 2015)
Y Wang	(appointed 1 July 2014)	F Sheng	
L Webb		C Pham	

Political donations

No political donations were made by the Company during the year (2014: £nil).

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its directors (which extend to the performance of any duties as director of any associated company) and these remain in force at the date of this report.

Dividends

The Company has paid no dividends during the financial year (2014: £nil) and the directors do not recommend the payment of a final dividend (2014: £nil).

Financial risk management

The Company has access to the Chief Executive and the executive team of Thames Water Utilities Limited, who also manage the wider Kemble Water Holdings Limited Group on a day to day basis on behalf of the directors of the individual group companies. They receive regular reports from all areas of the business. This enables prompt identification of financial and other risks so that appropriate actions can be taken in the relevant group companies.

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 of the Company's ultimate parent company, Kemble Water Holdings Limited.

The operation of the treasury function is governed by policies and procedures that 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.

Adoption of future accounting standards

FRS 100, 101 and 102 form the new framework for UK GAAP. FRS 100 sets out the application of financial reporting requirements in the UK and Republic of Ireland and FRS 101 'IFRS with reduced disclosures' outlines the reduced disclosure framework available for use by qualifying entities choosing to report under IFRS. FRS 102 is applicable in the UK and Republic of Ireland and is known as 'new UK GAAP'. The mandatory effective date for the new framework of reporting is for accounting periods beginning on or after 1 January 2015. The Company will apply FRS 101.

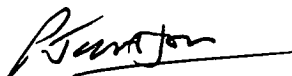
Disclosure of information to auditor

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 he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

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

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:



Sir P Mason KBE
Chairman

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statement of directors' responsibilities in respect of the annual report and the financial statements

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

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

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

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

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

We have audited the financial statements of Kemble Water Eurobond Plc for the year ended 31 March 2015 set out on pages 7 to 15. 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 5, 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 Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

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 2015 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.

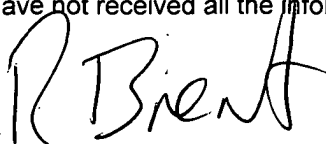
Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Strategic report and 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.



Robert Brent (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London E14 5GL
4 June 2015

Profit and loss account

For the year ended 31 March

	Note	2015 £'m	2014 £'m
Income from shares in group undertakings	3	-	473.6
Impairment of investments	8	-	(1.0)
Impairment of intercompany loan	9	-	(170.0)
Profit before interest and taxation		-	302.6
Interest receivable and similar income	4	400.4	414.6
Interest payable and similar charges	5	(346.6)	(392.1)
Profit on ordinary activities before taxation		53.8	325.1
Taxation on profit on ordinary activities	7	(11.3)	(5.2)
Profit for the year	13	42.5	319.9

All of the Company's activities above are derived from continuing activities.

The Company has no recognised gains and losses other than the items set out above and therefore no separate statement of total recognised gains and losses has been presented.

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

The accounting policies and notes on pages 9 to 15 are an integral part of these financial statements.

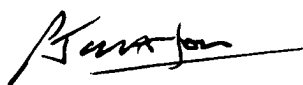
Balance sheet

As at 31 March

	Note	2015 £'m	2014 £'m
Fixed assets			
Investments	8	3.2	3.2
Current assets			
Debtors	9	4,128.7	3,832.8
Cash at bank and in hand		7.9	2.5
		4,136.6	3,835.3
Creditors: amounts falling due within one year	10	(3,369.8)	(3,111.0)
Net current assets		766.8	724.3
Total assets less current liabilities		770.0	727.5
Creditors: amounts falling due after more than one year	11	(310.4)	(310.4)
Net assets		459.6	417.1
Capital and reserves			
Called up share capital	12	1.0	1.0
Profit and loss account	13	458.6	416.1
Shareholders' funds	14	459.6	417.1

The accounting policies and notes on pages 9 to 15 are an integral part of these financial statements.

The financial statements on pages 7 to 15 were approved by the board of directors on 4 June 2015 and were signed on its behalf by:



Sir Peter Mason KBE
Chairman

Company registration number 05957999

Notes to the financial statements

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, except as noted below.

Basis of preparation

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

The Company has exercised the exemption under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company and its subsidiaries are included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, an entity registered within the United Kingdom. These financial statements present information about the Company as an individual undertaking and not about its group.

There have been no changes to the accounting policies from those used in the preparation of the prior period financial statements.

Going concern

The directors have considered the financial position of the Company and have concluded that it has sufficient resources for its present requirements and is able to meet liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the directors consider it appropriate to prepare these financial statements on a going concern basis.

Summary of significant accounting policies

(a) Taxation

Current taxation

Current taxation, including UK corporation tax, is based on the taxable loss 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 loss/profit on ordinary activities before tax 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.

(b) Fixed asset investments

Investments in subsidiary undertakings are stated at cost less any provisions for impairment. Reviews for impairment are performed annually and an impairment loss is recognised where the carrying amount exceeds the recoverable amount. Impairment losses are recognised in the profit and loss account.

(c) Cash flows

The Company has exercised the exemption under FRS 1 from the requirement to prepare a cash flow statement on the grounds that the parent undertaking includes the Company in its own published consolidated financial statements.

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

(d) Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered within the United Kingdom, the Company has taken advantage of the exemption contained within FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties).

(e) Financial risk management

The financial risk management of the Company is discussed in the Directors' Report on page 4.

(f) Dividend income

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

(g) 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 account using the effective interest rate 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.

2 Auditor's remuneration

The auditor's remuneration for the year is £2,368 (borne by Thames Water Limited) (2014: £2,310 borne by Thames Water Limited). No other fees were payable to KPMG LLP in respect of the Company in this year (2014: £nil).

3 Income from shares in group undertaking

	2015 £'m	2014 £'m
Final dividend received	-	2.5
Dividend in specie	-	471.1
Total	-	473.6

In the previous year the Company received a cash dividend of £2.5m and a dividend in specie of £471.1m from its immediate subsidiary Kemble Water Liberty Limited arising from group restructuring activities. The dividend in specie consisted of an intercompany receivable of £467.9m from Kemble Water Finance Limited and a £3.2m from Kemble Water Liberty Limited

Notes to the financial statements (continued)

4 Interest receivable and similar income

	2015 £'m	2014 £'m
On intercompany loans		
Interest receivable	400.4	414.6

5 Interest payable and similar charges

	2015 £'m	2014 £'m
On intercompany loans		
Interest expense	309.7	358.2
On bank and other loans		
Interest expense	36.9	33.9
Total	346.6	392.1

6 Staff numbers and costs

The Company has no employees (2014: none).

The directors of the Company are all non-executive directors who 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 as 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 previous year an indirect subsidiary of the Company made payments of £45,000 to C. R. Deacon, a director, for consultancy services. No such payments were made in the current year.

7 Taxation

	2015 £'m	2014 £'m
Current tax		
Amounts payable in respect of group relief	11.3	5.2

There is no tax charge or credit for deferred tax. There are no amounts of deferred tax un-provided (2014: £nil)

The current tax credit for the year is equal to (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained overleaf

Notes to the financial statements (continued)

7 Taxation (continued)

	2015 £'m	2014 £'m
Profit on ordinary activities before taxation	(53.8)	325.1
Current tax at 21% (2014: 23%)	11.3	74.8
<i>Effects of:</i>		
Non taxable income (dividend from UK company)	-	(108.9)
Disallowable expenditure	-	39.3
Current tax for the year	11.3	5.2

A reduction in the UK corporation tax rate from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly.

8 Investments

	2015 £'m	2014 £'m
Cost		
At 1 April	4.2	1.0
Addition	-	3.2
At 31 March	4.2	4.2
Provision		
At 1 April	(1.0)	-
Impairment loss	-	(1.0)
At 31 March	(1.0)	(1.0)
Net book value	3.2	3.2

During the previous year the Company acquired the share capital (at book value) of Thames Water Commercial Ventures Holdings Limited, Kemble Water Finance Limited, Kemble Water Investments Limited and Thames Tideway Tunnel Limited as part of the restructuring of the Kemble Water Holdings Limited group. The investment in Kemble Water Liberty Limited was written down following the receipt of the dividend in specie from Kemble Water Liberty Limited to reflect the residual value of the Company's investment in Kemble Water Liberty Limited following the restructuring. The dividend in specie consisted of all but £1 of Kemble Water Liberty Limited's assets.

In the opinion of the directors, the value of the investments in the subsidiary company is not less than the amount included in the balance sheet.

Notes to the financial statements (continued)

8 Investments (continued)

At 31 March 2015, the Company held the following interests:

	Nominal value and class of shares	Percentage of shares held	Principal activity	Country of incorporation
Direct				
Kemble Water Liberty Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Thames Water Commercial Ventures Holdings Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Kemble Water Finance Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Kemble Water Investments Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Thames Tideway Tunnel Limited	£1 Ordinary	100%	Finance Company	United Kingdom
Indirect (through Kemble Water Liberty Limited)				
Kemble Water Structure Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Indirect (through Kemble Water Investments Limited)				
Kemble Water Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Indirect (through Kemble Water Finance Limited)				
Thames Water (Kemble) Finance Plc	£1 Ordinary	100%	Finance company	United Kingdom
Thames Water Limited	£1 Ordinary	100%	Investment holding company	United Kingdom
Thames Water Utilities Limited	£1 Ordinary	100%	Regulated water operations	United Kingdom
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Finance company	United Kingdom
Thames Water Utilities Cayman Finance Limited	\$1 Ordinary	100%	Finance company	Cayman Island*
Kennet Properties Limited	£1 Ordinary	100%	Property company	United Kingdom
Thames Water Investments Limited	£1 Ordinary	100%	Property company	United Kingdom

* Thames Water Utilities Cayman Finance Limited is registered in the UK for tax purposes

In accordance with section 410 of the Companies Act 2006, information is given only with respect to such undertakings whose financial position principally affect the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

Notes to the financial statements (continued)

9 Debtors

	2015 £'m	2014 £'m
Amounts owed by group undertakings	2,933.1	2,930.6
Interest receivable on amounts owed by group undertakings	1,195.6	902.2
Total	4,128.7	3,832.8

Amounts owed by group undertakings include the following agreements:

- £3,100.6m owed by Kemble Water Finance Limited, a subsidiary undertaking. The loan is unsecured, incurs interest at 10% and is repayable on demand. During the previous year the Company made a provision of £170.0m against the loan. There have been no provisions made in the current year.
- £2.2m owed by Thames Water Commercial Ventures Holdings Limited, a subsidiary undertaking, under a facility loan agreement. The facility is unsecured, incurs interest at LIBOR + 7% and is repayable on demand.

10 Creditors: amounts falling due within one year

	2015 £'m	2014 £'m
Amounts owed to parent company	1,990.6	1,990.6
Interest payable on amounts owed to parent company	1,352.7	1,106.1
Interest payable on loan notes (see note 11)	14.1	14.1
Group relief payable	11.5	0.2
Other creditors	0.9	-
Total	3,369.8	3,111.0

Amounts owed to the ultimate parent undertaking, Kemble Water Holdings Limited, comprise an intercompany loan of £1,990.6m (2014: £1,990.6m). The loan is unsecured and repayable on demand. With effect from 1 April 2014 the interest rate is 10%, prior to this the interest rate was 18%.

11 Creditors: amounts falling due after more than one year

	2015 £'m	2014 £'m
Loan notes	310.4	310.4

The loan notes are owed to the shareholders of the Company's ultimate parent company, Kemble Water Holdings Limited, and are unsecured, wholly repayable in 2021 and incur interest at 11% (2014: 11%). Interest payable on the loan notes is unsecured and can be deferred if the directors consider there are insufficient cash flows. If deferred interest is charged at 11% on the outstanding interest payable balance.

Notes to the financial statements (continued)

12 Called up share capital

	2015 £'m	2014 £'m
Allotted, called up and fully paid		
1,000,000 ordinary shares of £1 each	1.0	1.0

13 Profit and loss account

	2015 £'m	2014 £'m
At 1 April	416.1	96.2
Profit for the year	42.5	319.9
At 31 March	458.6	416.1

14 Reconciliation of movements in shareholder's funds

	2015 £'m	2014 £'m
At 1 April	417.1	97.2
Profit for the year	42.5	319.9
At 31 March	459.6	417.1

The amount of dividend distributions is restricted by the interest receivable from Kemble Water Finance Limited. As at 31 March 2015 this was £1,195.6m (2014: £902.2m) which is not distributable until qualifying consideration is received.

15 Immediate and ultimate parent companies 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 the smallest and largest group to consolidate these financial statements.

Copies of the accounts for this company may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.