

Registered no: 02366661 (England and Wales)

Thames Water Utilities Limited

Interim report and financial statements

For the six-month period ended 30 September 2013



Thames Water Utilities Limited

Thames Water Utilities Limited results for the six-month period ended 30 September 2013

OPERATING SUMMARY

- Injuries at lowest ever level after falling by 17% compared to the prior period
- Customers, environment and economy continue to benefit from record investment
- On track to hit annual leakage-reduction target for eighth consecutive year
- Customer satisfaction improved, but still in need of further focus
- Improvement in sewer network performance, but flooding incidents remain a concern
- Construction of the Lee Tunnel more than 70% complete
- Public examination of Thames Tideway Tunnel development consent application under way
- Reviewing next steps after Ofwat refused our application to recover unfunded costs incurred in AMP 5 (2010 – 2015)

FINANCIAL SUMMARY

- £561.8m (2012: £539.2m) spent on improvements to pipes, sewers and other facilities*
- Pre-tax profit increased by £21.6m to £134.2m (2012: £112.6m) driven by revenue increases
- Further reinvestment of £60.0m of capital efficiencies in the business, taking the total to £150.0m
- Distribution of £50.0m (2012: £92.0m) to external shareholders** out of an interim dividend of £128.5m (2012: £201.4m) which was paid by the company on 26 September 2013
- The reduction in UK corporation tax rates, from 23% to 20%, has reduced deferred tax liabilities and increased post-tax profits

Martin Baggs, chief executive of Thames Water, said: “Over the last six months significant improvements in our water and waste water operations have led to improved customer satisfaction. While work progresses on major projects like the Lee Tunnel, our progressive metering programme and the proposed Thames Tideway Tunnel, we will not take our eyes off the key priorities – improving customer service, maintaining affordability and health and safety.”

* Purchase of tangible fixed assets (£488.8m (2012: £448.9m)), infrastructure renewals expenditure (£94.4m (2012: £97.2m)) offset by capital contributions received (£21.4m (2012: £6.9m))

** Distribution of £50.0m (2012: £92.0m) paid to external shareholders comprised of interest and dividend payments of £36.9m (2012: £17.5m) and £13.1m (2012: £74.5m) respectively.

Thames Water Utilities Limited

Contents

| | Pages |
|--|--------------|
| Report of the Chief Executive Officer | 1 |
| Report of the Chief Financial Officer | 6 |
| Directors serving from 1 April 2013 | 10 |
| Responsibility statement of the directors | 11 |
| Independent review report | 12 |
| Condensed profit and loss account | 13 |
| Condensed statement of total recognised gains and losses | 13 |
| Condensed balance sheet | 14 |
| Condensed cash flow statement | 15 |
| Notes to the financial statements | 16 |

Thames Water Utilities Limited

Report of the Chief Executive Officer

The first half of 2013 has seen Thames Water Utilities Limited ("TWUL") achieve several key milestones and successes.

Health and safety

The health and safety of our employees remains a key priority and during the six-month period ended 30 September 2013 we have continued our strong focus on this area, with a number of operational teams operating for considerable periods of time without lost time incidents. This is real evidence that the continued focus on health and safety, not just by our employees, but by our contractors and suppliers, is making a difference to the way we operate as an organisation.

Some examples of what has been achieved from the first six-months of the financial year include:

- at the beginning of 2013/14 we introduced Executive Incident Reviews, where every lost-time injury to one of our employees or contractors' employees is reviewed by a member of the Executive team. These reviews, together with the introduction of zero compromise cards empowering all employees and contractors to stop unsafe acts or conditions, has resulted in a drop of all injuries by 17% compared to the prior period, falling to its lowest ever recorded level;
- during the year we have also been running a series of zero compromise and service avoidance stand-down days across our contractors and network teams reaching over 2,000 people. This has resulted in the number of service strikes (when our workers accidentally strike other utility cables or infrastructure during their work on our network) reducing by 50% from the previous year. As well as reducing the risks to our employees and contractors, it improves our service to customers; service strikes almost inevitably disrupt services whether ours, other utilities', or both;
- at the same time we are enhancing the skills and competency of our managers with over 50 completing the National Examination Board in Occupational Safety and Health ("NEBOSH") general certificate in occupational health and safety. This is being rolled out to all operational managers across the Company;
- at the end of September 2013, the UK water industry took part in the first ever Water Wellbeing Week. This was dedicated to increasing health awareness and encouraging healthy lifestyles. Thames Water introduced the concept and led the communications for the week, developing the literature and multiple activities to get staff and contractors engaged. An estimated total of 200,000 people were involved in the event across the UK; and,
- In 2013/14 the Company introduced a new series of formal Health and Safety audits. The specific objectives of these audits are to provide assurance that the Company is compliant with its legal obligations, and is demonstrating strong governance and best practice control in relation to a number of selected risk topics. Audits already undertaken include reviews of mobile plant and traffic management, oil and chemical storage, electricity management and fire management.

Customer service

Complaints from our customers for the six-month period ended September 2013 fell by 51% when compared to the same period last year. Significant reductions have been seen in metering complaints, which fell by 71% and water services which have fallen by 56% from the six-month period ended September 2012. Whilst we are not expecting to see the same step change in volume reductions during the second half of the year, we should continue to show a sustained reduction when compared to 2012/13 complaint volumes as cross company improvements are maintained.

We have been monitoring daily CSAT (Customer Satisfaction) scores based on our own surveys, and have seen improving trends. CSAT is the measure used by Ofwat to determine how satisfied our customers are with the service we provide. Using our internal CSAT monitor, over 16,000 surveys have been completed across revenue, water and waste services and for the month of September 2013, we achieved an overall weighted score of 4.05 out of 5, which compares favourably to the score at September 2012 of 3.67.

Thames Water Utilities Limited

Report of the Chief Executive Officer (continued)

We have been reviewing customer satisfaction in every part of our operations, which has resulted in a company-wide business improvement plan that is focussed on both efficiency and customer service. The plan includes 30 initiatives, which are specifically aimed at delivering an improvement to the CSAT score as measured by Ofwat. Early CSAT improvements will be seen in those areas where customers have indicated they are more dissatisfied with our service:

- ease of contact;
- being kept informed; and,
- length of time to resolve.

We have reviewed many of our customer journeys (how a customer's contact flows through our processes to deliver that customer's requirements) identifying ways to improve continually the outcome for our customer and us. Initiatives resulting from these reviews include updating our customers proactively on progress by text and reducing internal handover points so that we create more "one and done" interactions.

In respect of Ofwat's measure of customer satisfaction, the Service Incentive Mechanism ("SIM"), progress in the six month period ended 30 September 2013 has been mixed. During the first six months of the financial year, Thames Water has made good progress in reducing the number of unwanted customer contacts that it has received. Despite an increase in telephone calls from customers, which initially affected the unwanted and abandoned call volumes, the company remains on track to improve on last year's performance. Written complaint volumes continue to fall and we expect the year end figure to be in the region of 10,000 lower than last year. Unfortunately, we have not seen the same level of progress in overall customer satisfaction. Ofwat's survey results for the first two quarters were much lower than we would have liked and this therefore remains an area in which we will continue to focus. We are now seeing the benefits of our business improvement plans and by year end we expect to be able to report an improvement in our SIM performance compared to 2012/13.

Regulatory

In August 2013 we submitted an application to Ofwat to adjust customer bills. This was to enable us to catch up on revenue that was not factored into prices for 2010 to 2015 when they were last set by Ofwat in 2009. At that point in time certain cost items were impossible to quantify - Thames Tideway Tunnel ("TTT") land purchases, customer bad debt, acquiring 40,000km of additional sewers following a 2011 change in the law and a rise in Environment Agency abstraction charges. If such items had been factored into prices in 2009, our average household bill would have been nearly £6 a year higher across the current five-year period.

On 9 November 2013 Ofwat formally rejected our application in their Final Determination. We have until early January 2014 to decide whether to accept this ruling or seek reference to the Competition Commission.

On 2 December 2013 we will submit to the regulator our plans for the five years to 2020. This is part of Ofwat's review of pricing for those five years which will take place in 2014 ("PR14"). Our plans have been put together over the last three years, during which time we have consulted widely with thousands of our customers to ensure our plan reflects what customers want at an affordable price. We believe that our plan builds on the delivery of AMP 5 (2010 - 2015), investing to improve further Thames Water's networks and other assets and, most importantly, further improving our service to customers. Ofwat is due to make its "final determination" on our business plan in Autumn 2014.

On 25 October 2013, we received a letter from Ofwat noting that its Executive was minded to make a recommendation to Ofwat's Board to issue a formal notice to Thames Water under Section 22A(4) the Water Industry Act 1991. This notice would propose the imposition of a financial penalty for an alleged contravention of Condition J of Thames Water's instrument of appointment. The alleged contravention relates to Ofwat's concerns that Thames Water has misreported its sewer flooding outputs in AMP4 (2005 – 2010), specifically in relation to the number of properties reported as having been removed from the register of properties at risk of sewer flooding in our 2010 June Return.

Whilst we intend to vigorously contest the alleged contravention and any subsequent enforcement action taken by Ofwat, a provision has been recognised at the maximum value (£14.1m) of the financial penalty which Ofwat has indicated in its recent letter may be imposed. This issue could also result in a "logging down" adjustment of Thames Water's RCV (Regulatory Capital Value) as part of the PR14 determination.

Thames Water Utilities Limited

Report of the Chief Executive Officer (continued)

Asset Investment

From an asset investment perspective, we have made significant progress on several key projects.

- Planning for the proposed TTT continues apace. This major new sewer is vital to capture tens of millions of tonnes of untreated sewage that currently overflows into the tidal River Thames from London's Victorian sewers after as little as 2mm of rain. The new tunnel will tackle the overflows, leading to a cleaner, healthier river for people and wildlife, with completion due by 2023. Several key milestones were achieved in recent months, such as significant progress made on developing the preferred delivery structure of the stakeholders (a separately regulated Infrastructure Provider).
- Construction of the Lee Tunnel is now over 70% complete. The Lee Tunnel when completed in 2015 at an estimated cost of around £650m, will prevent more than 16 million tonnes of sewage mixed with rainwater overflowing into the River Lee each year by capturing and transferring it to our Beckton sewage works. The TTT will subsequently link into the completed Lee Tunnel as part of our overall Thames Tideway Quality Initiatives programme.
- The upgrade of the sewage treatment works at Modgen was completed in May 2013. This £140m upgrade boosted the treatment capacity of the UK's third largest sewage works by 50%, and will significantly reduce the storm overflows into the River Thames, as well as improving the quality of treated effluent returned to the river.

These investments show our continued commitment to improving operational efficiency. The excellent progress made on these projects has not meant that we have taken our eyes off the day job, which includes continuing to deliver safely our record £1bn-a-year programme of improvements to our pipes, sewers and other facilities. In the six-month period ended 30 September 2013, we invested a further £561.8m (2012: £539.2m)**.

Complementing the above asset investment programme is our continued focus on innovation projects across the Company. For example, we have successfully trialled a Bucher press at one of our sewage treatment works. This type of press, which is usually associated with the food industry, is used to reduce the water content of sludge, making it easier and more efficient to process. The resulting lower volumes of sludge mean less journeys and therefore fewer vehicles on the road, reducing operating costs and our impact on the environment.

We have continued to roll out Thermal Hydrolysis Process ("THP") across six of our major sewage treatment sites. THP involves heating sludge up and effectively 'cooking it' before it is digested. The resultant digestion then releases more gas than with untreated sludge. The gas is then burnt to generate renewable electricity. The more electricity we can generate this way the less we have to buy from the grid, again reducing operating costs and our environmental impact. This investment will help us achieve our target to self-generate renewably 20% of our annual electricity requirements by 2015.

Operations

We have undertaken several actions across our operations networks in the last six months which have improved our customer satisfaction scores:

- we have proactively managed leakage across our water network. Over the last few months we have increased the number of repair gangs and their productivity has also increased. As a result, the number of outstanding leakage repair jobs has reduced, such that we are on track to achieve our regulatory leakage reduction target for the eighth consecutive year;
- when customers report no water at their property we have changed our response protocol. We no longer wait for verification and have reduced our planned response time from four to two hours. Not only does this help customers more quickly, it is also bringing down the number of unwanted calls as when we fix things quickly we impact fewer customers;

*A "logging down" adjustment is the removal from the RCV of expenditure which Ofwat considers not to have been efficiently incurred.

** Purchase of tangible fixed assets (£488.8m (2012: £448.9m)), infrastructure renewals expenditure (£94.4m (2012: £97.2m)) offset by capital contributions received (£21.4m (2012: £6.9m))

Thames Water Utilities Limited

Report of the Chief Executive Officer (continued)

- within our waste network, we have taken actions to address the number of customer properties which have been internally flooded due to causes other than sewer flooding, such that our monthly performance now tracks very close to Ofwat's serviceability levels; and,
- serviceability of our waste network is expected to remain at a marginal level during 2013/14. With respect to pollution incidents that arise from issues across our sewerage network, waste pumping stations and sewerage treatment works, significant progress continues to be made on our recovery plan to improve the serviceability of these waste network assets. For example, 140km of planned sewer cleaning has now been completed ahead of schedule and this, combined with our initiatives across our waste network, means that we are on track to return to stable serviceability by the end of AMP 5.

In conjunction with our drive to improve customer service we have initiated an extensive business improvement plan. This two-year programme has already yielded benefits of £18.7m and is expected to result in improvements to profits of around £50m for the year ending 31 March 2014 and around £90m per year on an ongoing basis. Despite this improvement, EBITDA (Earnings before interest, tax, depreciation and amortisation) for the five year period ending 31 March 2015 is forecast to be around £200m below our original expectations based upon the final determination set following the 2009 price review ("PR 09").

Commercial

The commercial arm of TWUL consists of property searches, property development, retail and our partnership deals (such as Homeserve). The property development team disposes of land that the operational business no longer requires. The property searches business provides information about our assets for conveyancing purposes and to property developers. Our retail business serves commercial customers, including approximately 250,000 businesses within the Thames Water region. All of the businesses within TWUL's commercial portfolio have seen strong performance in the first half of the year and are on track to deliver full-year results in line with expectations.

Financial results

Turnover for the six-month period ended 30 September 2013 rose 8% to £976.5m, driven by annual bill increases and higher consumption during the hot periods of the summer. Increased network costs and inflationary pressure partially offset by the delivery of cost savings initiatives resulted in operating costs of £627.7m (2012: £591.6m) for the period. As a result, operating profit increased 12% to £348.8m (2012: £311.1m). Further details on the financial results are provided on pages 6 to 8 of the report of the Chief Financial Officer.

Corporate Governance

The Directors and the ultimate shareholders are committed to the highest standards of corporate governance and therefore this area is kept under continual review and scrutiny to ensure it is fit for purpose and transparent.

During the six-month period ended 30 September 2013, following the agreement of the Kemble Water Holdings' shareholders, the Chairman, Sir Peter Mason KBE became Independent Chairman. In addition, the Company designated Michael Pavia as its Senior Independent Director during the period.

In common with other companies, we are preparing for the application of the new reporting regime (introduced by the updated UK Corporate Governance Code and changes to the Companies Act 2006), which requires amongst other items, a new Strategic Report, and updated Remuneration and Audit Committee Reports for the 31 March 2014 year end.

We responded to Ofwat's consultation on board leadership, transparency and governance launched in September 2013. We are supportive of Ofwat's initiative to enhance governance across the industry and have been proactively enhancing our reporting and governance over the last couple of years. However, we flagged that (in light of our ownership structure) the principles advanced by Ofwat for adoption by companies raise significant issues for our shareholders in some areas. Nevertheless, we are committed to continue to

Thames Water Utilities Limited

Report of the Chief Executive Officer (continued)

work with Ofwat and to seek the agreement of our shareholders for the implementation of a governance code with effect from the beginning of AMP 6.

People

We have engaged with our people across the business, raising awareness and understanding of the role they have to play in providing a great customer experience. There has been a key focus on further enhancing our customer experience training for our people that interact with our customers on a daily basis. We have introduced more localised measures so that our customers' experience can be measured and tracked on a daily basis. This helps us identify areas for further improvement and motivates both teams and individuals.

Many of our people have been focusing on the preparation of our Business Plan for the five years to 2020 for submission to Ofwat on 2 December 2013. This widespread level of contribution and robust preparation means we have a comprehensive plan for the future.

There have been many individual achievements over the last six months for our staff. In particular, I am very proud that Bob Collington, our Director of Operations, was awarded an OBE for services to customers, particularly during times of drought. In addition, senior technical engineer Clive Dickens was awarded an MBE for services to the London Olympic Games.

I would also like to extend my thanks to Natalie Beckerman, our Customer Service Director, who has decided to leave the business to seek a fresh challenge. Having started the customer service transformation, and the service cultural change, she leaves a sound base for the future of customer service at Thames Water.

I am delighted that Ian Cain has recently joined the Executive Team as Managing Director of Customer Services. Ian joins following a successful career with Centrica.

Outlook

We will continue to focus on health and safety, improving customer service and driving operational efficiency, whilst not losing sight of the need to deliver the remaining £1.5bn of investment required by the AMP 5 capital programme. Looking forward for the rest of AMP 5, we expect to realise the anticipated savings from our business improvement plans, resulting in approximately £90m of cost savings annually.

The water industry has recently reached agreement with HMRC on the availability of capital allowances on certain assets at water and waste water treatment works. The Company is still assessing the financial effect of this agreement and therefore no adjustments have been reflected in these interim financial statements. We anticipate that there could be a benefit of around £10m (in 2013/14), which we are committing to our Customer Assistance Fund, doubling the funds available to help our customers over the next four years.

In addition to the challenges for the remainder of the period in Operations and Customer Service we are focussing on our business plan for AMP 6. This includes securing the benefits from our participation in an alliance with other organisations to enhance our procurement and contracting capabilities and also preparing for the market changes that will occur in AMP 6 as further competition is introduced into the water industry.

Finally, we are very much aware of the current focus on our customers' cost of living. Our average bill for 2014/15 is expected to be around £360 (before inflation). This is the second lowest in the industry at around £50 below the average. We provide our customers with the essential service at the heart of daily life, health and enjoyment; in order to maintain this essential service we need access to funding to pay for efficient investment in our networks and other assets. It is critical that the appropriate balance between service, risk and cost is maintained or the improvements the industry has made in serviceability, environmental performance and efficiency will be at risk.



Martin Baggs
Chief Executive Officer
28 November 2013

Thames Water Utilities Limited

Report of the Chief Financial Officer

The Company's financial KPIs are as follows:

| Performance Measure | Six months to September 2013 £m | Six months to September 2012 £m |
|---|---------------------------------------|---------------------------------------|
| Turnover | 976.5 | 902.7 |
| Operating costs | 627.7 | 591.6 |
| Operating profit | 348.8 | 311.1 |
| Profit on ordinary activities before taxation | 134.2 | 112.6 |
| Profit on ordinary activities after taxation ⁽¹⁾ | 233.6 | 127.6 |

⁽¹⁾The increase in profit on ordinary activities after taxation of £106.0m is attributable to the reduction in UK corporation tax rate from 23% to 20% - this has resulted from a reduction in deferred taxation of £131.0m in the six-month period ended 30 September 2013.

Turnover

Turnover for the six-month period ended 30 September 2013 was £976.5m (2012: £902.7m), an increase of £73.8m (up 8.2%) compared to the six-month period ended 30 September 2012 ("the prior period"). This was primarily due to an increase in the average bill of 5.5%, of which RPI was 3%, but also affected by higher consumption in the period. Summer 2013 had a number of hot spells, and compared to the record rainfall of 2012, we saw some significant peaks in water usage leading to higher turnover.

The unregulated businesses within TWUL continue to develop. Property searches revenue grew 14.5% to £9.4m for the six-month period ended 30 September 2013.

Operating costs

Operating costs for the six-month period ended 30 September 2013 have increased by £36.1m to £627.7m (2012: £591.6m). The drivers for this increase in operating costs were primarily the continued expenditure from higher than anticipated levels of activity on the Company's water and waste water networks, together with increased depreciation from higher capital investment levels in the current period compared to prior period. However, we have been able to mitigate some of these increases through cost saving initiatives which have delivered savings of £18.7m in the half year.

Bad debt costs also remain at a high level as customers continue to struggle in the tough economic climate. In line with our expectations following 2012/13, we are seeing the bad debt provision expense run at just over £30m for the six-month period ended 30 September 2013. The bad debt provision as a percentage of regulated turnover is forecast to be around 3.3% for the full year, down from the 5.3% in 2012/13, but well ahead of the 2.5% average for AMP 4.

As noted in the report of the Chief Executive Officer, following receipt of a letter from Ofwat regarding their investigation into our alleged misreporting of sewer flooding alleviation in AMP 4, we have made a provision at the maximum value (£14.1m) of the potential fine.

Net interest payable and similar charges

Net interest payable and similar charges for the six-month period ended 30 September 2013 were £210.9m (2012: £194.7m), an increase of £16.2m (8.3%) compared to the prior period. The increase in net interest payable is largely due to the increase in net debt, which now stands at £8,677.0m (31 March 2013: £8,372.7m). TWUL continues to borrow to fund the investment necessary in its networks and other assets.

Thames Water Utilities Limited

Report of the Chief Financial Officer (continued)

Profit on operating activities after taxation

The increase in profit after taxation of £106.0m is attributable to the reduction in deferred taxation of £131.0m which arose as a result of the reduction in UK corporation tax rates from 23% to 20%. The reduction in the deferred tax provision has not resulted in any tax refund or rebate to the Company and will, in the long term, benefit customers and not shareholders.

Cash flow

Cash flow from operating activities increased slightly to £597.7m (2012: £593.4m).

The net cash outflow from capital investment and financial investment activities has increased £22.6m to £561.2m, driven by the Company's capital programme.

Net cash outflow before financing activities was £211.1m (2012: outflow: £502.8m) a decrease of £291.7m. This decrease is largely due to the reduction in dividends (2013: £128.5m; 2012: £201.4m) and a significant movement in the management of liquid resources, which represents cash flows into and out of short term investments relating to underlying business use of cash and financing activity.

Balance sheet

Net assets as at 30 September 2013 are £1,333.1m, an increase of £99.4m since 31 March 2013, reflecting increased fixed assets and trade debtors balances and a reduction in the provision for deferred tax, partially offset by increased creditors.

Tangible assets: additions in the half year were £584.5m as the company's £1 billion a year AMP 5 capital programme continues. We capitalised contributions of £15.4m towards the fixed assets from our customers and developers, where the work is undertaken at their behest. The depreciation charge increased to £167.1m for the six-month period ended 30 September 2013 (2012: £155.6m) as the assets delivered by the AMP 5 capital programme continue to come on stream and the required outputs are delivered. The infrastructure renewal charge (the long-run average cost of maintaining our networks) for the half year was £67.6m (2012: £66.7m).

Working capital: both debtor and creditor balances have increased since 31 March 2013. This is partly driven by the annual billing cycle, by which unmeasured customers are billed in April for the whole of the year. These movements are in line with previous years with the debtor increase also reflecting the 5.5% bill increase. Creditors have increased in line with the inflationary pressures on the operating costs and the deferred income from the annual billing process.

Provisions for liabilities and charges decreased to £953.6m (31 March 2013: £1,044.4m). This movement is largely driven by the reduction in deferred tax liabilities as a result of the change in corporation tax rates.

Pensions: the net pension position of the Company was largely unchanged at £196.2m (31 March 2013: £191.5m). The trustees of the schemes are working with the Company to finalise the triennial actuarial valuations of the schemes, which will set the required contributions for the next three years.

Dividends

Equity dividends of £128.5m were paid in the six-month period ended 30 September 2013 (2012: £201.4m). The resultant distribution to the ultimate shareholders of the Kemble Water Holdings Group was £50.0m (2012: £92.0m)*. The rest of the dividend was used to settle intercompany financing arrangements, service external debt held higher up the Kemble Water Holdings Group and to invest in another Group company.

* £50.0m (2012: £92.0m) paid to external shareholders comprised of £36.9m (2012: £17.5m) of interest paid by Kemble Water Eurobond Plc and £13.1m (2012: £74.5m) of dividends paid by Kemble Water Holdings Ltd.

Thames Water Utilities Limited

Report of the Chief Financial Officer (continued)

Capital expenditure

Net cash outflow from capital investment activities was £561.2m for the six-month period ended 30 September 2013 (six-month period ended 30 September 2012: £538.6m). Key projects in the first six months of 2013/14 continue to be the Lee Tunnel (£69.3m in the period), the Thames Tideway Tunnel (£136.8m in the period), and the upgrades to the five major London sewage treatment works (£95.7m in the period).

Financing

As at 30 September 2013, the Company had undrawn committed facilities in place of £1,200.0m and an undrawn facility with the European Investment Bank of £215.0m, which was subsequently drawn down on 13 November 2013. These facilities, together with cash and short term investments of £744.9m, provide the Company with the necessary liquidity to fund the operation of the business for at least the next 18 months.

During the period, the Company raised an additional £300.0m of debt through bilateral loans.

As at 30 September 2013, the Company and the Securitisation Group had in issue £1,046.6m of Class B bonds and loans.

Taxation

As we have stated previously, we have not paid substantial amounts of corporation tax in recent years primarily on account of capital allowances which allow us to delay, not avoid, payment of tax based on how much we invest. Because we are investing £1bn a year from 2010 to 2015, more than any water firm in the UK's history, we are able to defer tax payments to future years. The cumulative benefit to customers of the deferral of tax liabilities is £855.6m at 30 September 2013. This represents tax payments that would otherwise have been reflected in customers' bills.

Thames Water continues to contribute around £150m annually to the public purse in other taxes, including central and local government business rates, PAYE and national insurance.

Our accounts recognise the benefit of the reduction in deferred tax liabilities resulting from the cut in corporation tax rates from the current rate of 23% to 20% with effect from 1 April 2015. The impact of this reduction in net liabilities is £131.0m and this benefit will flow through to customers in the form of lower bills.

The current tax charge of £13.0m in the interim accounts is calculated after allowing for the benefit of deductions for finance costs and capital allowances. Any taxable profits in the current year are expected to be offset by tax losses claimed from other companies in the Kemble group. All intercompany interest paid is due to group companies that are tax resident in the UK. These include Thames Water Utilities Cayman Finance Limited which was incorporated in the Cayman Islands, but is UK tax resident and whose profits are subject to tax in the UK.

Thames Water Utilities Limited

Report of the Chief Financial Officer (continued)

Principal Risks and Uncertainties

We manage risk through our corporate risk management framework. As part of this, we maintain a process that regularly assesses the nature and magnitude of internal and external risks. Mitigation measures are used in a prioritised manner to reduce exposure and ensure resilience. The Executive reviews significant risks so that the Board can determine the nature and extent of those risks it is willing to take in achieving our strategic objectives. The Audit and Risk Review Committee ("ARRC") regularly reviews the framework's effectiveness and the Company's compliance with it. Members of the Executive are invited to the ARRC on a rolling basis to talk through their risk register and the mitigations in place around these key risks.

Within our 2013 Annual Report and Financial Statement we set out the Group's anticipated principal risks and uncertainties as set out below (see pages 18-21 of the Annual Report):

- delivery challenges within the Thames Tideway Tunnel;
- an adverse Price Review 14 ("PR14") determination;
- increased competition in the water industry;
- employee pension scheme funding shortfalls;
- failure to maintain adequate funding arrangements;
- customer experience challenges;
- AMP 4 Sewer Flooding Programme investigation;
- down grading of credit rating as a result of poor financial performance or an adverse PR14 determination;
- failure to meet regulatory targets;
- impact of climate change and the long term changes in weather patterns;
- future changes in laws and regulations;
- failure of a major asset; and,
- impact of low inflation or deflation.

Since the 2013 Annual Report, the Board believes that there has been no material change within the relative prioritisation of the principal risks with the exception of the following risk where the Board believes the relative risk has been reduced:

- Employee pension scheme funding shortfalls. Following the results of a preliminary actuarial valuation and agreed actions arising from this valuation, pension costs (subject to trustee consent) should remain at a similar level until 2016/17. In addition the Company's balance sheet is strong in terms of funding and cash reserves.

Thames Water Utilities Limited

Directors serving from 1 April 2013

All Board members from 1 April 2013 to 30 September 2013 inclusive were non-executive directors throughout the period, with the exception of Martin Baggs (Chief Executive Officer), and Stuart Siddall (Chief Financial Officer). Directors serving from 1 April 2013 to 30 September 2013 are as follows:

| Director | Appointment | Resignation |
|--------------------------------|--------------|--------------|
| Sir Peter Mason KBE – Chairman | | |
| M W Baggs | | |
| E Beckley | | |
| R Blomfield-Smith | | |
| C R Deacon | | |
| Dr P Dyer | 31 July 2013 | |
| S R Eaves | | |
| C J Heathcote | 21 June 2013 | |
| Dame D M Hutton CBE | | |
| G I W Parsons | | 21 June 2013 |
| M J Pavia | | |
| E C Richards | | |
| K Roseke | | 24 May 2013 |
| D J Shah OBE | | |
| S J Siddall | | |
| L Webb | | |
| D Xu | | |

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

| Director | | | Alternate Director | | |
|-------------------|--------------|-------------|--------------------|--------------|----------------|
| Name | Appointment | Resignation | Name | Appointment | Resignation |
| E Beckley | | | G I W Parsons | | |
| R Blomfield-Smith | | | P Noble | | |
| C R Deacon | | | R Evenden | | 16 August 2013 |
| Dr P Dyer | 31 July 2013 | | R Greenleaf | 31 July 2013 | |
| S R Eaves | | | M C Hill | | |
| C J Heathcote | 21 June 2013 | | G I W Parsons | 21 June 2013 | |
| K Roseke | | 24 May 2013 | D Rees | | 24 May 2013 |
| D J Shah OBE | | | C Van Heijningen | | |
| L Webb | | | C Pham | | |
| D Xu | | | F Sheng | | |

Thames Water Utilities Limited

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

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

The directors confirm that to the best of their knowledge:

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

The above statement of directors’ responsibilities was approved on 28 November 2013.

By order of the Board



Stuart Siddall
Chief Financial Officer
28 November 2013

Thames Water Utilities Limited

Independent review report to Thames Water Utilities Limited for the six-month period ended 30 September 2013

Introduction

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2013 which comprises the profit and loss account, balance sheet, statement of total recognised gains and losses, cash flow statement and the related explanatory notes. We have read the other information contained in the half-yearly report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with the terms of our engagement. Our review has been undertaken so that we might state to the Company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Directors' responsibilities

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

As disclosed in Note 1, the annual financial statements of the Company are prepared in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice). The condensed set of financial statements included in this half-yearly report has been prepared in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice.

Our responsibility

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

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly report for the six months ended 30 September 2013 is not prepared, in all material respects, in accordance with the recognition and measurement requirements of UK Generally Accepted Accounting Practice.

William Meredith
For and on behalf of KPMG LLP
Chartered Accountants
London
28 November 2013

Thames Water Utilities Limited

Condensed profit and loss account for the six-month period ended 30 September 2013

| | Note | Six months to 30 September 2013 (unaudited) £m | Represented ¹ Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|------|--|--|--|
| Turnover | | 976.5 | 902.7 | 1,791.9 |
| Operating costs | 2 | (627.7) | (591.6) | (1,242.6) |
| Operating profit | | 348.8 | 311.1 | 549.3 |
| Profit on sale of fixed assets | | 0.6 | 0.7 | 10.8 |
| Interest payable and similar charges | | (245.6) | (236.7) | (491.8) |
| Interest receivable | | 34.7 | 42.0 | 86.5 |
| | | (210.9) | (194.7) | (405.3) |
| Other finance expense | | (4.3) | (4.5) | (9.9) |
| Profit on ordinary activities before taxation | | 134.2 | 112.6 | 144.9 |
| Taxation on profit on ordinary activities | 3 | 99.4 | 15.0 | 5.1 |
| Profit for the period/year | 9 | 233.6 | 127.6 | 150.0 |

All amounts above relate to continuing operations.

¹Refer to note 19 for an explanation of amounts re-presented.

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

Condensed statement of total recognised gains and losses for the six-month period ended 30 September 2013

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|---|--|--|--|
| Profit for the period | 233.6 | 127.6 | 150.0 |
| Actuarial gain/(loss) on pension scheme | 9.3 | (14.3) | (106.8) |
| Movement in deferred tax relating to accumulated actuarial gains/(losses) including tax rate change | (15.0) | 2.0 | 21.3 |
| Total recognised gains for the period/year | 227.9 | 115.3 | 64.5 |

Thames Water Utilities Limited

Condensed balance sheet at 30 September 2013

| | Note | 30 September 2013 (unaudited) £m | Re-presented ¹ 30 September 2012 (unaudited) £m | 31 March 2013 (audited) £m |
|---|------|---|--|-------------------------------------|
| Fixed assets | | | | |
| Tangible assets | 5 | 9,632.3 | 9,064.6 | 9,297.9 |
| Investments | | 0.1 | 0.1 | 0.1 |
| | | 9,632.4 | 9,064.7 | 9,298.0 |
| Current assets | | | | |
| Stocks | | 8.5 | 11.7 | 8.4 |
| Debtors: | | | | |
| Amounts falling due within one year | | 949.1 | 926.2 | 572.8 |
| Amounts falling due after more than one year | 6 | 2,015.0 | 2,037.3 | 2,015.0 |
| Total debtors | | 2,964.1 | 2,963.5 | 2,587.8 |
| Investments | | 732.2 | 844.1 | 748.7 |
| Cash at bank and in hand | | 12.7 | 4.9 | - |
| Total current assets | | 3,717.5 | 3,824.2 | 3,344.9 |
| Creditors: amounts falling due within one year | 7 | (1,327.3) | (1,753.0) | (957.3) |
| Net current assets | | 2,390.2 | 2,071.2 | 2,387.6 |
| Total assets less current liabilities | | 12,022.6 | 11,135.9 | 11,685.6 |
| Creditors: amounts due after more than one year | 7 | (9,539.7) | (8,645.8) | (9,216.0) |
| Provisions for liabilities and charges | 8 | (953.6) | (1,040.3) | (1,044.4) |
| Net assets excluding pension liabilities | | 1,529.3 | 1,449.8 | 1,425.2 |
| Net pension liabilities – total of defined benefit schemes | | | | |
| With net liabilities | | (222.4) | (160.1) | (214.5) |
| With net assets | | 26.2 | 24.8 | 23.0 |
| | | (196.2) | (135.3) | (191.5) |
| Net assets including pension liabilities | | 1,333.1 | 1,314.5 | 1,233.7 |
| Capital and reserves | | | | |
| Called up share capital | | 29.0 | 1,029.0 | 29.0 |
| Share premium account | | 100.0 | 100.0 | 100.0 |
| Profit and loss account | 9 | 1,204.1 | 185.5 | 1,104.7 |
| Total shareholder's funds | 10 | 1,333.1 | 1,314.5 | 1,233.7 |

¹Refer to note 19 for an explanation of amounts re-presented.

The interim financial statements were approved by the Board of Directors on 28 November 2013 and signed on its behalf by:



Stuart Siddall
Chief Financial Officer
28 November 2013

Thames Water Utilities Limited

Condensed cash flow statement for the six-month period ended 30 September 2013

| | Note | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|-------|--|--|--|
| Net cash inflow from operating activities | 11 | 597.7 | 593.4 | 1,057.0 |
| Net cash outflow from returns from investments and servicing of finance | | (134.6) | (131.5) | (261.1) |
| Taxation | | (0.9) | - | - |
| Net cash outflow from capital investment and financial investment activities | | (561.2) | (538.6) | (1,025.0) |
| Equity dividends paid | 4 | (128.5) | (201.4) | (231.4) |
| Management of liquid resources | 12 | 16.5 | (224.7) | (129.3) |
| Net cash outflow before financing activities | | (211.0) | (502.8) | (589.8) |
| Financing | 12 | 290.7 | 505.0 | 520.1 |
| Increase/(decrease) in cash | 12/14 | 79.7 | 2.2 | (69.7) |

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

1 Basis of preparation

The financial statements for the six months ended 30 September 2013 have been prepared on a going concern basis and in accordance with the UK Accounting Standards Board's Statement 'Half yearly financial reports', and the requirements of the 'Disclosure and Transparency Rules' issued by the Financial Conduct Authority. As the Company does not issue listed shares, DTR 4.2.8R in respect of related party transactions has not been applied.

The accounting policies, presentation and methods of computation are consistent those used for the audited statutory financial statements of Thames Water Utilities Limited at 31 March 2013 which are prepared in accordance with UK Generally Accepted Accounting Principles (UK GAAP).

Historically the Company prepared interim financial statements in accordance with UK GAAP and the historical cost convention, except for the classification of profit on sale of fixed assets and infrastructure renewals expenditure ("IRE").

Profit on sale of fixed assets was previously presented within operating profit, as operating income, in accordance with Regulatory Accounting Guideline 3.06 ("RAG 3.06")*. This represented a departure from FRS 3 'Reporting Financial Performance' as adopted in the Company's 31 March 2013 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit.

In addition, infrastructure renewals expenditure ("IRE") had been accounted for in accordance with RAG 3.06 in the interim regulatory financial statements and was consistent with the reporting of IRE in the Company's regulatory accounts for the year ended 31 March 2013. Accordingly IRE net of depreciation was included within debtors.

Therefore, the Company has now presented the 30 September 2013 interim financial statements in accordance with UK GAAP excluding the RAG adjustments noted above. An explanation of how the presentation under UK GAAP has affected the reported financial position and financial performance of the Company is provided in note 19. There has been no change to the profit or net assets for the period to 30 September 2012.

The interim financial statements do not include all the information required for full annual financial statements, do not comprise statutory accounts within the meaning of Section 396 of the Companies Act 2006, and should be read in conjunction with the Annual report and financial statements for the year ended 31 March 2013. Statutory accounts for the year ended 31 March 2013 have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified and did not contain any statement under section 498(2) (accounting records or returns inadequate or accounts or directors' remuneration report not agreeing with records and returns), or section 498(3) (failure to obtain necessary information and explanations).

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

*RAG 3.06 which was used as the basis of preparation for TWUL's 30 September 2012 interim financial statements was superseded by RAG 3.07 in February 2013.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

2 Operating costs

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|---|--|--|--|
| Operating costs before depreciation | 393.0 | 369.3 | 785.1 |
| Depreciation – infrastructure renewals charge | 67.6 | 66.7 | 135.3 |
| Depreciation – non-infrastructure | 167.1 | 155.6 | 322.2 |
| Operating costs | 627.7 | 591.6 | 1,242.6 |

3 Taxation

(a) Analysis of taxation for the period/year

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|---|--|--|--|
| Current tax charge for the period | 13.0 | 4.7 | 1.1 |
| Deferred tax charge for the period | 19.8 | 21.9 | 33.9 |
| Timing difference on pension cost (credit)/charge | (1.2) | (1.2) | 1.7 |
| Reduction in net deferred tax liability arising from change of tax rate ⁽¹⁾ | (131.0) | (40.4) | (41.8) |
| Taxation credit on profit on ordinary activities in the period/year | (99.4) | (15.0) | (5.1) |
| Tax on items taken directly to equity: | | | |
| Deferred tax relief on actuarial losses on defined benefit pension schemes offset in reserves | 1.9 | (3.4) | (25.6) |
| Reduction in deferred tax asset on pension liability ⁽¹⁾ | 13.1 | 1.4 | 4.3 |
| | 15.0 | (2.0) | (21.3) |

⁽¹⁾ During the period, there was a change in law reducing the corporation tax rate from 23% to 21% from 1 April 2014 and to 20% from April 2015 which was substantially enacted on 17 July 2013. The financial statements for the period reflect this change; a reduction of the net deferred tax liability of £131.0m was reflected in the profit and loss account and a charge of £13.1m reducing the deferred tax asset on pension liabilities was taken to reserves. Of the £131.0m deferred tax reduction in the profit and loss account, £125.4m is in respect of deferred tax liabilities on capital allowances and other timing differences, and £5.6m is in respect of deferred tax on pensions costs.

During the last financial year there was a change in law reducing the corporation tax rate from 24% to 23%, effective from 1 April 2013. The interim financial statements for the six-month period to 30 September 2012 reflected this change as substantially enacted on 3 July 2012. The effect of this change was a £40.4m reduction in net deferred tax liabilities reflected in the profit and loss account and a charge of £1.4m taken to reserves.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

(b) Factors affecting the current tax charge for the period/year

The corporation tax charge is based upon UK corporation tax of 23% (half year to 30 September 2012 and full year to 31 March 2013, 24%).

The current tax charge for the half year to 30 September 2013 is lower (2012: lower) than the standard rate of corporation tax in the UK of 23% (2012: 24%). The differences are explained below.

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|---|---|--|--|
| Profit on ordinary activities before tax | 134.2 | 112.6 | 144.9 |
| Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2012: 24%) | 30.9 | 27.0 | 34.8 |
| Effects of: | | | |
| Disallowable expenditure less non taxable income | 4.7 | 0.6 | 3.8 |
| Capital allowances for the year in excess of depreciation and other timing differences | (23.8) | (24.1) | (33.9) |
| Pension cost charge higher/(lower) than pension cost relief | 1.2 | 1.2 | (3.6) |
| Current tax charge for the period/year | 13.0 | 4.7 | 1.1 |

The interim corporation tax charge for the half year to 30 September 2013 is based upon the forecast effective tax rate for the full year to 31 March 2014 applied to the profits earned in the six months to 30 September 2013.

The total current tax charge of £13.0m was substantially lower than the tax charge of £30.9m based on the standard rate of corporation tax. This is primarily due to the impact of capital allowances on the Company's capital investment in the period.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

4 Dividends

Interim dividend distributions are analysed below:

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|--|--|--|
| External dividend distributions (i) | 13.1 | 74.5 | 74.5 |
| External interest on Kemble Water Eurobond Plc debt | 36.9 | 17.5 | 17.5 |
| Distribution to the ultimate shareholders | 50.0 | 92.0 | 92.0 |
| External interest on Kemble Water Finance Limited debt | 30.0 | 30.0 | 60.0 |
| Inter-group group relief settlement payments | - | 40.0 | 40.0 |
| Inter-group distribution to parent undertaking (ii) | 48.5 | 39.4 | 39.4 |
| Total dividend by the Company | 128.5 | 201.4 | 231.4 |

(i) External dividend distribution represents the payment made by Kemble Water Holdings Limited, the ultimate parent company from the dividend it receives indirectly from the Company.

(ii) The immediate parent undertaking, Thames Water Utilities Holdings Limited ("TWUHL") received £48.5m (2012: £39.4m) from the Company, of this £45.0m (2012: £39.4m) which was used by TWUHL to settle its inter-company interest balance with the Company on the intercompany loan of £2,015.0m. The remaining £3.5m (2012: £nil) was used to finance investments by Kemble Water Structure Limited.

Dividends paid by date are analysed below:

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|--|--|--|
| <i>Interim dividends paid in respect of year ended 31 March 2012 but not recognised as liabilities in that year:</i> | | | |
| 7 June 2012: 19.60p per ordinary share | - | 201.4 | 201.4 |
| <i>Interim dividends paid in respect of year ended 31 March 2013:</i> | | | |
| 27 March 2013: £1.03 per ordinary share | - | - | 30.0 |
| <i>Interim dividends paid in respect of the current year:</i> | | | |
| 26 September 2013: £4.42 per ordinary share | 128.5 | - | - |
| | 128.5 | 201.4 | 231.4 |

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

5 Tangible fixed assets

| | Land and buildings | Plant and equipment | Infrastructure assets | Assets in course of construction | Total |
|------------------------------|--------------------|---------------------|-----------------------|----------------------------------|-----------------|
| | £m | £m | £m | £m | £m |
| Cost | | | | | |
| At 1 April 2013 | 2,766.0 | 5,222.4 | 5,167.1 | 1,692.2 | 14,847.7 |
| Additions | - | - | - | 584.5 | 584.5 |
| Transfer between items | 22.5 | 122.2 | 94.4 | (239.1) | - |
| Disposals | (0.3) | (4.8) | - | - | (5.1) |
| At 30 September 2013 | 2,788.2 | 5,339.8 | 5,261.5 | 2,037.6 | 15,427.1 |
| Capital Contributions | | | | | |
| At 1 April 2013 | - | - | 702.3 | - | 702.3 |
| Additions | - | - | 15.4 | - | 15.4 |
| At 30 September 2013 | - | - | 717.7 | - | 717.7 |
| Depreciation | | | | | |
| At 1 April 2013 | 721.6 | 2,788.0 | 1,337.9 | - | 4,847.5 |
| Provided during the period | 22.0 | 145.1 | 67.6 | - | 234.7 |
| Disposals | (0.3) | (4.8) | - | - | (5.1) |
| At 30 September 2013 | 743.3 | 2,928.3 | 1,405.5 | - | 5,077.1 |
| Net Book Value | | | | | |
| At 1 April 2013 | 2,044.4 | 2,434.4 | 3,126.9 | 1,692.2 | 9,297.9 |
| At 30 September 2013 | 2,044.9 | 2,411.5 | 3,138.3 | 2,037.6 | 9,632.3 |

6 Debtors: amounts falling due after more than one year

This comprises a secured loan of £2,015.0m (31 March 2013: £2,015.0m) owed by Thames Water Utilities Holdings Limited ("TWUHL"), the immediate parent undertaking. The directors are not anticipating any repayment of the loan within the next 12 months.

Interest receivable of £12.3m (31 March 2013: £44.5m) owed by TWUHL the immediate parent undertaking, on the loan of £2,015.0m (31 March 2013: £2,015.0m) has been classified as a debtor due within one year. Interest is charged at Libor + 0.35%.

7 Creditors

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

- £2,824.7m (31 March 2013: £2,790.3m) owed to Thames Water Utilities Finance Limited ("TWUFL"), a subsidiary undertaking. The whole balance (31 March 2013: whole balance) is included within creditors due after more than one year.
- £4,842.5m (31 March 2013: £4,844.5m) owed to Thames Water Utilities Cayman Finance Limited ("TWUCFL"), a subsidiary undertaking. The whole balance (31 March 2013: whole balance) is included within creditors due after more than one year.

TWUFL and TWUCFL are financing companies for TWUL. They are both resident in the UK for tax purposes. All debt is issued to external parties and not to shareholders of Kemble Water Holdings Limited, the ultimate parent company of TWUL.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

8 Provisions for liabilities and charges

| | Deferred tax | Insurance liabilities | Restructuring | AMP 4 sewer flooding | Other | Total |
|---|--------------|-----------------------|---------------|----------------------|-------------|----------------|
| | £m | £m | £m | £m | £m | £m |
| At 1 April 2013 (audited) | 961.2 | 62.0 | 4.6 | - | 16.6 | 1,044.4 |
| Utilised during the period (Credit)/charge profit and loss for the period | - | - | (2.3) | - | (0.2) | (2.5) |
| | (105.6) | 3.0 | 0.2 | 14.1 | - | (88.3) |
| At 30 September 2013 (unaudited) | 855.6 | 65.0 | 2.5 | 14.1 | 16.4 | 953.6 |

The net movement of £105.6m in respect of deferred tax comprises a reduction in net liabilities of £125.4m in respect of the tax rate change from 23% to 20%, offset by a deferred tax charge for the period of £19.8m.

The insurance provision is in respect of insurance claims notified. A debtor in respect of these obligations is recognised representing the reimbursement value from captive and third party insurance companies.

AMP 4 sewer flooding: on 25 October 2013, we received a letter from Ofwat noting that its Executive was minded to make a recommendation to Ofwat's Board to issue a formal notice to Thames Water under section 22A(4) the Water Industry Act 1991. This notice would propose the imposition of a financial penalty for an alleged contravention of Condition J of Thames Water's instrument of appointment. The alleged contravention relates to Ofwat's concerns that Thames Water has misreported its sewer flooding outputs in AMP4 (2005 – 2010), specifically in relation to the number of properties reported as having been removed from the register of properties at risk of sewer flooding in the 2010 June Return.

Whilst we intend to contest the alleged contravention and any subsequent enforcement action taken by Ofwat vigorously, a provision has been recognised at the maximum value of the financial penalty which Ofwat has indicated in its recent letter may be imposed. This issue could also result in a logging down adjustment of Thames Water's RCV as part of the PR14 determination.

Other provisions principally relate to a number of legal claims against the Company and represent management's best estimate of the value of settlement and costs. It is estimated that some claims will be settled in more than one year.

9 Profit and loss account

| | Six months to 30 September 2013 (unaudited) £m |
|---|--|
| At the beginning of the period | 1,104.7 |
| Profit for the period | 233.6 |
| Actuarial gain on pension scheme | 9.3 |
| Deferred tax relating to actuarial gains and losses on pension scheme including tax rate change | (15.0) |
| Dividends paid (note 4) | (128.5) |
| At the end of the period | 1,204.1 |

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

10 Reconciliation of movements in shareholder's funds

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|---|--|--|--|
| At the beginning of the period/year | 1,233.7 | 1,400.6 | 1,400.6 |
| Profit for the period/year | 233.6 | 127.6 | 150.0 |
| Actuarial gain/(loss) on pension scheme | 9.3 | (14.3) | (106.8) |
| Deferred tax relating to actuarial gains and losses on pension scheme including tax rate change | (15.0) | 2.0 | 21.3 |
| Dividends paid (note 4) | (128.5) | (201.4) | (231.4) |
| At the end of the period/year | 1,333.1 | 1,314.5 | 1,233.7 |

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

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|--|--|--|
| Operating profit | 348.8 | 311.1 | 549.3 |
| Infrastructure renewals charge | 67.6 | 66.7 | 135.3 |
| Depreciation – non-infrastructure | 167.1 | 155.6 | 322.2 |
| Difference between pension charge and cash contributions | (1.5) | 0.4 | (24.8) |
| (Increase)/decrease in stocks | (0.1) | (2.1) | 1.1 |
| (Increase)/decrease in debtors and prepaid expenses | (417.2) | (305.7) | 80.1 |
| Increase in creditors and accrued expenses | 424.8 | 379.5 | 12.9 |
| Increase/(decrease) in provisions | 14.8 | (5.5) | (5.5) |
| Deferred income release | (6.6) | (6.6) | (13.6) |
| Net cash inflow from operating activities | 597.7 | 593.4 | 1,057.0 |

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

12 Reconciliation of net debt

| | Note | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|--|------|--|--|--|
| Increase/(decrease) in net cash | | 79.7 | 2.2 | (69.7) |
| Cash outflow/(inflow) from increase in debt and lease financing: | | | | |
| - loans due within one year | | (8.0) | - | (1.3) |
| - loans due after more than one year | | (250.4) | 73.7 | (368.5) |
| - intercompany loans | | (32.4) | (626.2) | (224.8) |
| - capital repayment of finance leases | | - | 47.5 | 74.5 |
| Cash (outflow)/inflow from movement in liquid resources | | (16.5) | 224.7 | 129.3 |
| Increase in net debt resulting from cash flows | | (227.6) | (278.1) | (460.5) |
| Other non-cash movements: | | | | |
| - RPI uplift on indexed-linked bond and debt issue cost amortisation | | (76.7) | (62.9) | (120.3) |
| - Other Non-cash movements in net debt | | - | - | (16.4) |
| Increase in net debt | | (304.3) | (341.0) | (597.2) |
| Opening debt | | (8,372.7) | (7,775.5) | (7,775.5) |
| Closing net debt | 13 | (8,677.0) | (8,116.5) | (8,372.7) |

The non-cash increase in net debt comprises amortisation of bond fees and the carrying value accretion by RPI of a number of RPI index-linked bonds and swaps. This adjustment for RPI index-linked bonds and swaps is in accordance with FRS 4 'Capital instruments'.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

13 Analysis of net debt

| | Note | As at 30 September 2013 (unaudited) £m | As at 30 September 2012 (unaudited) £m | As at 31 March 2013 (audited) £m |
|---|------|--|--|--|
| Cash at bank and in hand | | 12.7 | 4.9 | - |
| Overdraft | | - | - | (67.0) |
| | | 12.7 | 4.9 | (67.0) |
| Loans due within one year | | (9.3) | - | (1.3) |
| Loans due after more than one year | | (1,656.0) | (806.0) | (1,305.6) |
| Finance leases due within one year | | (44.2) | (9.1) | (10.5) |
| Finance leases due after more than one year | | (68.7) | (130.7) | (102.3) |
| | | (1,778.2) | (945.8) | (1,419.7) |
| Intercompany loans | | (7,643.7) | (8,019.7) | (7,634.7) |
| Liquid resources | | 732.2 | 844.1 | 748.7 |
| Total | 12 | (8,677.0) | (8,116.5) | (8,372.7) |

Included within net debt are unamortised bond fees of £63.2m (31 March 2013: £65.3m).

Debt due within one year of £9.3m (31 March 2013: £1.3m) relates to restricted cash receipt (see Increase/(decrease) in cash note 14).

14 Increase/(decrease) in cash

| | Six months to 30 September 2013 (unaudited) £m | Six months to 30 September 2012 (unaudited) £m | Year to 31 March 2013 (audited) £m |
|------------------------------|--|--|--|
| Unrestricted cash movement | 71.7 | 0.9 | (71.0) |
| Restricted cash movement (i) | 8.0 | 1.3 | 1.3 |
| | 79.7 | 2.2 | (69.7) |

(i) Included in the Cash at bank and in hand balance on the balance sheet and shown as an increase in cash in the above table, is a restricted cash receipt of £9.3m (2012: £1.3m). This receipt is currently held within "Creditors: amounts falling due within one year" as a short term loan. The net effect of this transaction has a neutral effect on the Company's net debt as shown in notes 12 and 13.

This cash receipt relates to collateral posted by derivative counter parties.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

15 Commitments

The Company's capital commitments as at 30 September 2013 amounted to £775.4m (31 March 2013: £842.5m).

16 Contingencies

There are claims arising in the normal course of business, which are in the process of negotiation. The Company has set aside amounts considered appropriate for all legal and similar claims.

Contingent liabilities – £400m 7.24% Fixed rate bond due 2058

If the Company were to account for derivative financial instruments associated with the bond under IFRS a net fair value loss of £69.7 million would be recognised as at 30 September 2013, reflecting the potential future value of cash flows relating to the remarketing of the bond in April 2018. The Company expects that it will be able to successfully remarket the bond at fair value prior to its maturity and a cash settlement will not be required and so no provision has been reflected to record this potential liability in these financial statements (under UK GAAP).

Substantial Favourable Effects

On 13 September 2013 Ofwat announced as part of its process for challenging our application to recover unfunded costs that they would be examining whether we had substantially benefited from wider economic circumstances which are beyond our control under the Substantial Favourable Effect ("SFE") mechanism of our licence. On 25 October 2013 Ofwat launched a brief informal consultation which requested interested parties' initial views on questions raised by the potential SFE, although Ofwat confirmed that it had made no decisions in relation to an SFE notice at that stage.

A determination from Ofwat that we have benefited from substantial favourable effects could lead to us having to reduce prices to customers based on the benefit we have been assessed as having received.

At this stage the financial impacts of a potential SFE notice cannot be quantified and it is unclear whether they would meet the requirements to be recognised as a liability. As such no provision has been made within these accounts.

17 Subsequent events

On 9 November 2013 Ofwat formally rejected our application to recover unfunded costs in their Final Determination. We have until early January 2014 to decide whether to accept this ruling or seek reference to the Competition Commission.

18 Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company.

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

The directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate the financial statements.

Copies of the accounts of Thames Water Utilities Holdings Limited, Kemble Water Finance Limited and Kemble Water Holdings Limited for the year end 31 March 2013 or before may be obtained from the Company Secretary's office, Thames Water Group, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

19 Explanation of presentation of interim financial information based on UK GAAP compared to presentation based on regulatory reporting

As stated in note 1, historically the Company prepared interim financial statements in accordance with UK GAAP and with the historical cost convention, except for the classification of profit on sale of fixed assets and accounting for infrastructure renewals expenditure ("IRE").

Profit on sale of fixed assets was previously shown within operating profit, as operating income, in accordance with Regulatory Accounting Guideline 3.06* ("RAG 3.06"). This represented a departure from FRS 3 'Reporting Financial Performance' as adopted in the Company's 31 March 2012 statutory financial statements where profit and loss on sale of fixed assets is shown after operating profit.

Infrastructure renewals expenditure ("IRE") had been accounted for in accordance with RAG 3.06 in the interim financial statements regulatory statements whereby IRE net of depreciation was included within debtors, and was consistent with the reporting of IRE in the Company's regulatory accounts for the year ended 31 March 2012. Under UK GAAP infrastructure renewals is included in the net book value of tangible fixed assets.

The financial statements for the six months ended 30 September 2013 have been prepared in accordance with UK Generally Accepted Accounting Practice (UK GAAP) and on the basis of accounting policies consistent with those used for the audited statutory financial statements of TWUL at 31 March 2013. The results reported at 30 September 2012 have been represented. The presentation under UK GAAP results in a reclassification of profit on sale of fixed assets on the income statement from within operating profit, and is shown outside operating profit. IRE has been reclassified on the balance sheet and is now presented within the NBV of fixed assets instead of within debtors. There is no impact on the operating results and net assets that were reported at 30 September 2012, as a result of this change in the basis of preparation.

Deferred grants and contributions of £139.1m has been re-presented within creditors: amounts falling due within one year (£6.4m) and creditors amounts falling due after more than one year (£132.7m) in line with the year-end statutory accounts. This is in contrast with the regulatory accounts, which shows deferred grants and contributions within provisions and charges.

*RAG 3.06 which was used as the basis of preparation for TWUL's 30 September 2012 interim financial statements was superseded by RAG 3.07 in February 2013.

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

| | Regulatory 30 September 2012 (unaudited) £m | Adjustment (unaudited) | UK GAAP 30 September 2012 (unaudited) £m |
|--|---|---------------------------|--|
| Turnover | 902.7 | - | 902.7 |
| Operating costs | (591.6) | - | (591.6) |
| Operating income | 0.7 | (0.7) | - |
| Operating profit | 311.8 | (0.7) | 311.1 |
| Profit on sale of fixed assets | - | 0.7 | 0.7 |
| Interest payable and similar charges | (236.7) | - | (236.7) |
| Interest receivable | 42.0 | - | 42.0 |
| | (194.7) | - | (194.7) |
| Other finance expense | (4.5) | - | (4.5) |
| Profit on ordinary activities before taxation | 112.6 | - | 112.6 |
| Taxation on profit on ordinary activities | 15.0 | - | 15.0 |
| Profit for the period | 127.6 | - | 127.6 |

Thames Water Utilities Limited

Notes to the financial statements for the six-month period ended 30 September 2013

| | 30 September 2012 (unaudited) £m | Adjustments (unaudited) £m | Represented 30 September 2012 (unaudited) £m |
|---|---|----------------------------------|--|
| Fixed assets | | | |
| Tangible assets | 9,022.6 | 42.0 | 9,064.6 |
| Investments | 0.1 | - | 0.1 |
| | 9,022.7 | 42.0 | 9,064.7 |
| Current assets | | | |
| Stocks | 11.7 | - | 11.7 |
| Debtors: | | | |
| Amounts falling due within one year | 968.2 | (42.0) | 926.2 |
| Amounts falling due after more than one year | 2,037.3 | - | 2,037.3 |
| Total debtors | 3,005.5 | (42.0) | 2,963.5 |
| Investments | 844.1 | - | 844.1 |
| Cash at bank and in hand | 4.9 | - | 4.9 |
| Total current assets | 3,866.2 | (42.0) | 3,824.2 |
| Creditors: amounts falling due within one year | (1,746.6) | (6.4) | (1,753.0) |
| Net current assets | 2,119.6 | (48.4) | 2,071.2 |
| Total assets less current liabilities | 11,142.3 | (6.4) | 11,135.9 |
| Creditors: amounts due after more than one year | (8,513.1) | (132.7) | (8,645.8) |
| Deferred income | (139.1) | 139.1 | - |
| Provisions for liabilities and charges | (1,040.3) | - | (1,040.3) |
| Net asset excluding pension liabilities | 1,449.8 | - | 1,449.8 |
| Net pension liabilities – total of defined benefit schemes | | | |
| With net liabilities | (160.1) | - | (160.1) |
| With net assets | 24.8 | - | 24.8 |
| | (135.3) | - | (135.3) |
| Net assets including pension liabilities | 1,314.5 | - | 1,314.5 |