

Registered no: 05859428 (England & Wales)

Kemble Water Investments Limited

Annual report and financial statements

For the year ended 31 March 2014

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Kemble Water Investments Limited

Annual and audited financial statements for the year ended 31 March 2014

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Kemble Water Investments Limited

Directors and advisors

Directors

C Heathcote (appointed 21 June 2013)
P Kerr (appointed 19 March 2014)

Registered auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Company Secretary & registered office

C Campbell-Wales
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Kemble Water Investments Limited

Strategic report

The directors present their strategic report for Kemble Water Investments Limited ("the Company") for the year ended 31 March 2014.

Review of business

The principal activity of the Company was that of an intermediate holding company in the Kemble Water Holdings Limited group of companies ("the Group"). It specifically was a holding company for the investment in Kemble Water Limited. Following the corporate restructure of the Group on 28 March 2014 (as described in note 15) it is the intention of the directors to liquidate the Company.

Results and performance

The profit and loss account for the year is set out on page 8.

The directors paid dividends of £4,399m during the year (2013: £140.1m) of which £4,233.2m was a dividend in specie resulting from the corporate restructure as detailed in note 15. The first interim dividend of £84.4m (2.47p per ordinary share) (2012/13: £119m, 3.48p per ordinary share). Second and third interim dividends were paid in the year for £80m (2.34p per ordinary share) (2012/13: £21.1m, 0.62p per ordinary share) and £4,234.6m, which constituted a dividend in specie of £4,233.2m (2012/13: £nil) and a cash dividend of £1.4m (0.04p per ordinary share) (2012/12: £nil), respectively. The directors do not recommend payment of a final dividend for the year (2013: £nil).

Principal risks and uncertainties

The principal risks and uncertainties of the Company are integrated with the principal risks of the Group and are not managed separately. Accordingly, the principal risks and uncertainties of the Group, which include those of the Company, are discussed in the Group's annual report, which does not form part of this report. However, as it is the intention of the directors to liquidate the Company and therefore there is no intention for the Company to remain as a going concern the directors are of the opinion that there are no principle risks and uncertainties.

Future outlook

It is the intention of the directors to liquidate the Company.

Approved by the board of Directors on 18 December 2014 and signed on its behalf by:



P Kerr
Director

Kemble Water Investments Limited

Directors' report

The directors present their report and the audited financial statements for the year ended 31 March 2014.

The registered company number is 05859428.

Dividends

The directors paid dividends of £4,399m during the year (2013: £140.1m) of which £4,233.2m was a dividend in specie resulting from the corporate restructure as detailed in note 15. The first interim dividend of £84.4m (2.47p per ordinary share) (2012/13: £119m, 3.48p per ordinary share). Second and third interim dividends were paid in the year for £80m (2.34p per ordinary share) (2012/13: £21.1m, 0.62p per ordinary share) and £4,234.6m, which constituted a dividend in specie of £4,233.2m (2012/13: £nil) and a cash dividend of £1.4m (0.04p per ordinary share) (2012/12: £nil), respectively. The directors do not recommend payment of a final dividend for the year (2013: £nil).

Financial risk management

Financial risk management is addressed in more detail in section (f) of the Accounting policies on page 11.

Directors

The directors who held office during the year ended 31 March 2014 and to the date of signing were:

Sir Peter Mason KBE – Chairman (resigned 19 March 2014)
E Beckley (resigned 19 March 2014)
R Blomfield-Smith (resigned 19 March 2014)
D Buffery (resigned 19 March 2014)
C R Deacon (appointed 13 December 2013, resigned 19 March 2014)
Dr P Dyer (resigned 19 March 2014)
S R Eaves (resigned 19 March 2014)
J Hanson (appointed 19 March 2014, resigned 27 November 2014)
C Heathcote (appointed 21 June 2013)
P Kerr (appointed 19 March 2014)
D Rees (appointed 29 October 2012, resigned 24 May 2013)
K Roseke (resigned 24 May 2013)
D J Shah OBE (resigned 19 March 2014)
Y Shi (resigned 28 September 2012)
M S W Stanley (resigned 7 September 2012)
L Webb (resigned 19 March 2014)
G I W Parsons
R E Verrion (resigned 29 October 2012)
D Xu (resigned 19 March 2014)

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

In the previous years the directors appointed alternates to represent them when they were unavailable. As part of the corporate restructure that took place in March 2014 all of the directors who had appointed alternates resigned and at this point so did their alternates. As such there were no alternates in place at the year ended 31 March 2014 or to the date of signing.

Political donations and expenditure

No political donations were made by the Company during the year (2013: £nil).

Kemble Water Investments Limited

Directors' report (continued)

Disclosure of information to the auditor

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

Directors' indemnities

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

Auditor

The Company's auditor, KPMG Audit Plc, has informed the directors that for administrative reasons and to instigate the orderly wind down of business, they wished to formally change the entity which conducts the Company's audit from KPMG Audit Plc to KPMG LLP.

KPMG Audit Plc resigned as auditor on 30 October 2013 pursuant to section 516 of the Companies Act 2006 and KPMG LLP was appointed as auditor of the Company under section 485 of the Companies Act 2006.

Approved by the board of Directors on 18 December 2014 and signed on its behalf by:

A handwritten signature in black ink, appearing to be 'P Kerr', written over a horizontal line.

P Kerr
Director

Kemble Water Investments Limited

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

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

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

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

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

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

Independent Auditor's Report to the Members of Kemble Water Investments Limited

We have audited the financial statements of Kemble Water Investments Limited for the year ended 31 March 2014 set out on pages 8 to 16. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

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

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 5, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2014 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

Independent Auditor's Report to the Members of Kemble Water Investments Limited (continued)

Matters on which we are required to report by exception

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

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



William Meredith (Senior Statutory Auditor)

For and on behalf of KPMG LLP, Statutory Auditor

**Chartered Accountants
15 Canada Square
London
E14 5GL**

18/12/2014

Kemble Water Investments Limited

Profit and loss account

	Note	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Fixed asset investment amounts written off	9	(701,000)	-
Income from fixed asset investment	3	42,179	-
Interest payable and similar charges	4	(8,910)	(9,000)
Interest receivable and similar income	5	662,212	669,035
(Loss)/profit on ordinary activities before taxation		(5,519)	660,035
Tax charge on (loss)/profit on ordinary activities	7	(150,260)	(158,406)
(Loss)/profit for the financial year	13	(155,779)	501,629

All amounts relate to discontinued activities.

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

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

The notes from pages 10 to 16 form part of these financial statements.

Kemble Water Investments Limited

Balance sheet

	Note	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Fixed assets			
Fixed asset investments	9	-	1,000
Current assets			
Debtors	10	-	5,725,282
Creditors: amounts falling due within one year	11	-	(1,171,545)
Net current assets		-	4,553,737
Total assets less current liabilities		-	4,554,737
Net assets		-	4,554,737
Capital and reserves			
Called-up share capital	12	-	3,417,861
Other reserves	13	-	383,211
Profit and loss account	13	-	753,665
Shareholder's funds	14	-	4,554,737

The notes on pages 10 to 16 form part of these financial statements.

The financial statements on pages 8 to 16 were approved by the Board of Directors on 18 December 2014 and signed on its behalf by:



P Kerr
Director

Kemble Water Investments Limited

Notes to the financial statements

1 Principal accounting policies

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

Basis of preparation

The financial statements have been prepared on a basis other than going concern as it is the intention of the directors to liquidate the Company.

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

Summary of significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(a) Investments

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

(b) Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, the Company has taken advantage of the exemption contained in Financial Reporting Standards ("FRS") 8 and has therefore not disclosed transactions or balances with other wholly owned subsidiaries which form part of the Group (or investees of the Group qualifying as related parties). The consolidated financial statements of Kemble Water Holdings Limited, within which this Company is included, can be obtained from the address given in note 16.

(c) Cash flow

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

(d) Dividends

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

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

Kemble Water Investments Limited

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

(e) Taxation

The tax expense represents the sum of current tax.

Current taxation

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

Taxable profit can differ from the net profit as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other years and it may further exclude items that are never taxable or deductible.

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

Taxable profit can differ from the net profit as reported in the profit and loss account because it may exclude items of income or expense that are taxable or deductible in other years and it may further exclude items that are never taxable or deductible.

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

(f) Financial risk management

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

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

The operation of the treasury function is governed by specific policies and procedures that are incorporated within the financial control procedures of the Company.

Kemble Water Investments Limited

Notes to the financial statements (continued)

2 Operating costs

The auditor's remuneration for the year is £2,310 (2013: £2,262, borne by Thames Water Limited).

No other fees were payable to KPMG LLP in respect of this Company in this year (2013: £nil).

3 Income from fixed asset investment

During the year the Company received £40.7m as a dividend in specie and £1.4m cash dividend from its subsidiary Kemble Water Limited. The dividends were received as part of the corporate restructure of the Group as described in note 15.

4 Interest payable and similar charges

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Interest payable to immediate parent undertaking – loan	8,910	9,000

5 Interest receivable and similar income

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Interest receivable from immediate subsidiary undertaking	662,212	669,035

6 Information regarding directors

The directors who served during the year received emoluments in respect of their services as directors of Kemble Water Holdings Limited, the ultimate parent company. No emoluments were paid in respect of their roles of directors of the Company (2013: £nil) and there are no retirement benefits accruing in either year.

During the year, an indirect subsidiary of the Company made payments of £45,000 (2013: £60,000) to C R Deacon, a director in the year, for consultancy services.

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

7 Taxation on profit on ordinary activities

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Current tax:		
Amounts payable in respect of Group relief	150,260	158,406

Kemble Water Investments Limited

Notes to the financial statements (continued)

7 Taxation on profit on ordinary activities (continued)

Factors affecting tax charge for the year

The tax charge assessed for the year is higher than (2013: equal to) the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
(Loss)/profit on ordinary activities before tax	(5,519)	660,035
(Loss)/profit on ordinary activities at corporation tax of 23% (2013: 24%)	(1,269)	158,406
Expenses not deductible	151,529	-
Current tax charge for the year	150,260	158,406

Factors affecting the future tax rate

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly.

8 Dividends

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Equity - ordinary		
First Interim dividend paid: 2.47p (2013: 3.48p) per ordinary share	84,400	119,000
Second Interim dividend paid: 2.34p (2013: 0.62p) per ordinary share	80,000	21,112
Third interim dividend paid: 0.04p (2013: nil) per ordinary share	1,400	-
Dividend in specie (note 15)	4,233,158	-
	4,398,958	140,112

9 Fixed asset investments

	Interests in Group undertaking £'000
Cost	
At 1 April 2013	1,000
Additions	700,000
At 31 March 2014	701,000
Amounts written off	
At 1 April 2013	-
Written off during the year	(701,000)
At 31 March 2014	(701,000)
Net book value	
At 31 March 2014	-
At 1 April 2013	1,000

The investment relates to Kemble Water Limited. As a result of the corporate restructure that took place on 28 March 2014 (as detailed in note 15) the Company wrote down the value of its investment in Kemble Water Limited to £2.

Kemble Water Investments Limited

Notes to the financial statements (continued)

9 Fixed asset investments (continued)

As part of the corporate restructure (described in note 15) the Company and its subsidiaries were removed from the main structure of the Group and as such details of the remaining Group undertakings are included in the table below:

	Year end	% ownership	Country of incorporation	Description of shares held	Nature of business
Interests in Group undertakings					
Direct:					
Kemble Water Limited	31 March	100	England & Wales	Ordinary £1	Investment Holding Company
Indirect (through Kemble Water Limited):					
Thames Water Holdings Limited	31 March	100	England & Wales	Ordinary £0.10	Investment Holding Company

10 Debtors

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Amounts owed by immediate subsidiary undertaking	-	5,725,282
Amounts owed by immediate subsidiary undertaking are:		
	31 March 2013 £'000	31 March 2013 £'000
Inter-company loan	-	3,716,862
Non-loan amounts	-	2,008,420
	-	5,725,282

Amounts owed by immediate subsidiary undertaking

The amounts owed by immediate subsidiary undertaking, Kemble Water Limited, were settled as part of the corporate restructure as detailed in note 15.

11 Creditors: amounts falling due within one year

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Amounts owing to parent and fellow subsidiary undertakings	-	1,013,137
Amounts payable in respect of Group relief	-	158,408
	-	1,171,545

Kemble Water Investments Limited

Notes to the financial statements (continued)

11 Creditors: amounts falling due within one year (continued)

Amounts owed to Group undertakings are:	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Inter-company loan	-	1,012,912
Non-loan amounts	-	225
	-	1,013,137

Amounts due to Group undertakings were settled as part of the corporate restructure described in note 15.

12 Called-up share capital

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Allotted, called-up and fully paid		
3,417,861,000 ordinary shares of 0.0000000585161 each (2013: 3,417,861,000 of £1 each)	-	3,417,861

As part of the corporate restructure a capital reduction took place, reducing the share capital to £2 (see note 15 for details).

13 Reserves

	Share Premium £'000	Profit and Loss £'000
At beginning of the year	383,211	753,665
Loss for the year	-	(155,779)
Dividends paid (note 8)	-	(4,398,958)
Capital reduction (note 15)	(383,211)	3,801,072
At end of the year	-	-

14 Reconciliation of movements in shareholder's funds

	As at 31 March 2014 £'000	As at 31 March 2013 £'000
Opening shareholder's funds	4,554,737	4,193,220
(Loss)/profit for the year	(155,779)	501,629
Dividend paid (note 8)	(4,398,958)	(140,112)
Closing shareholder's funds	-	4,554,737

Kemble Water Investments Limited

Notes to the financial statements (continued)

15 Corporate simplification transaction

On 28 March 2014 the Group completed transactions to simplify the corporate structure of the Group resulting in the following:

A capital reduction took place, involving a reduction in the nominal value of the shares from £1 to 0.0000000585161p and a cancellation of the share premium. The resulting values of £383.2m reduction in share premium and £3,417.9m reduction in share capital were transferred to the profit and loss reserve.

A portion of the intercompany receivable from Kemble Water Limited was written off (£700m), with a corresponding increase in the value of the Company's investment in Kemble Water Limited. The remaining balance receivable from Kemble Water Limited was then settled by assigning the intercompany receivable in Kemble Water Limited due from Kemble Water Finance Limited and Thames Water Limited to the Company. A provision was then made against the investment in Kemble Water Limited to reflect the reduction in value.

Kemble Water Limited distributed its remaining assets to the Company via a dividend in specie of £40.7m and a cash dividend of £1.4m.

The remaining intercompany payable to Thames Water Limited was assigned to Kemble Water Finance.

The remaining assets in the Company were then transferred to Kemble Water Finance as a dividend in specie of £4,233.1m and cash dividend of £1.4m.

The former immediate parent company, Kemble Water Finance Limited sold the Company to Kemble Water Eurobond Plc. At 31 March 2014 the immediate parent company of the Company is Kemble Water Eurobond Plc. Kemble Water Holdings Limited remains the ultimate parent company of the Group as described in note 16.

16 Immediate and ultimate parent company and controlling party

The immediate parent company is Kemble Water Eurobond Plc. a company incorporated in the United Kingdom.

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

Copies of the financial statements 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.