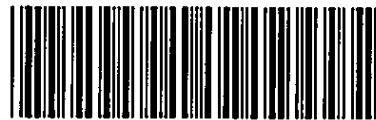


Thames Water Services Limited

Annual Report and Financial Statements

For the 15 month period ended 31 March 2007

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Thames Water Services Limited

Annual report for the period ended 31 March 2007

	Pages
Directors and advisors	1
Directors' report	2 – 7
Independent auditors' report	8 – 9
Profit and loss account	10
Balance sheet	11
Notes to the financial statements	12 – 31

Thames Water Services Limited

Directors and advisors at 31 March 2007

Directors

C Anderson
M Carr
J Cherrett
P Harding
J McKinley
C Millington
J Mitchell
N Paterson

Auditors

PricewaterhouseCoopers LLP
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Registered office

Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Services Limited

Directors' report for the period ended 31 March 2007

The Directors present their report and the audited financial statements for the period ended 31 March 2007

The Company's accounting reference date was changed to 31 March 2007 in order to coincide with Kemble Water Limited, its new owner. As a result, this report and the financial statements cover a 15 month period and financial and related information linked to the period given may not, therefore, be directly comparable with the figures for the previous financial year ended 31 December 2005

Principal activities

The principal activities of the Company in the period ended 31 March 2007 were the management, design, operation and maintenance of water-related infrastructure, and customer outsourcing services. The Company had a branch in the Republic of Ireland during the period, but not as at 31 March 2007

Review of business and future developments

The Company has enjoyed a successful period, which saw the Company sign its first major contract in Ireland. Awarded by the Northern Ireland Water Service, the Omega PPP project will deliver investment in Northern Ireland's wastewater systems as well as operations and maintenance of those systems over a twenty-five year period. Glen Water Limited is the consortium company set up to manage this contract

Further progress was made on developing the contracts and regulatory regime relating to the Land Securities development at Kent Thameside, one of Europe's largest urban regeneration projects. The Company along with its partner, EDF Energy (Asset Management) Limited, has secured preferred bidder status to provide these services over the next forty years

Terra Eco Systems (TES), one of the Company's trading divisions, has been nominated as preferred bidder on a contract in Northern Ireland with ARC21 to design, build, operate and finance municipal composting facilities. This contract is for fifteen years, composting 120,000 tonnes a year for several Councils. TES is also preferred bidder on a similar contract in Hertford

On 1 December 2006, the then ultimate parent company, RWE AG, completed the sale of the Company's intermediate parent company, Thames Water Holdings Plc, to Kemble Water Limited, a company owned by a consortium led by Macquarie Bank

The immediate parent company, called RWE Thames Water Plc at 1 January 2006, changed its name (see note 26) and is referred to as Thames Water Limited throughout the annual report and financial statements

Kemble Water Holdings Limited, the ultimate parent company, has announced its intention to divest its equity holding in the Company. The activities of the Company which are expected to be retained, by Kemble Water Holdings Limited group, include the asset management services provided by Engenica for a sister company, Thames Water Utilities Limited, together with the Company's investment in Trans4m Limited

Overall operating profits have increased from £6.2m in the year ended 31 December 2005 to £12.7m for the period ended 31 March 2007. Even after adjusting for the additional three months of trading, this represents an improvement in profit, driven by increasing contributions from projects whilst total overheads have been contained

Thames Water Services Limited

Directors' report for the period ended 31 March 2007 (continued)

Review of business and future developments (continued)

The principal reasons for the increase in profitability comprise Allenby Connaught Operations, which commenced during the period, a more than doubling of profits from staff seconded into Joint Ventures, plus a one-off boost in Channel Tunnel Rail Link (CTRL) contributions caused by bonus payments. Other than CTRL these improvements are currently expected to be sustainable in future years.

Profit has reduced in Dwr Cymru Customer Services (DCCS) and Seafeld Operations. DCCS reductions arose due to one-off incentive payments, and accruals releases at the end of the previous contract which were not repeated during the current period after the successful rebid. Seafeld Operations losses deteriorated due to an escalation in energy and sludge disposal costs. The combined heating and power, and dryer plants are both now operational and currently expected to return this contract to a profitable status. No profits have been recognised from the Omega project, although it is expected that these will start to impact the Company next year. A peak in bidding costs in 2005, prompted by the work load at that time, has not been repeated in the current period and this reduction has more than offset the increase in non-bidding overheads which includes a significant increase in group recharges.

Income from fixed asset investments fell by £1.5m, this is due to the loss of dividend from Trans4m, which is now a loss-making business. Thames Water Limited has provided guarantees to support the performance of Trans4m in its obligations to Metronet. Thames Water Services Limited's exposure to Trans4m is largely restricted to its Engenica trading division subcontract, which has been fully provided for.

There has been a £3.5m reduction in the release of discontinued operations provision.

The Company forms a large part of Thames Water UK Commercial, a grouping of companies, business divisions and investments which are managed using Key Performance Indicators (KPI). These are used as part of the monthly management process and, whilst those relating purely to the Company have not been disaggregated, the high level numbers do include financial measures (e.g. cash and profit deviations from budget), customer measures (tender pipelines, contract performance targets), process measures (health and safety, audit actions) and employee measures (sickness, development) relevant to the Company. As a result of this aggregation of management information, separate KPI analysis for the Company is not included here.

The Company does not undertake any independent research and development.

Principal risks and uncertainties

The directors consider the principal risks and uncertainties to which the Company are exposed are those intrinsic to each individual contract and its ability to provide the services for which it is contracted. These contracted services include risks in the following areas: construction, environment, delivery timetables, operational, and meeting forecasted costs.

Financial risk management – the Company has embedded these risk systems in its wholly-owned business units and seeks to implement equivalent systems within the joint ventures in which it has stakes where appropriate. There are, at least monthly, financial results and risk reviews presented by these joint venture companies to independent staff from the Company.

Thames Water Services Limited

Directors' report for the period ended 31 March 2007 (continued)

Results and dividends

The Company's retained profit for the period is £4.1m (year ended 31 December 2005: £9.8m). An interim dividend of £6.0m was paid in the period (year ended 31 December 2005: £Nil) and the Directors do not recommend payment of a final dividend (year ended 31 December 2005: £Nil).

Employees

We continue to recognise the essential role played by our employees in the successful operation of the Company and, in return, aim to provide employees with a safe and fulfilling environment in which to work and to develop their skills.

We have improved access for employees to gain training and development, and we have further developed the range of training solutions available for a wide range of needs. In particular, we have continued our focus on developing excellence in people management. A Training & Development Manager has been appointed to lead this area.

Directors and managers have been offered development to enhance their leadership, people and general business management skills, through continuing to provide access to formal qualifications. We continue to see the benefits of informal and formal networking with colleagues in other parts of the Thames Water Group, in offering our leaders the opportunity to learn about and apply varied business models and approaches.

We are committed to sharing information with employees on key business issues and our communications framework is subject to continual review and development. We have a variety of communication channels, including the employee magazine, team briefings and regular e-mail updates, together with the holding of team building conferences and events.

We believe that meaningful 'two-way' communication with employees is an essential component of making our business successful. To achieve this, we complete employee opinion surveys, undertake roadshows and hold informal lunches where employees can meet and discuss issues with Directors.

The Company recognises the importance of diversity. We have outlined our commitment to the recruitment, development and retention of employees with disabilities through our Disability Policy. The Company endeavours to continue to employ any person who has become disabled during the course of their employment. We are committed to ensuring that we treat people fairly and that we combat discrimination, through our Equal Opportunities Policy.

We continue to have over 120 staff seconded to a range of joint ventures, including Metronet companies, Trans4m Limited, CTRL, MUJV Limited and Scottish Water Solutions Limited.

Thames Water Services Limited

Directors' report for the period ended 31 March 2007 (continued)

Policy on payment of suppliers

The Company's payment policy is to

- settle the terms of payment with those suppliers when agreeing the terms of each transaction,
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts, and
- pay in accordance with its contractual and other legal obligations

The Company's average creditor payment period at 31 March 2007 was 26 days (31 December 2005 25 days), based on the ratio of Company trade creditors at the end of the period to the amounts invoiced during the period by trade creditors

Donations

Charitable donations of £100 (year ended 31 December 2005 £Nil) were made during the period

Directors and their interests

The Directors of the Company who served during the period were

C Anderson

M Carr (appointed 8 May 2006)

J Cherrett (appointed 8 May 2006)

J Earle (resigned 7 February 2006)

P Harding

J McKinley (appointed 8 May 2006)

C Millington

J Mitchell

N Paterson

Throughout the period, none of the Directors declared any interest in the shares or debentures of the Company or any other body corporate in the Group. In accordance with Statutory Instrument 1985/802 the Directors' interests in the shares of RWE AG (the ultimate parent company until 1 December 2006) are not required to be disclosed.

Auditors and disclosure of information to auditors

So far as they are aware, the Directors at the date of this report confirm that there is no relevant audit information of which the Company's auditors are unaware, and that the Directors have taken all the steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Thames Water Services Limited

Directors' report for the period ended 31 March 2007 (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

The Directors are responsible for preparing financial statements for each financial period which give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing those 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 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 confirm that they have complied with the above requirements in preparing the financial statements

The Directors are responsible for keeping proper accounting records that 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 1985. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

Elective resolutions

Pursuant to Sections 386, 366A and 252 of the Companies Act 1985, the Company passed the following elective resolutions on 11 November 2004

- 1) to dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the Company,
- 2) to dispense with the holding of annual general meetings, and
- 3) to dispense with the laying of accounts and reports before the Company in a general meeting

These elective resolutions will remain in effect until revoked by the passing of an ordinary resolution to that effect

Thames Water Services Limited

Directors' report for the period ended 31 March 2007 (continued)

Elective resolutions (continued)

Notice is hereby given that members have the following rights while such Elective Resolutions are in force. These rights are invoked by serving notice in writing to the Company's Registered Office within the timescales specified

- 1) To require the laying of accounts and reports before a general meeting, by serving notice within 28 days of receiving the report and accounts
- 2) To require the holding of an annual general meeting in that calendar year, by serving notice before 30 September in any year
- 3) To propose that the appointment of the Company's auditors be brought to an end, by serving notice at any time

Approved by the board on 11 June 2007 and signed on behalf of the board

A handwritten signature in black ink, consisting of a stylized 'P' followed by a long horizontal stroke that curves upwards at the end.

Peter Harding
Director

Thames Water Services Limited

Independent auditors' report to the members of Thames Water Services Limited

We have audited the financial statements of Thames Water Services Limited for the fifteen month period ended 31 March 2007 which comprise the Profit and Loss Account, the Balance Sheet and the related notes. These financial statements have been prepared under the accounting policies set out therein.

Respective responsibilities of Directors and auditors

The Directors' responsibilities for preparing the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements.

In addition we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Thames Water Services Limited

Independent auditors' report to the members of Thames Water Services Limited (continued)

Opinion

In our opinion

- the financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2007 and of its profit for the period then ended,
- the financial statements have been properly prepared in accordance with the Companies Act 1985, and
- the information given in the Directors' Report is consistent with the financial statements



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
12 June 2007

Thames Water Services Limited

Profit and loss account for the period ended 31 March 2007

	Note	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Turnover	2	184,494	124,167
Cost of sales		<u>(152,841)</u>	<u>(104,495)</u>
Gross Profit		31,653	19,672
Net operating costs	3	<u>(18,937)</u>	<u>(13,456)</u>
Operating Profit		12,716	6,216
Income from fixed asset investments		382	1,900
Release of provisions on discontinued operation	16	<u>723</u>	<u>4,268</u>
Profit on ordinary activities before interest and taxation		13,821	12,384
Net interest receivable	6	<u>372</u>	<u>254</u>
Profit on ordinary activities before taxation		14,193	12,638
Taxation on profit on ordinary activities	7	<u>(4,058)</u>	<u>(2,838)</u>
Profit for the period		10,135	9,800
Dividends	8	<u>(6,000)</u>	-
Retained profit for the period	21	<u><u>4,135</u></u>	<u><u>9,800</u></u>

Apart from release of provisions on discontinued operation, all amounts above relate to continuing activities

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

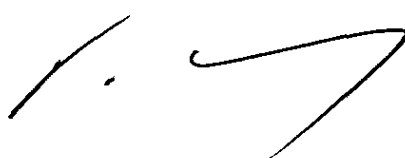
There are no differences between the profit on ordinary activities before taxation and the profit for the period stated above, and their historical cost equivalents

Thames Water Services Limited

Balance sheet at 31 March 2007

	Note	31 March 2007 £'000	31 December 2005 £'000
Fixed assets			
Intangible assets	9	757	937
Tangible assets	10	1,978	1,528
Investments	11	<u>1,076</u>	<u>1,075</u>
		3,811	3,540
Current assets			
Stocks	12	8,115	5,751
Debtors	13	42,484	32,198
Cash at bank and in hand		<u>18,857</u>	<u>10,940</u>
		69,456	48,889
Creditors: amounts falling due within one year	14	<u>(42,322)</u>	<u>(26,374)</u>
Net current assets		27,134	22,515
Total assets less current liabilities		30,945	26,055
Creditors: amounts falling due after more than one year	15	(1,739)	(1,716)
Provisions for liabilities and charges	16	<u>(5,015)</u>	<u>(4,283)</u>
Net assets		<u>24,191</u>	<u>20,056</u>
Capital and reserves			
Called-up share capital	19	13,000	13,000
Share premium account	20	1,000	1,000
Profit and loss account	21	<u>10,191</u>	<u>6,056</u>
Equity shareholders' funds	22	<u>24,191</u>	<u>20,056</u>

The financial statements on pages 10 to 31 were approved by the board of Directors on 11 June 2007 and were signed on its behalf by



P Harding
Director

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis and in accordance with the historical cost convention and with applicable accounting standards in the UK and with the Companies Act 1985

In accordance with the requirements of FRS 18, the Directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view

The principal accounting policies are set out below. These policies are consistently applied to all periods presented, unless otherwise stated

The Company has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated accounts of its parent company Kemble Water Holdings Limited, a company registered in the UK

These accounts were approved by the Directors at the date of signing and may not be amended after this date

Turnover

Turnover represents the fair value of the income receivable in the ordinary course of business for the goods and services provided and is recognised in accordance with FRS 5 'Reporting the Substance of Transactions'. The revenue is recognised when the services have been performed, exclusive of value added tax and foreign sales tax

Goodwill and intangibles

Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary, joint venture or associated undertakings acquired, is capitalised and amortised using the straight line method over its estimated useful economic life. Impairment tests on the carrying value are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying value may not be recoverable. These tests involve a comparison of the book value with the higher of the net realisable value and the value in use

Profit or loss on disposal of a previously acquired subsidiary, joint venture or associated undertaking is determined after including the attributable amount of purchased goodwill

For accounting periods to 31 March 1997 the accounting policy for goodwill arising on acquisition was to write off against reserves in the year in which it arose

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Their carrying amount is reduced by any provision for impairment where necessary

Intangible assets currently comprise of patents and licences. These assets are being amortised over their remaining useful lives of 5 years

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

1 Principal accounting policies (continued)

Tangible fixed assets

Tangible assets are stated at cost less accumulated depreciation

Cost includes expenditure that is directly attributable to the acquisition of the items. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the profit and loss account during the period in which they are incurred.

Tangible assets are depreciated by writing off their cost less their estimated residual value evenly over their estimated useful lives, based on management's judgement and experience, which are principally as follows:

Freehold buildings	10-100 years
Plant and equipment	2-7 years
Fixtures and fittings	3-7 years

Freehold land is not depreciated.

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

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

Impairment of tangible and intangible assets excluding goodwill

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

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

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

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

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

1 Principal accounting policies (continued)

Investments

Fixed asset investments are stated at cost less amounts written off to reflect any impairment in value

Stocks and work in progress

Stock and work in progress, with the exception of long-term contracts, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Long term contracts

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs, the excess is disclosed in provisions for liabilities and charges.

Operating leases

Costs in respect of operating leases are charged on a straight-line basis over the lease term.

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 differs from the net profit as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible.

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.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

1 Principal accounting policies (continued)

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 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 in via Statement of Total Recognised Gains and Losses in Equity

Pension costs

The majority of the Company's employees belong to pension schemes which are funded by both employer's and employees' contributions and which are of the defined benefit type

Information on the Company's pension arrangements can be found in note 18 to these financial statements

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension scheme assets and liabilities cannot be separately identified on a reasonable and consistent basis from those of Thames Water Utilities Limited. Where this is the case, FRS 17 requires the Company to account for the pension contributions made by the Company as if they were contributions made into a defined contribution scheme. The FRS 17 pension cost of a defined contribution scheme is equal to the contributions payable to the scheme for the accounting period.

Provisions

Provisions, except for insurance provisions, are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

1 Principal accounting policies (continued)

Post balance sheet events

In accordance with FRS 21, dividends declared after the balance sheet date are no longer recognised as a liability at the balance sheet date and are now recorded in the financial statements on a cash paid basis

Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of Kemble Water Holdings Limited and is included in the consolidated financial statements of Kemble Water Holdings Limited, which are publicly available. Consequently, the Company has taken advantage of the exemption from preparing cash flow statements under the terms of FRS1 (revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Kemble Water Holdings Limited Group or investees or the Kemble Water Investments Limited Group.

Foreign currencies

The financial statements are presented in Sterling, which is the functional currency of the Company and is therefore also the presentational currency of the Company. Transactions in foreign currencies are recorded at the exchange rates ruling on the dates of the transactions. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated into sterling at the relevant rates of exchange ruling on the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the period.

Cash

Cash includes cash at bank and in hand, deposits, and other short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash within three months and which are subject to an insignificant risk of change in value.

Trade receivables

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

Trade payables

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

Adoption of new accounting policies

The Company has adopted the disclosural requirements of FRS25. The adoption is a change in accounting policy but has no effect on current period or prior year results.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

2 Segmental reporting

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
United Kingdom	182,017	122,055
Continental Europe	2,477	2,112
	<u>184,494</u>	<u>124,167</u>

3 Net operating costs

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Operating profit is stated after charging / (crediting):		
Pension provision (note 16)	300	300
Net contractual obligation provisions / (release) (note 16)	1,216	(1,510)
Profit on sale of fixed assets	(372)	-
Depreciation of tangible fixed assets		
-owned fixed assets (note 10)	838	724
Amortisation of intangible fixed assets (note 9)	249	164
Auditors' remuneration for audit services	90	175
Auditors' remuneration for non-audit services	-	3
Operating lease charges		
-other	360	276
Restructuring costs	831	658

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

4 Directors' emoluments

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Aggregate emoluments	1,296	724
Aggregate emoluments receivable under long-term incentive schemes	178	-
	<u>1,474</u>	<u>724</u>

Retirement benefits are accruing to 8 (Dec 2005: 5) Directors under the Company's defined benefit schemes

During the period no Directors (Dec 2005: nil) exercised share options

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Highest paid Director		
Total amount of emoluments and amounts receivable under long-term incentive scheme	<u>447</u>	<u>249</u>
Accrued pensions benefit for the period	<u>21</u>	<u>17</u>

5 Employee information

The average monthly number of persons (including executive Directors) employed by the Company during the period was

	Period ended 31 March 2007	Year ended 31 December (Restated) 2005
Average monthly number of employees	<u>1,204</u>	<u>1,197</u>

The prior year average number of employees has been restated from full-time equivalent figures to actual headcount relating to part-time employees and secondees

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

5 Employee information (continued)

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Staff costs		
Wages and Salaries	40,659	30,682
Social security costs	3,420	2,571
Pension costs (note 18)	6,402	2,619
	<u>50,481</u>	<u>35,872</u>

6 Net interest receivable

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Interest payable to group undertakings	(124)	(316)
Interest payable on bank overdrafts	-	(17)
Other interest payable	(10)	-
Interest receivable on bank deposits	506	587
	<u>372</u>	<u>254</u>

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

7 Taxation

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Current period:		
Amounts payable in respect of group relief	(4,041)	(1,901)
Adjustments in respect of previous periods	<u>169</u>	<u>711</u>
Total current tax	(3,872)	(1,190)
Deferred tax:		
Current year		
Origination and reversal of timing differences	(97)	(1,464)
Prior year		
Deferred tax previously recognised	<u>(89)</u>	<u>(184)</u>
Taxation on profit on ordinary activities	<u>(4,058)</u>	<u>(2,838)</u>

The tax assessed for the period is lower (Dec 2005 lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below

	31 March 2007 £'000	31 December 2005 £'000
Profit on ordinary activities before taxation	<u>14,193</u>	<u>12,638</u>
Tax on profit on ordinary activities at the standard rate of 30% (2005 30%)	4,258	3,791
Effect of		
Income not taxable	(114)	(570)
Depreciation in excess of capital allowances	(10)	114
Other timing differences	(86)	(1,581)
Profit on disposal of fixed assets	(107)	-
Other permanent differences	100	147
Adjustments to tax charge in respect of previous periods	(169)	(711)
	<u>3,872</u>	<u>1,190</u>
Current tax charge for the period	<u>3,872</u>	<u>1,190</u>

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

8 Dividends

	Period ended 31 March 2007 £'000	Year ended 31 December 2005 £'000
Interim paid 46 15p (2005 0p) per ordinary share	<u>6,000</u>	<u>-</u>

9 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 January 2006	2,755	1,122	3,877
Additions	-	69	69
At 31 March 2007	<u>2,755</u>	<u>1,191</u>	<u>3,946</u>
Amortisation			
At 1 January 2006	1,860	1,080	2,940
Charge for period	173	76	249
At 31 March 2007	<u>2,033</u>	<u>1,156</u>	<u>3,189</u>
Net book value at 31 March 2007	<u>722</u>	<u>35</u>	<u>757</u>
Net book value at 31 December 2005	<u>895</u>	<u>42</u>	<u>937</u>

The Directors consider that the remaining useful economic life of the goodwill generated on acquisitions at 1 April 1998 to be a period of 20 years. Other intangible fixed assets represent patents and licences. The Directors consider the useful economic life of patents and licences to be five years.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

10 Tangible fixed assets

	Freehold land & buildings £'000	Fixtures, fittings, plant & equipment £'000	Total £'000
Cost			
At 1 January 2006	189	4,414	4,603
Additions	309	1,121	1,430
Disposals	(189)	(88)	(277)
At 31 March 2007	309	5,447	5,756
Depreciation			
At 1 January 2006	47	3,028	3,075
Charge for period	8	830	838
Disposal	(47)	(88)	(135)
At 31 March 2007	8	3,770	3,778
Net book value at 31 March 2007	301	1,677	1,978
Net book value at 31 December 2005	142	1,386	1,528

No assets were held under finance leases in the period (Dec 2005 nil)

11 Fixed asset investments

	Interests in group undertakings £'000
Cost	
At 1 January 2006	1,881
Additions	1
Disposals	-
At 31 March 2007	1,882
Impairment	
At 1 January 2006	806
Provided during the period	-
At 31 March 2007	806
Net book value at 31 March 2007	1,076
Net book value at 31 December 2005	1,075

In the opinion of the Directors, the value of the investments in all subsidiary companies, associates and joint ventures is not less than the amounts included in the balance sheet

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

11 Fixed asset investments (continued)

Interests in group undertakings

	Year end	Country of incorporation	Description of shares held	Nature of business
Thames Water Services MR Ltd	31 Mar	Great Britain	Ordinary £1	Dormant
Morgan Collis Group Ltd	31 Mar	Great Britain	Ordinary £1	Dormant
Surta Ltd	31 Mar	Great Britain	Ordinary £1	Dormant
A J Whiteside & Co Ltd	31 Mar	Great Britain	Ordinary £1	Dormant
Thames Water Nevis Ltd	31 Mar	Great Britain	Ordinary £1	Water services
Thames Water Retail Ltd	31 Mar	Great Britain	Ordinary £1	Non trading

The Company is exempt from the requirement to prepare consolidated financial statements since its subsidiaries are wholly owned and included in the consolidated financial statements of the ultimate parent company

In accordance with S231(5) of the Companies Act 1985, 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

Investments in joint ventures

Name of Undertaking	Year end	Country of incorporation	Description of shares held	Proportions of nominal value of issued shares held	Nature of business
Trans4M Limited	31 Mar	Great Britain	Ordinary £1	25%	Engineering services
Stirling Water (2003) Limited	31 Mar	Great Britain	Ordinary £1	25%	Water services
Glen Water (Holdings) Limited	31 Mar	Great Britain	Ordinary £1	50%	Waste water services
MUJV Limited	31 Dec	Great Britain	Ordinary £1	50%	General construction

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

12 Stocks

	31 March 2007 £'000	31 December 2005 £'000
Raw materials and consumables	1,376	940
Work in progress	6,739	4,811
	<u>8,115</u>	<u>5,751</u>

13 Debtors

	31 March 2007 £'000	31 December 2005 £'000
Amounts falling due within one year:		
Trade debtors	5,645	5,369
Amounts owed by group undertakings	15,365	14,950
Deferred tax (note 17)	5,140	915
Other debtors	2,704	2,285
Prepayments and accrued income	13,630	8,679
	<u>42,484</u>	<u>32,198</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

14 Creditors: amounts falling due within one year

	31 March 2007 £'000	31 December 2005 £'000
Trade creditors	5,331	3,700
Amounts due to group undertakings	18,659	4,836
Other taxation and social security payable	1,834	1,812
Group relief payable	1,568	967
Other creditors	153	429
Accruals and deferred income	14,777	14,630
	<u>42,322</u>	<u>26,374</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand, except a loan of £2,000,000 from Thames Water Limited, which incurs interest at the Bank of England base rate plus 0.5%

15 Creditors: amounts falling due after more than one year

	31 March 2007 £'000	31 December 2005 £'000
Amounts due to group undertakings	<u>1,739</u>	<u>1,716</u>

Amounts due to group undertakings are in relation to loans from parent and other companies within the Kemble Water Holdings Limited group (note 26). These loans are unsecured, interest free and have no fixed repayment dates.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

16 Provisions for liabilities and charges

	Disposal Provisions £'000	Contract Obligations £'000	Pension Obligations £'000	Total £'000
At 1 January 2006	1,244	2,739	300	4,283
Released during the period	(723)	-	-	(723)
Utilised during the period	(61)	(249)	-	(310)
Additional provisions made in the period	-	1,465	300	1,765
At 31 March 2007	<u>460</u>	<u>3,955</u>	<u>600</u>	<u>5,015</u>

Disposal provisions consist of:

Legal fees	27
Contract and warranties	402
Other	31
	<u>460</u>

The remaining disposal provisions relate to the disposal of the Subterra business unit. The timing and amounts to be utilised are uncertain.

The release of the disposal provisions relates mainly to the release of the pension provision of £250,000 relating to the disposal of Subterra in a prior year, the partial release of the warranties provision of £200,000 also relating to the disposal of Subterra and the release of other disposal related provisions of £273,000.

Within contract provisions, £70,000 relates to contract penalty provisions and £3,865,000 relates to a provision made for losses on a long term contract. The timing and amounts to be utilised are uncertain.

Under the contract with Dwr Cymru Welsh Water, Thames Water Services Limited is responsible for the pension funding of the employees working on the Dwr Cymru Customer Services contract. In order to fund pension commitments in relation to these employees, the Company has received external advice that it would need to make an additional £300,000 per annum contribution. At 31 March 2007 the total amount provided was £600,000.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

17 Deferred taxation

The recognised deferred tax assets are as follows -

	31 March 2007 £'000	31 December 2005 £'000
Tax effect of timing differences because of		
Excess of depreciation over tax allowances	196	208
Pension contributions	180	99
Capital losses	4,411	-
Other	353	608
	<u>5,140</u>	<u>915</u>

A deferred tax asset of £5,140,000 (2005 £915,000) has been recognised, of which £180,000 relates to pension contributions, £138,000 relates to the disposal of discontinued businesses, £196,000 relates to the excess of depreciation over tax allowances, £4,411,000 relates to capital losses available for the offset against future chargeable gains and £215,000 relates to other timing differences that will attract tax allowances when reversed

Deferred tax movement

	£'000
At 1 January 2006	915
Adjustment in respect of prior years	4,411
Credited to profit and loss current period	(186)
At 31 March 2007	<u>5,140</u>

The adjustment in respect of prior years relates to capital losses arising on disposals in 2002 and 2003 by Thames Water Limited. These were treated as disposals by the Company for tax purposes. The capital losses have recently been agreed with H M Revenue and Customs and are available for future use by the Company.

An inter-company creditor has been set up with Thames Water Limited to reflect payment due in consideration for these losses. The inter-company creditor will be settled as and when the losses are utilised.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

18 Pension obligations

Pension arrangements for the majority of the Company's employees are of the defined benefit type, funded through pension schemes covering employees within the Thames Water Group, whose assets are held separately from those of the Group in independently administered funds. In addition, there are unfunded defined benefits provided for Directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements.

The Company's pension arrangements are of the Group multi-employer scheme nature, such that the Company's pension schemes assets and liabilities are included with those of other companies in the Thames Water Group. Thames Water Utilities Limited contributes the vast majority of the contributions into the schemes and feels any consequence of their being a surplus or a deficit in the schemes. Accordingly, the directors have decided it is appropriate to recognise the total surplus and deficit of the two Group pension schemes, Thames Water Pension Scheme and Thames Water Mirror Image Pension Scheme, within the financial statement of Thames Water Utilities Limited.

The FRS 17 ongoing pension cost and the Company's contributions in the period were £6,102,000 (2005 £2,319,000). This number is £300,000 less than the number disclosed in note 5 Employee information, as the latter contains an increase in pension provision, as detailed in note 16 Provisions for liabilities and charges.

The latest full actuarial valuation was undertaken as at December 2004. This valuation was updated at 31 March 2007 by Hewitt, Bacon and Woodrow using revised assumptions that are consistent with the requirements of FRS 17. The next full actuarial valuation as at 31 December 2007 will be undertaken by Hewitt, Bacon and Woodrow (the independent and professionally qualified consulting actuaries to the schemes) during 2008.

Thames Water Group has taken advice from Hewitt, Bacon and Woodrow in respect of the funding position of the Group pension schemes. The Company contribution rate is in accordance with Hewitt, Bacon and Woodrow recommendations, having regard to the funding position of the schemes.

Full details of the above two pension schemes are disclosed in the financial statements of Thames Water Utilities Limited, which are available from the Company Secretarial Department, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

19 Share capital

	31 March 2007 £'000	31 December 2005 £'000
Authorised		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>

20 Share premium reserves

	£'000
At 1 January 2006 and 31 March 2007	<u>1,000</u>

21 Profit and loss account reserve

	£'000
At 1 January 2006	6,056
Retained profit for the period	<u>4,135</u>
At 31 March 2007	<u>10,191</u>

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

22 Reconciliation of movements in shareholders' funds

	31 March 2007 £'000	31 December 2005 £'000
Profit for the financial period	10,135	9,800
Dividends	(6,000)	-
Retained profit for the period	4,135	9,800
Shareholders' funds as previously reported	20,056	10,191
Prior year adjustment	-	65
Shareholders' funds at 1 January as restated	20,056	10,256
Shareholders' funds as at 31 March/31 December	24,191	20,056

23 Financial commitments

At 31 March 2007 the Company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows

	31 March 2007 £'000	31 December 2005 £'000
Other		
Expiring within one year	29	73
Expiring between one and two years inclusive	105	-
Expiring between two and five years inclusive	116	178
	250	251

24 Contingent liabilities

The Company has given unlimited guarantees to Lloyds TSB Bank Plc in respect of the loans and other borrowings of certain group companies. As the Company is in the process of switching banking facilities, it has also given unlimited guarantees to National Westminster Bank Plc in respect of the loans and other borrowings of certain group companies.

No liability is expected to arise in respect of either of these arrangements.

25 Related party transactions

Sales of £31,000 (2005 £5,324,000) were made to Stirling Water (2003) Limited, a joint venture of Thames Water Services Limited, from Engenica, a trading division of the Company. Engenica also made sales of £12,598,000 (2005 £6,695,000) to Trans4M Limited. The balance owed by Stirling Water (2003) Limited at the period end was £62,000 (2005 £333,000), and the balance owed by Trans4M at the period end was £136,000 (2005 £695,000).

Thames Water Services Limited

Notes to the financial statements for the period ended 31 March 2007 (continued)

25 Related party transactions (continued)

Sales of £12,785,000 (2005 £9,675,000) were made to Stirling Water Seafield Holdings Limited, from Stirling Water a trading division of the Company, during the period. The balance owed by Stirling Water Seafield Holdings Limited at the period end was £1,116,000 (2005 £1,025,000)

Sales of £4,618,000 (2005 £3,663,000) were made to Trans4M Limited from Thames Water Services Limited during the period. The balance owed to Thames Water Services Limited at the period end was £316,000 (2005 £258,000)

Sales of £2,386,000 (2005 £3,354,000) were made to Scottish Water Solutions Limited, (a joint venture of Stirling Water (2003) Limited), from Thames Water Services Limited during the period. The balance owed to Scottish Water Solutions Limited at 31 March 2007 was £21,000 (2005 Nil)

Sales of £3,530,000 (2005 £2,390,000) were made to Metronet Rail BCV Holdings Limited and Metronet Rail SSL Holdings Limited, joint ventures of Thames Water Limited from Thames Water Services Limited during the period. The balance owed to Thames Water Services Limited at 31 March 2007 was £114,000 (2005 £600,000)

Sales of £2,030,000 (2005 £4,616,000) were made to Stirling Water (2003) Limited from Thames Water Services Limited during the period. The balance owed to Thames Water Services Limited at 31st March 2007 was £258,000 (2005 £618,000)

Sales of £758,000 (2005 Nil) were made to MUJV Limited from Thames Water Services Limited during the period. The balance owed to Thames Water Services Limited at 31 March 2007 was £161,000 (2005 Nil)

26 Immediate and ultimate parent companies and controlling undertaking

The immediate parent company is Thames Water Ltd, a company incorporated in the United Kingdom, owns 100% of the share capital. The immediate parent company has had a number of name changes since 1 January 2006, these changes are as follows

- Between the period 1 January 2006 to 31 November 2006, the immediate parent company was called RWE Thames Water Plc
- Between the period 1 December 2006 to 3 June 2007, the immediate parent company was called Thames Water Plc, and
- From 4 June 2007, the immediate parent company has been renamed Thames Water Limited

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

The ultimate parent company and controlling party is Kemble Water Holdings Limited, a company incorporated in the United Kingdom and largest 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 "