

Registered no 06195202 (England & Wales)

Thames Water Utilities Holdings Limited

Directors' report and financial statements

For the year ended 31 March 2012



Thames Water Utilities Holdings Limited

Directors' report and financial statements for the year ended 31 March

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Thames Water Utilities Holdings Limited

Directors and advisors at 31 March

Directors

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

Registered auditor

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

Company Secretary & registered office

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

Thames Water Utilities Holdings Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2012

Review of business, principal activities and future developments

The principal activity of Thames Water Utilities Holdings Limited ("the Company") is that of an intermediate holding company in the Kemble Water Holdings Limited group of companies ("the Group")

The only income is dividends from the main trading subsidiary, Thames Water Utilities Limited ("TWUL"), which are at the discretion of the TWUL board. The only expense is interest on loans from the subsidiary and the immediate parent, which are charged at pre-agreed rates as detailed in note 10

The registered company number is 06195202

Results and dividends

The profit and loss account for the year is set out on page 7. The directors do not propose a final dividend for the year (2011: £nil)

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

Directors

The directors who held office during the year ended 31 March 2012 and to the date of signing were

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

During the year under review, none of the directors had significant contracts with the Company or any other body corporate other than their contracts of service, except as disclosed in note 3 to the accounts

Thames Water Utilities Holdings Limited

Directors' report (continued)

Directors (continued)

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

Director

Alternate Director

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

Disclosure of information to the auditor

The directors who held office at the date of approval of this director's 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

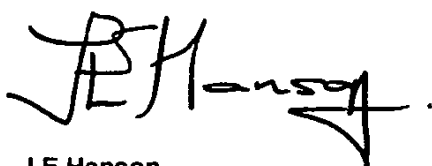
Directors' indemnities

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

Auditor

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

Approved by the Board of Directors on 7 June 2012 and signed on its behalf by



J E Hanson
Company Secretary

Thames Water Utilities Holdings Limited

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

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

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

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

- select suitable accounting policies and then apply them consistently,
- make 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 its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the company and to prevent and detect fraud and other irregularities.



Independent Auditor's Report to the Members of Thames Water Utilities Holdings Limited

We have audited the financial statements of Thames Water Utilities Holdings Limited for the year ended 31 March 2012 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 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 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 website at www.frc.org.uk/apb/scope/private.cfm

Opinion on financial statements

In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2012 and of its profit for the year then ended,
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice, and
- have been prepared in accordance with requirements of the Companies Act 2006

Independent Auditor's Report to the Members of Thames Water Utilities Limited Holdings (continued)

Opinion on other matters as prescribed by the Companies Act 2006

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

Matters on which we are required to report by exception

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

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



W Meredith (Senior Statutory Auditor)

For and on behalf of KPMG Audit Plc, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL

7 June 2012

Thames Water Utilities Holdings Limited

Profit and loss account for the year ended 31 March

| | Note | 31 March 2012 £'000 | Restated 31 March 2011 £'000 |
|--|------|---------------------------|---------------------------------------|
| Income from fixed asset investment | 5 | 279,493 | 271,420 |
| Interest payable and similar charges | 2 | (252,416) | (244,721) |
| Profit on ordinary activities before taxation | | 27,077 | 26,699 |
| Tax credit on profit on ordinary activities | 4 | 16,733 | 5,552 |
| Profit for the year | 12 | 43,810 | 32,251 |

All amounts relate to continuing operations

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 on pages 9 to 15 form part of these financial statements

See note 1 (f) for details of restatement

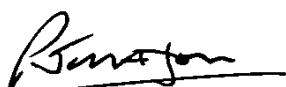
Thames Water Utilities Holdings Limited

Balance sheet as at 31 March

| | Note | 31 March 2012 £'000 | 31 March 2011 £'000 |
|--|------|---------------------------|---------------------------|
| Fixed assets | | | |
| Fixed asset investments | 7 | 4,250,000 | 4,250,000 |
| Current assets | | | |
| Debtors | 8 | 16,733 | 693 |
| Creditors: amounts falling due within one year | 9 | (109,176) | (26,046) |
| Net current liabilities | | (92,443) | (25,353) |
| Total assets less current liabilities | | 4,157,557 | 4,224,647 |
| Creditors: amounts falling due after more than one year | 10 | (4,071,115) | (4,182,015) |
| Net assets | | 86,442 | 42,632 |
| Capital and reserves | | | |
| Called-up share capital | 11 | - | - |
| Profit and loss account | 12 | 86,442 | 42,632 |
| Shareholder's funds | 13 | 86,442 | 42,632 |

The notes on pages 9 to 15 form part of these financial statements

The financial statements on pages 7 to 15 were approved by the Board of Directors on 7 June 2012 and signed on its behalf by



Sir Peter Mason KBE
Chairman

Registered no 06195202

Thames Water Utilities Holdings Limited

Notes to the financial statements for the year ended 31 March

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Company considered material in relation to the financial statements

Basis of preparation

The financial statements have been prepared 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

Notwithstanding net current liabilities of £93,558, the directors have prepared 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 Financial Reporting Standards ("FRS") 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, 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 as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

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

Thames Water Utilities Holdings Limited

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

1 Principal accounting policies (continued)

(e) Taxation

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

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the period and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially enacted at the balance sheet date

Taxable profit 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 periods 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 periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date

Deferred taxation is measured on a discounted basis

(f) Restatement

For the year ended 31 March 2011 £ (28.3m) of interest payable has been restated as income from fixed asset investments as the directors deem this as a more appropriate reclassification of income. This has no impact on profit on ordinary activities before taxation or retained earnings

| | Reported 31 March 2011 £'000 | Adjusted 31 March 2011 £'000 | Restated 31 March 2011 £'000 |
|---|---------------------------------------|---------------------------------------|---------------------------------------|
| Income from fixed asset investment | 243,100 | 28,320 | 271,420 |
| Profit on ordinary activities before interest and taxation | 243,100 | 28,320 | 271,420 |
| Interest payable and similar charges | (216,401) | (28,320) | (244,721) |
| Profit on ordinary activities before taxation | 26,699 | - | 26,699 |

Thames Water Utilities Holdings Limited

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

2 Interest payable and similar charges

| | 31 March 2012 £'000 | Restated 31 March 2011 £'000 |
|---|---------------------------|---------------------------------------|
| Payable to Group undertakings On loans | | |
| - payable to immediate parent undertaking | (213,053) | (220,330) |
| - payable to subsidiary undertaking | (39,363) | (24,391) |
| | (252,416) | (244,721) |

See note 1 (f) for details of restatement

3 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.

4 Taxation on profit on ordinary activities

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---|---------------------------|---------------------------|
| Current tax: | | |
| Amounts receivable in respect of group relief | 16,733 | 5,552 |

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

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---|---------------------------|---------------------------|
| Profit on ordinary activities before taxation | 27,077 | 26,699 |
| Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 26% (2011: 28%) | (7,040) | (7,476) |
| Effects of: | | |
| Non taxable income (dividend from UK company) | 72,668 | 75,998 |
| Surplus tax losses | (44,071) | (62,970) |
| Adjustment to tax credit in prior years | (4,824) | - |
| Current tax credit for the year | 16,733 | 5,552 |

There is an unrecognised deferred tax asset of £98,204,095 (2011: £58,471,715) which arises on the surplus tax losses.

There is no tax charge or credit for deferred tax (2011: £nil).

Thames Water Utilities Holdings Limited

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

4 Taxation on profit on ordinary activities (continued)

Factors affecting future tax rate

The 2012 Budget on 21 March 2012 announced that the UK corporation tax will reduce to 22% by 2014. A reduction in the rate from 26% to 25% (effective from 1 April 2012) was substantively enacted on 5 July 2011, and a reduction to 24% (effective from 1 April 2012) was substantively enacted on 26 March 2012. The financial statements for the year reflect these changes, as the unrecognized deferred tax asset has been reduced by £8,183,675 as a result of this change, although there is no impact on the profit and loss account or reserves as the amount is not recognised.

The overall effect of the further reductions from 24% to 22%, if these are applied to the unrecognized deferred tax balance at 31 March 2012, would be to reduce the unrecognized deferred tax asset by a further £8,183,675.

5 Income from fixed asset investment

The investment income of £279.5m (2011: £271.4m (restated, see note 1 (f))) relates to a dividend from the Company's direct subsidiary, Thames Water Utilities Limited.

6 Auditor's remuneration

The auditor's remuneration (for audit services only), of £1,670 (2011: £1,600) was borne by Thames Water Limited in both years. No other fees were payable to KPMG Audit Plc in respect of this Company in this year (2011: £Nil).

7 Fixed asset investments

| | Interests in Group undertaking £'000 |
|--|---|
| Cost at 1 April 2011 and 31 March 2012 | 4,250,000 |

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.

Thames Water Utilities Holdings Limited

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

7 Fixed asset investments (continued)

For details of Group undertakings, see table below

| | Year end | % owner -ship | Country of incorporation | Description of shares held | Nature of business |
|---|----------|---------------------|-----------------------------|----------------------------------|----------------------------------|
| Direct: | | | | | |
| Thames Water Utilities Limited | 31 March | 100 | England & Wales | Ordinary £1 | Water and waste water Company |
| Indirect: | | | | | |
| Thames Water Utilities Finance Limited | 31 March | 100 | England & Wales | Ordinary £1 | Financing Company |
| Thames Water Utilities Cayman Finance Limited | 31 March | 100 | Grand Cayman | Ordinary \$1 | Financing Company |

In accordance with S410 of the Companies Act 2006, information is given only in respect of 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.

8 Debtors

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|---------------------|---------------------------|---------------------------|
| Group relief debtor | 16,733 | 693 |
| | 16,733 | 693 |

9 Creditors: amounts falling due within one year

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|------------------------------------|---------------------------|---------------------------|
| Amounts owed to Group undertakings | 109,176 | 26,046 |

Amounts owed to Group undertakings include the following interest payable (see note 10)

- £69,813,000 (2011: £1,653,000) owed to Thames Water Limited, the immediate parent company
- £39,363,000 (2011: £24,393,000) owed to Thames Water Utilities Limited, the direct subsidiary company

Thames Water Utilities Holdings Limited

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

10 Creditors: amounts falling due after more than one year

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|--|---------------------------|---------------------------|
| Amounts owed to Group undertakings: | | |
| Inter-company loans | 4,071,115 | 4,182,015 |

Amounts owed to Group undertakings include the following unsecured loans

- £2,015,000,000 (2011 £2,317,015,000) owed to Thames Water Limited, the immediate parent company, being the unpaid deferred consideration on the purchase of Thames Water Utilities Limited, on which interest is payable at 10% (2011 10%) Repayment is at the discretion of the Company but must be repaid by 2056 Interest repayment on this loan is determined by agreement between both parties No repayment date has been set for interest incurred
- £2,056,115,000 (2011 £1,865,000,000) owed to Thames Water Utilities Limited, the direct subsidiary company, on which interest is based on LIBOR + 0.35% (2011 LIBOR + 0.35%) The loan is repayable by 21 August 2037

All other amounts are unsecured and interest free

11 Called-up share capital

| | 31 March 2012 £ | 31 March 2011 £ |
|--|-----------------------|-----------------------|
| Allotted, called-up and fully paid | | |
| 2 ordinary shares of £1 each (2011 2 ordinary shares of £1 each) | 2 | 2 |

12 Reserves

| | Profit and Loss account 2012 £'000 |
|------------------------------|--|
| At the beginning of the year | 42,632 |
| Profit for the year | 43,810 |
| At the end of the year | 86,442 |

13 Reconciliation of movements in shareholder's funds

| | 31 March 2012 £'000 | 31 March 2011 £'000 |
|------------------------------------|---------------------------|---------------------------|
| Opening shareholder's funds | 42,632 | 10,381 |
| Profit for the year | 43,810 | 32,251 |
| Closing shareholder's funds | 86,442 | 42,632 |

Thames Water Utilities Holdings Limited

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

14 Immediate and ultimate parent company and controlling party

The immediate parent undertaking is Thames Water Limited, a company incorporated in the United Kingdom

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and the smallest group to consolidate these financial statements

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

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB