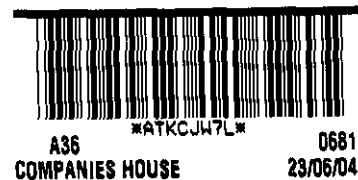


Registered Number: 2366623

RWE Thames Water plc
(formerly Thames Water plc)
Annual report and financial statements
31 December 2003



RWE Thames Water plc
(formerly Thames Water plc)

Annual report and financial statements
for the year ended 31 December 2003

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Directors' report for the year ended 31 December 2003

The Directors present their report and the audited financial statements for the year ended 31 December 2003.

On 1 October 2003 the Company changed its name to RWE Thames Water plc.

Principal activities

The principal activity of RWE Thames Water plc (Thames Water) is the provision of water and wastewater services to both the domestic and international markets.

Financial performance

The results for the year are set out in the consolidated profit and loss account on page 6 and are discussed below.

Review of business and future developments

Financial performance

For the year ending 31 December 2003 turnover was £1,529.1m (2002: £1,679.6m). Excluding the turnover of discontinued activities in the prior year, turnover has increased by 3.3% (2002: £1,480.3m). Operating profit from continuing operations, excluding exceptional operating costs of £26.5m in the current year, has increased 9.4% from £456.1m to £498.8m. This was mainly due to the higher contribution made by the non-regulated UK businesses. Profit on ordinary activities before taxation, exceptional operational costs and the profit on disposal of businesses was £351.2m for the year (2002: £325.7m). Profit for the financial year after taxation was £183.0m (2002: £231.1m).

Capital expenditure of £678.1m (2002: £692.5m) during the year has been particularly targeted towards security of drinking water supplies to customers, water balance, water and wastewater quality programmes and the alleviation of sewer flooding in London and the Thames Valley.

The UK regulated water business, with its stable sales and earnings, continues to be responsible for a large proportion of the earnings of the Group.

Future developments

The Group will continue to seek to develop its business across the UK and Ireland and internationally in line with the RWE Thames Water divisional strategy. This includes bidding for customer services; operations and maintenance; capital programme management; new connections and sludge disposal contracts.

The UK regulated water business submitted its strategic business plan for the period 2005 – 2010 to the UK regulator, Ofwat, as part of the periodic review process. If accepted, the proposals will allow significant progress to be made in areas vital to customers and for the future security of the water supply.

Funding and treasury policy

The Group's funding policy is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures. The current maturity profile of gross debt is shown in note 20. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward currency contracts are employed to manage the interest rate and currency risk arising from the primary financial instruments used to finance the Group's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable. Treasury operations are managed centrally by a specialist team. The objective is to ensure availability of a timely flow of funds at a cost which reflects the credit standing of the Group companies. It is managed as a cost centre and not as a profit centre and no material open or speculative positions are taken. These and other statements of treasury policy and procedures are agreed with and monitored by the Board of Directors. A framework of credit criteria to ensure acceptable counter-party risk across a broad range of financial transactions is regularly reviewed and adjusted from time to time.

The current gross debt of £3,097.2m (2002: £3,078.1m) comprises long-term bonds, medium-term notes, finance leases and some short-term borrowings. An analysis is provided in note 20 to the financial statements, along with the associated interest rate and maturity profiles. At the year end, the Group also had liquid investments of £83.1m (2002: £71.9m), most of which were held by the Group's captive insurance company.

Directors' report for the year ended 31 December 2003 (continued)

Funding and treasury policy (continued)

The Group's policy is to maintain between 50% and 75% of net debt at fixed rates and this governs decisions on borrowings. The percentage of fixed rate net debt at the year end was 56% (2002: 64%).

Dividends

In respect of the year, the Company paid an ordinary interim dividend of £46.2m (13.0p per ordinary share) and has proposed a final dividend of £92.4m (26.0p per ordinary share). The total dividend for the year ended 31 December 2003 of £138.6m (39.0p per ordinary share) compares with a total dividend for 2002 of £182.5m (51.3p per ordinary share).

Directors during the year and their interests

The Directors of the Company who served throughout the year, except where stated are:

W J Alexander
W Böttcher
C J Bunker (resigned 31 March 2004)
Dr R Klein (resigned 13 March 2003)
Dr D Kuhnt (resigned 18 February 2003)
J D Pelczer
H J M Roels (appointed 19 February 2003)
Dr K Sturany
T P Weller (appointed 3 February 2004)

None of the Directors has any interest in the shares of RWE Thames Water plc, or its subsidiary companies. In accordance with Statutory Instrument 1985/802 the Directors' interests in shares of the ultimate parent company, RWE AG, have not been disclosed.

During the year under review none of the Directors had significant contracts with RWE AG, RWE Thames Water plc or any other Group company other than their contracts of service.

Research and development activities

Recent improvements in the technology and economics of large scale, municipal seawater desalination plants have improved the potential viability of supplementing limited fresh water resources with saline or brackish water resources, which can be more resilient to drought conditions. Research on such potential new water resources has been carried out in London. Two pilot scale brackish water intakes have been investigated, a surface intake direct from the Thames Tideway and a novel horizontally drilled borehole running under the riverbed. Large scale pilot plant trials using advanced pre-treatment technologies followed by reverse osmosis desalination membranes have produced excellent quality drinking water from the surface intake. Saline groundwater yield trials started towards the end of 2003. This research supports potential investment in a brackish water desalination plant to meet increasing demand for potable water in and around London.

A major programme of research to better understand the condition and performance relationships for London's extensive but ageing water distribution pipes network has moved from laboratory to full-scale fieldwork. This work has included creating a statistically valid sampling programme to identify, excavate and condition assess some 500 pipe samples for corrosion and residual structural strength. In addition, four complete old streets, pre-1900, have been subjected to a detailed scientific and archaeological excavation, recording ground conditions, type of pipework found and full exhumation of pipework for laboratory condition assessment. This research has been carried out in collaboration with Cranfield, Southampton and Surrey University research teams and other specialists in pipe condition assessment. New techniques for determining residual bend load strength have been developed for cast iron pipe samples, representing potential failure conditions under traffic and soil movement loadings.

The findings show considerable differences in condition and performance of cast iron pipes between older Metropolitan London and other areas. The research supports planning and targeting of investment in water distribution infrastructure.

Directors' report for the year ended 31 December 2003 (continued)

Research and development activities (continued)

In its wider research role, the Group has increased engagement with the UK and international academic research community on longer-range issues including rapid microbial detection and monitoring systems for drinking water and improved conversion of bio-solids from sewage sludge to bio-fuels such as methane and hydrogen.

Donations for charitable and political purposes

Thames Water continues to take a leadership role in the community. During the year donations of £0.2m (2002: £0.2m) were made to registered charities including donations to WaterAid, the Group's principal charity. Employees' charitable donations through payroll have also continued to increase.

There were no donations for political purposes.

Employees

Thames Water continues to recognise the essential role played by its employees in the successful operation of the Group, and in return, aims to provide employees with a safe and fulfilling environment in which to work and to develop their skills.

The Group has improved access for employees in gaining training and development, and has further developed the range of training solutions available for a wide range of needs. In particular, there is continued focus on the development of excellence in people management. The graduate recruitment programmes continue to prove attractive to a high quality of recruit, and the Group has been pleased to be able to offer its graduate recruits development opportunities in the form of secondments and training courses within the wider RWE group.

Directors and managers are offered development to enhance their leadership, people and general business management skills, through continuing to provide access to formal qualifications and through links with UK and international business schools. Thames Water continues to see the benefits of informal and formal networking with colleagues in other parts of the RWE Group, in offering its leaders the opportunity to learn about and apply varied business models and approaches.

A new appraisal process for managers has been developed, to improve the identification of potential and to assist in career and succession planning. The appraisal meeting provides an opportunity to identify skills and potential in our managers and to discuss career aspirations and succession.

Thames Water are pleased to continue to hold 'Investors In People' accreditation in key areas of the business. Continuing to recognise the importance of customer service, the Group has supported a number of employees in successfully achieving external accreditation through the Institute of Customer Service awards, at various levels.

In the UK Utility, formal consultation continues to be via a partnership agreement with its recognised Trade Unions. The partners have been pleased to share their experience of working together in this way with other organisations and with the Department of Trade and Industry. Plans are in place to further embed the partnership working in the business.

The Group is committed to sharing information with employees on key business issues and our communications framework is subject to continual review and development. Thames Water has established a variety of communication channels, including the employee magazine "team:thameswater," team briefings and regular e-mail updates, together with the holding of team building conferences and events.

The Group's work-life balance policy helps to ensure that employees are able to meet the demands of their job while at the same time being offered support with their wider home responsibilities.

The Group recognises the importance of diversity. Thames Water have outlined its commitment to the recruitment, development and retention of employees with disabilities through our Disability Policy. The Group endeavours to continue to employ any person who has become disabled during the course of their employment. Thames Water is committed to ensuring that people are treated fairly and that it combats discrimination, through its equal opportunities policies.

Directors' report for the year ended 31 December 2003 (continued)

Policy on payment of suppliers

Thames Water's policy is to ensure that all payments to suppliers, service providers and contractors are made on the basis of mutually agreed terms and conditions that are established in advance of purchases. The Group supports a number of initiatives to promote a prompt payment culture, including those proposed in the UK by the Construction Round Table and the CBI. The amount due to trade creditors at 31 December 2003 represents 43 days (2002: 45 days) purchases received from those creditors.

Statement of Directors' responsibilities

Company law requires the Directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the Company and the Group and of the results of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable 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 Group will continue in business.

The Directors confirm that the financial statements comply with the above requirements.

The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Uncertainty regarding legal requirements is compounded, as information published on the internet is accessible in many countries with different legal requirements relating to the preparation and dissemination of financial statements.

Auditors

A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the Company will be proposed at the Annual General Meeting.

Approved by the Board on 11 May 2004



K G Johnson
Company Secretary

Independent auditors' report to the members of RWE Thames Water plc

We have audited the financial statements, which comprise the consolidated profit and loss account, the balance sheets, the consolidated cash flow statement, the consolidated statement of total recognised gains and losses, the consolidated reconciliation of movements in Group shareholder's funds and the related notes.

Respective responsibilities of directors and auditors

The Directors' responsibilities for preparing the Annual Report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of Directors' responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the Directors' remuneration and transactions is not disclosed.

Basis of audit opinion

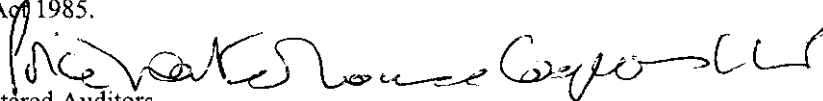
We conducted our audit in accordance with auditing standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 2003 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London



11 May 2004

RWE Thames Water plc
(formerly Thames Water plc)

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Consolidated profit and loss account
for the year ended 31 December 2003

	Note	2003 £m	2003 £m	2002 £m	2002 £m
Turnover (including share of joint ventures)					
- continuing operations		1,754.0		1,572.7	
- discontinued operations		-		199.3	
			1,754.0		1,772.0
Less: share of turnover of joint ventures					
- continuing operations			(224.9)		(92.4)
Group turnover	2		1,529.1		1,679.6
Operating costs (including exceptional operating costs of £26.5m)	3		(1,067.2)		(1,185.4)
Other operating income – continuing operations	6		10.4		6.6
- continuing operations		472.3		456.1	
- discontinued operations		-		44.7	
Group operating profit			472.3		500.8
Share of operating profit in:					
- Joint ventures			27.8		10.0
- Associates			0.9		0.4
Total operating profit: group and share of joint venture and associates	2		501.0		511.2
Profit on sale of fixed assets			14.7		20.8
Profit on disposal of businesses	7		0.7		14.7
Net interest payable					
- Group		(173.7)		(195.8)	
- share in joint ventures		(15.6)		(8.4)	
- share in associates		(1.7)		(2.1)	
	8		(191.0)		(206.3)
Profit on ordinary activities before taxation			325.4		340.4
Taxation on profit on ordinary activities	9		(142.4)		(109.3)
Profit on ordinary activities after taxation			183.0		231.1
Equity minority interests			(30.5)		(23.2)
Profit for the financial year			152.5		207.9
Dividends	11		(138.6)		(182.5)
Retained profit for the financial year	23		13.9		25.4

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

RWE Thames Water plc
(formerly Thames Water plc)

Balance sheets at 31 December 2003

	Note	Group				Company	
		2003 £m	2003 £m	2002 £m	2002 £m	2003 £m	2002 £m
Fixed assets							
Intangible assets	12		258.8		272.1	-	-
Tangible assets	13		5,598.0		5,321.3	1.0	0.4
Investments in joint ventures:							
- share of gross assets		639.6		290.4			
- share of gross liabilities		(562.9)		(243.2)			
		76.7		47.2		26.7	14.0
Investments in associates		(9.0)		(4.1)		-	-
Investments in subsidiary undertakings		-		-		2,063.9	1,892.1
Fixed asset investments	14		67.7		43.1	2,090.6	1,906.1
			5,924.5		5,636.5	2,091.6	1,906.5
Current assets							
Stocks and work in progress	15		48.3		44.1	-	-
Debtors	16		715.2		759.2	178.5	165.6
Investments	17		83.1		71.9	-	-
Cash at bank and in hand			99.9		108.8	-	-
			946.5		984.0	178.5	165.6
Creditors: amounts falling due within one year	18		(1,731.9)		(1,365.4)	(911.8)	(629.6)
Net current liabilities			(785.4)		(381.4)	(733.3)	(464.0)
Total assets less current liabilities			5,139.1		5,255.1	1,358.3	1,442.5
Creditors: amounts falling due after more than one year	19		(2,386.3)		(2,642.4)	-	(102.1)
Provisions for liabilities and charges	21		(944.2)		(816.6)	(1.5)	(1.5)
Net assets			1,808.6		1,796.1	1,356.8	1,338.9
Capital and reserves							
Called up share capital	22/23		81.8		81.8	81.8	81.8
Share premium	23		104.5		104.5	104.5	104.5
Capital redemption reserve	23		320.8		320.8	320.8	320.8
Profit and loss account	23		1,132.7		1,119.9	849.7	831.8
Equity shareholder's funds			1,639.8		1,627.0	1,356.8	1,338.9
Equity minority interest			168.8		169.1	-	-
Capital employed			1,808.6		1,796.1	1,356.8	1,338.9

The notes on pages 10 to 42 form part of these accounts.

The financial statements on pages 6 to 42 were approved by the Board of Directors on 11 May 2004 and signed on its behalf by



T P Weller
Group Finance Director

RWE Thames Water plc
(formerly Thames Water plc)

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Consolidated cash flow statement
for the year ended 31 December 2003

	Note	2003 £m	2002 £m
Net cash inflow from operating activities	27	983.3	858.1
Returns on investments and servicing of finance	28	(201.0)	(205.1)
Taxation		(48.0)	(20.9)
Capital expenditure and financial investment	29	(591.9)	(553.9)
Acquisitions and disposals			
Disposals	14	18.9	419.5
Purchase of fixed asset investments	14	(18.7)	(10.3)
Equity dividends paid to shareholder		(167.7)	(193.1)
Net cash (outflow)/inflow before management of liquid resources and financing		(25.1)	294.3
Management of liquid resources	30	(11.2)	(0.9)
Financing			
Cash inflow/(outflow) from increase/(decrease) in debt and lease financing	30	30.8	(330.4)
Decrease in net cash		(5.5)	(37.0)

Reconciliation of net cash flow to movement in net debt
for the year ended 31 December 2003

	2003 £m	2002 £m
Decrease in net cash	(5.5)	(37.0)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing:		
- loans due within one year	(304.1)	742.8
- loans due after more than one year	267.7	(417.2)
- borrowings disposed with subsidiaries	-	182.9
- capital repayment of finance leases	5.6	4.8
Cash outflow from decrease in liquid resources	11.2	0.9
(Increase)/decrease in net debt resulting from cash flows	(25.1)	477.2
Other non-cash movements:		
- foreign exchange translation differences	(3.1)	120.9
(Increase)/decrease in net debt	(28.2)	598.1
Net debt at 1 January	(2,876.0)	(3,474.1)
Net debt at 31 December	(2,904.2)	(2,876.0)

Statement of consolidated total recognised gains and losses
for the year ended 31 December 2003

	2003	2002
	£m	£m
Group profit for the financial year	152.5	207.9
Foreign exchange adjustments	(4.1)	0.8
Total gains recognised for the year	148.4	208.7

Reconciliation of movements in consolidated shareholder's funds
for the year ended 31 December 2003

	2003	2002
	£m	£m
Group profit for the financial year	152.5	207.9
Dividends	(138.6)	(182.5)
	13.9	25.4
<i>Other recognised gains and losses relating to the year</i>	(4.1)	0.8
Goodwill written back on disposal of businesses	3.0	39.4
Net change in shareholder's funds	12.8	65.6
Shareholder's funds as at 1 January	1,627.0	1,561.4
Shareholder's funds as at 31 December	1,639.8	1,627.0

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies

The financial statements have been prepared on the going concern basis and in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of this departure from the requirements of the Act is given below. A summary of the more important Group accounting policies is set out below.

Changes in accounting policies and presentation of financial information

During the year ended 31 December 2003 there have been no changes in accounting policies.

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

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries, associate undertakings and joint ventures. The results of undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. Where the financial statements of undertakings are drawn up to a year end different from that of the parent company, appropriate adjustments are made to the Group financial statements to reflect any significant transactions in the intervening period. Intra-group sales and profits are eliminated on consolidation.

The Group's relationships are defined as follows:

- **Subsidiary:** the Group controls the financial and operating policies of the undertaking
- **Joint venture:** the Group holds a long-term interest and shares control under a contractual agreement
- **Associate:** the Group has a participating interest and exercises significant influence

Turnover which excludes value added tax or equivalent sales tax, trade discounts and sales between group companies, represents the income receivable in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.

Intangible assets comprise fees on concession contracts. These assets are being amortised over their remaining useful lives of between 14 and 40 years.

Tangible fixed assets comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines); and other assets (including properties, over ground plant and equipment). The carrying value of tangible fixed assets is reviewed for impairment if circumstances dictate that they may not be recoverable.

Infrastructure assets comprise a network of systems. In the UK Utility all expenditure on infrastructure assets is capitalised at cost, whilst the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as depreciation. For all other operations, asset lives are agreed with the Regulator and depreciation applied on a straight-line basis. Lives range between 40 – 80 years.

Other assets are included at cost less accumulated depreciation. Freehold and long leasehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings:

- Operational structures 40-80 years
- Other 20-60 years

Fixed and mobile plant 20-40 years

Vehicles, computers, fixtures and fittings 3-10 years

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies (continued)

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Companies Act 1985 that requires fixed assets to be stated at their purchase price without deduction of contributions, which are accordingly accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the Directors, necessary for the financial statements to give a true and fair view because infrastructure assets do not have a finite life. Accordingly, related capital contributions would not be recognised in the profit and loss account. The effect of this departure on the value of tangible fixed assets is disclosed in note 13.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

Leased assets

Where assets are financed by leasing arrangements which substantially transfer all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in relation to the assets' written down values. The assets are depreciated over the shorter of their estimated useful lives and the lease period.

All other leases are regarded as operating leases. Rentals arising under operating leases are expensed on a straight line basis over the life of the lease.

Investments

Fixed asset investments

- In the financial statements of the Company, investments held as fixed assets are stated at cost less provisions for impairment in value.
- In the Group financial statements, interests in associated undertakings and joint ventures are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the operating results, interest, pre-tax results and attributable taxation of such undertakings for the period. In the consolidated balance sheet, the interests in associated undertakings and joint ventures are shown as the Group's share of the net assets and of goodwill.

Current asset investments are stated at the lower of cost and net realisable value.

Stocks and work in progress, with the exception of long-term contract work in progress, are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

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

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

Pension costs

Costs relating to defined benefit plans, which are subject to periodic valuations calculated by professionally qualified actuaries, are charged against profits, within manpower costs, so that the expected costs of providing pensions are recognised during the period in which benefit is derived from the employees' services. The costs of the various pension schemes may vary from the funding, dependent upon actuarial advice, with any difference between pension cost and funding being treated as a provision or prepayment.

Defined contribution pension costs charged to the profit and loss account represent contributions payable in respect of the period.

Notes to the financial statements for the year ended 31 December 2003

1 Accounting policies (continued)

Foreign currencies

Transactions in foreign currencies are translated into sterling at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities in foreign currencies are translated into sterling at the rates of exchange ruling at the balance sheet date. The exchange differences arising are included in the profit and loss account in the period in which they arise.

The results of overseas subsidiary undertakings, joint ventures and associates are translated at average rates of exchange for the year. Differences arising from the translation of year-end assets and liabilities at closing rates, together with the restatement of opening balance sheets of overseas subsidiary undertakings at closing rates, are dealt with through reserves together with exchange differences on the translation of foreign currency borrowings funding such investments.

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

Taxation

Deferred taxation is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred taxation is measured on a non-discounted basis.

Provision for insurance liabilities

Provision is made for known and estimated liabilities arising from uninsured claims against the Group and for claims against its wholly owned insurance company, where there is a present obligation that will result in transfer of economic benefits.

Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary, joint venture or associated undertakings acquired, is capitalised and amortised using the straight line method over its estimated useful economic life, not exceeding 20 years. Impairment tests on the carrying value are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

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

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

Derivative financial instruments

Interest rate swaps, cross currency swaps and forward currency contracts are used to manage interest rate profiles and mitigate exchange risks. When matched with primary financial instruments, the net position is measured at the hedge rate and presented within creditors on the balance sheet. Income, costs, gains, losses and expenses are recognised within net interest payable in the profit and loss account over the life of the instruments.

Related party disclosures

The company has taken advantage of the exemption under paragraph 3(c) from the provisions of FRS 8 'Related party disclosures', which requires the disclosure of the details of material transactions between the reporting entity and any related parties, on the grounds that it is a wholly owned subsidiary of RWE AG group, a company registered in Germany.

Notes to the financial statements for the year ended 31 December 2003

2 Segmental analysis

The segments by class of business are:

Water and wastewater: Water and wastewater operations

Products and services: Provision of engineering, utility network and asset and facilities management services

Property: Land and property development

Other activities: Those activities carried out in managing the Group, including insurance services provided by the captive insurer to the Group

Turnover

By class of business

	2003			2002		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
Water and wastewater	1,479.6	(12.6)	1,467.0	1,515.0	(6.2)	1,508.8
Products and services	213.8	(85.6)	128.2	220.9	(78.0)	142.9
Property	167.7	(8.9)	158.8	129.4	(9.1)	120.3
Other activities	19.5	(19.5)	-	18.9	(18.9)	-
Group (including share of joint ventures)	1,880.6	(126.6)	1,754.0	1,884.2	(112.2)	1,772.0
Share of joint ventures (included above)			(224.9)			(92.4)
Group			1,529.1			1,679.6

**By geographical segment -
origin**

	2003			2002		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
UK	1,546.6	(87.2)	1,459.4	1,410.7	(94.8)	1,315.9
Europe	106.8	(4.0)	102.8	121.2	(3.1)	118.1
Americas	73.4	-	73.4	255.5	(0.7)	254.8
Asia Pacific	118.7	(0.3)	118.4	84.8	(1.6)	83.2
Group (including share of joint ventures)	1,845.5	(91.5)	1,754.0	1,872.2	(100.2)	1,772.0
Share of joint ventures (included above)			(224.9)			(92.4)
Group			1,529.1			1,679.6

Notes to the financial statements for the year ended 31 December 2003

2 Segmental analysis (continued)

By geographical segment - destination	2003			2002		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
UK	1,547.0	(91.2)	1,455.8	1,392.3	(84.9)	1,307.4
Europe	112.5	(9.1)	103.4	132.4	(8.9)	123.5
Americas	75.1	(0.7)	74.4	254.2	(1.3)	252.9
Africa	0.3	-	0.3	1.4	(1.2)	0.2
Asia Pacific	122.5	(2.4)	120.1	91.9	(3.9)	88.0
Group (including share of joint ventures)	1,857.4	(103.4)	1,754.0	1,872.2	(100.2)	1,772.0
Share of joint ventures (included above)			(224.9)			(92.4)
Group			1,529.1			1,679.6

Operating profit

By class of business	2003 £m	2002 £m
Water and wastewater	428.4	463.4
Products and services	24.4	8.9
Property	60.0	38.9
Other activities	(6.5)	2.2
Inter-segment trading	(5.3)	(2.2)
Group, joint ventures and associates	501.0	511.2

By geographical segment	2003 £m	2002 £m
UK	430.1	360.5
Europe	54.7	75.4
Americas	23.3	58.0
Asia Pacific	(7.1)	17.3
Group, joint ventures and associates	501.0	511.2

Notes to the financial statements for the year ended 31 December 2003

2 Segmental analysis (continued)

Net Assets

By class of business

	2003 £m	2002 £m
Water and wastewater	4,669.1	4,612.2
Products and services	16.5	39.5
Property	132.1	96.7
Other activities	(104.9)	(76.3)
	4,712.8	4,672.1
Net debt	(2,904.2)	(2,876.0)
Net assets	1,808.6	1,796.1

By geographical segment

	2003 £m	2002 £m
UK	3,889.3	3,775.0
Europe	269.9	387.0
Americas	523.8	395.2
Asia Pacific	29.8	114.9
	4,712.8	4,672.1
Net debt	(2,904.2)	(2,876.0)
Net assets	1,808.6	1,796.1

Notes to the financial statements for the year ended 31 December 2003

3 Operating costs

	2003	2002	2002	2002
	Total £m	Continuing operations £m	Discontinued operations £m	Total £m
Manpower	239.1	236.7	41.0	277.7
Materials and consumables	171.6	175.4	57.5	232.9
Other operating charges	317.8	299.8	37.9	337.7
Amortisation of goodwill and intangibles	14.5	22.7	13.8	36.5
Write-down of fixed asset investments	-	7.8	-	7.8
Depreciation:				
- owned assets	205.0	190.8	0.6	191.4
- infrastructure assets	106.0	112.2	12.3	124.5
- assets held under finance leases	9.2	11.3	-	11.3
Rentals under operating leases:				
- hire of plant and machinery	4.3	5.0	0.1	5.1
- other	10.0	10.1	1.8	11.9
Research and development	4.3	7.4	1.8	9.2
Auditors' remuneration in respect of audit work and other statutory and regulatory requirements	1.1	0.6	0.4	1.0
Foreign currency losses/(gains)	2.0	(1.3)	0.4	(0.9)
	1,084.9	1,078.5	167.6	1,246.1
Own work capitalised	(44.2)	(47.7)	(13.0)	(60.7)
	1,040.7	1,030.8	154.6	1,185.4
Exceptional operating costs	26.5	-	-	-
	1,067.2	1,030.8	154.6	1,185.4

Exceptional operating costs relate to costs incurred by the Group as part of a restructuring and reorganisation programme undertaken by the RWE Water Division.

Included in auditors' remuneration is £50,000 (2002: £50,000) in respect of audit fees incurred by the Company for the year ended 31 December 2003.

All current year items are continuing.

Notes to the financial statements for the year ended 31 December 2003

4 Information regarding Directors

Directors' emoluments

	2003	2002
	£000	£000
Aggregate emoluments	1,714	1,554
Contributions paid into money purchase schemes	89	81
	1,803	1,635

Retirement benefits are accruing to three (2002: three) Directors under a defined benefit pension scheme and two (2002: two) Directors under defined contribution schemes.

Highest paid Director

	2003	2002
	£000	£000
Aggregate emoluments and benefits	794	788
Accrued pension at end of year – accruing under a defined benefit pension scheme	23	21

The above details of Directors' emoluments do not include the emoluments of Dr R Klein, Dr D Kuhnt, HJM Roels and Dr K Sturany in respect of their services to the Group.

The emoluments of Dr R Klein, Dr D Kuhnt, HJM Roels and Dr K Sturany are dealt within the accounts of RWE AG.

On 1 September 2003, W Böttcher was appointed MD Europe of the RWE Water Division. The above details include his emoluments since this date. Prior to this date, he was not remunerated for his services to the RWE Thames Water plc Group.

On 1 September 2003, J D Pelczer was appointed as Deputy CEO of RWE Thames Water Division and President, American Water, a fellow subsidiary company of the RWE group. The above details exclude his emoluments since this date, as he has been remunerated for his services by American Water, and it is not possible to separate out the emoluments for his services to the Group from those for his services to American Water.

Directors' interests

None of the Directors has any interest in the shares of RWE Thames Water plc, or its subsidiary companies. During the year under review none of the Directors had significant contracts with RWE AG, RWE Thames Water plc or any other Group company other than their contracts of service.

Transactions with Directors and Officers

There were no other transactions or arrangements which are required to be disclosed under the provision of the Companies Act 1985, nor were there any related party transactions with the Directors or connected persons.

Notes to the financial statements for the year ended 31 December 2003

5 Employees

Employment costs

	2003 £m	2002 £m
Group employment costs including Executive Directors' remuneration:		
- Wages and salaries	210.5	252.3
- Social security costs	16.2	21.0
- Other pension costs (note 26)	15.9	6.6
	242.6	279.9

Total employment costs contain £3.5m (2002: £2.2m) which are included in research and development costs in note 3.

Employee numbers

	2003 No.	2002 No.
Average monthly number of persons employed by the Group including Executive Directors:		
Water and wastewater	7,973	9,502
Products and services	1,480	1,987
Property	86	84
	9,539	11,573

6 Other operating income

	2003 £m	2002 £m
Investment income	8.9	0.4
Other income	1.5	6.2
	10.4	6.6

7 Profit on disposal of businesses

	2003 £m	2002 £m
Profit on disposal of businesses during the period	0.7	14.7

On 31 August 2003, the Group disposed of its pipeline rehabilitation business through an asset disposal of the Subterra business of Thames Water Services Limited giving rise to a profit on disposal of £0.7m.

The £14.7m profit on disposal reported in the prior year relates to the disposal of the PCI Membranes business of Thames Water Products Limited and the transfer of the Group's shareholding in Thames Water Deutschland GmbH to a fellow subsidiary of the RWE group.

Further details of the disposal of the Subterra business are given in note 14.

Notes to the financial statements for the year ended 31 December 2003

8 Net interest payable

	2003 £m	2002 £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	52.6	81.4
- Repayable within five years by instalments	58.8	58.2
- Not wholly repayable within five years	84.5	68.6
Finance charges in respect of finance leases	11.4	14.5
Other finance charges	2.0	2.5
Interest payable and similar charges	209.3	225.2
Interest receivable	(18.3)	(18.9)
	191.0	206.3

Included within bank loans, overdrafts and other loans repayable within five years otherwise than by instalments is £26.9m (2002: £32.4m) of interest paid to RWE group companies.

9 Taxation on profit on ordinary activities

Analysis of charge in year

	2003 £m	2002 £m
UK corporation tax at 30% (2002: 30%)	50.3	4.0
Overseas corporation taxes	17.1	27.0
Share of associates and joint venture tax	5.6	2.1
Total current tax	73.0	33.1
Deferred tax - origination and reversal of timing differences	69.4	76.2
Taxation on profit on ordinary activities	142.4	109.3

Notes to the financial statements for the year ended 31 December 2003

9 Taxation on profit on ordinary activities (continued)

Factors affecting tax charge for period

The current tax charge for the period is lower (2002: lower) than the standard rate of corporation tax in the UK of 30% (2002: 30%). The differences are explained below:

	2003 £m	2002 £m
Profit on ordinary activities before taxation	325.4	340.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2002: 30%)	97.6	102.1
Effects of:		
Amortisation of goodwill	2.3	7.0
Non taxable items	-	(7.4)
Capital allowances in excess of depreciation	(44.9)	(60.5)
Utilisation of Group tax losses	(5.6)	(13.3)
Other timing differences	(18.9)	(2.2)
Other permanent items	14.4	
International corporate tax rate differentials and other items	28.1	7.4
Current tax charge for the year	73.0	33.1

10 Profits of holding company

Of the profit, before dividends, of the Group for the financial year, a profit of £156.5m (2002: £119.7m) has been dealt with in the accounts of RWE Thames Water plc. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

11 Dividends

	2003 £m	2002 £m
Equity		
Interim paid - 13.0p (2002: 16.9p) per 23p share	46.2	60.2
Final proposed - 26.0p (2002: 34.4p) per 23p share	92.4	122.3
	138.6	182.5

All shares in issue are equity shares.

Notes to the financial statements for the year ended 31 December 2003

12 Intangible assets

	Group		
	Goodwill	Other intangible assets	Total
	£m	£m	£m
Cost			
At 1 January 2003	229.7	82.3	312.0
Additions	-	2.8	2.8
Disposals	-	(12.3)	(12.3)
Foreign exchange adjustments	11.5	0.4	11.9
At 31 December 2003	241.2	73.2	314.4
Aggregate amortisation			
At 1 January 2003	21.7	18.2	39.9
Charge for the year	7.5	7.0	14.5
Foreign exchange adjustments	1.0	0.2	1.2
At 31 December 2003	30.2	25.4	55.6
Net book value			
At 31 December 2003	211.0	47.8	258.8
At 31 December 2002	208.0	64.1	272.1

Goodwill is capitalised on new acquisitions made after 31 March 1997. Goodwill arising on acquisitions made prior to 31 March 1997 was written off directly to reserves.

The Company had no intangible assets (2002: £nil).

Notes to the financial statements for the year ended 31 December 2003

13 Tangible fixed assets

	Group		Company		
	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	Total £m	Plant and equipment £m
Cost					
At 1 January 2003 (as restated)	1,884.7	3,388.1	2,660.3	7,933.1	1.5
Additions	135.0	272.2	270.9	678.1	0.9
Reclassifications	(13.5)	-	13.1	(0.4)	-
Disposals	(2.3)	(0.5)	(52.2)	(55.0)	-
Foreign exchange adjustments	0.9	(36.0)	7.4	(27.7)	-
At 31 December 2003	2,004.8	3,623.8	2,899.5	8,528.1	2.4
Capital contributions					
At 1 January 2003	-	418.3	-	418.3	-
Additions	-	59.2	-	59.2	-
At 31 December 2003	-	477.5	-	477.5	-
Accumulated depreciation					
At 1 January 2003 (as restated)	428.3	801.2	964.0	2,193.5	1.1
Provided during the year	31.6	106.0	182.6	320.2	0.3
Reclassifications	(3.0)	-	2.6	(0.4)	-
Disposals	(0.3)	(0.5)	(50.0)	(50.8)	-
Foreign exchange adjustments	0.1	(12.0)	2.0	(9.9)	-
At 31 December 2003	456.7	894.7	1,101.2	2,452.6	1.4
Net book value					
At 31 December 2003	1,548.1	2,251.6	1,798.3	5,598.0	1.0
At 31 December 2002	1,456.4	2,168.6	1,696.3	5,321.3	0.4

The opening balances of infrastructure assets have been restated as a result of an inaccuracy in the figures previously reported. There is no impact on the opening net book value.

The net book value of land and buildings is analysed as follows:

	2003 £m	2002 £m
Group		
Freehold land and buildings	1,512.3	1,418.6
Leaseholds - over 50 years	28.8	30.9
- under 50 years	7.0	6.9
	1,548.1	1,456.4

No depreciation has been charged on freehold land included at a cost of £42.7m (2002: £8.7m).

Notes to the financial statements for the year ended 31 December 2003

13 Tangible fixed assets (continued)

Details of the Group's tangible fixed assets which are held under finance leases are:

	Cost		Net book value	
	2003 £m	2002 £m	2003 £m	2002 £m
Plant and equipment	273.0	273.0	196.2	205.4

Tangible fixed assets at 31 December 2003 include £751.7m (2002: £723.6m) of assets in the course of construction.

14 Fixed asset investments

Group

	Interests in joint ventures and associated under- takings £m
Share of net assets	
At 1 January 2003	43.1
Additions	18.7
Share of profit after tax for year	5.8
Dividends paid to group companies	(0.8)
Foreign exchange adjustments	0.9
At 31 December 2003	67.7

The additions arising during the year relate to equity investments in Thai Tap Water Supply Company Limited (£5.3m), Metronet Rail SSL Holdings Limited (£3.2m), Metronet Rail BCV Holdings Limited (£3.6m) and loans to St James Group Limited (£6.6m).

The cost of the Group's interests in associated undertakings and joint ventures at 31 December 2003 amounted to £46.8m (2002: £28.1m). The Group's share of post-acquisition accumulated profits at 31 December 2003 was £20.8m (2002: £15.0m). *The associated undertakings and joint ventures are all unlisted.*

Notes to the financial statements for the year ended 31 December 2003

14 Fixed asset investments (continued)

Group disposals arising during the year

On 31 August 2003, the Group disposed of its pipeline rehabilitation business through an asset disposal of the Subterra business of Thames Water Services Limited to a company unrelated to either the RWE Thames Water plc group or the RWE group. The consideration received was £18.9m. Net assets disposed, together with provisions for disposals, were £15.2m giving a profit on disposal of £3.7m, before goodwill previously written off to reserves of £3.0m.

Company

The Company's fixed asset investments can be analysed as follows:

	Interests in joint ventures £m	Investment in subsidiary under- takings £m	Total £m
At 1 January 2003	14.0	1,892.1	1,906.1
Additions	12.1	237.3	249.4
Repayment of loans	-	(45.7)	(45.7)
Foreign exchange adjustments	0.6	(9.8)	(9.2)
Provisions against investments	-	(10.0)	(10.0)
At 31 December 2003	26.7	2,063.9	2,090.6

The additions in interests in joint ventures arising during the year relate to equity investments in Thai Tap Water Supply Company Limited (£5.3m), Metronet Rail SSL Holdings Limited (£3.2m) and Metronet Rail BCV Holdings Limited (£3.6m). The additions in the investments in subsidiary undertakings relate to additional loans made to existing subsidiary undertakings.

15 Stocks and work in progress

	2003 £m	2002 £m
Group		
Raw materials and consumables	9.0	12.7
Work in progress	5.7	13.2
Finished goods and goods for resale	33.6	18.2
	48.3	44.1
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	0.9	0.7

Applicable payments on account in excess of net costs less foreseeable losses are included in creditors.

The Company had no stocks and work in progress as at 31 December 2003 (2002: £nil).

Notes to the financial statements for the year ended 31 December 2003

16 Debtors

	Group		Company	
	2003	2002	2003	2002
	£m	£m	£m	£m
Due within one year:				
Trade debtors	218.9	240.9	-	-
Amounts recoverable on contracts	1.5	2.8	-	-
Amounts owed by group companies	135.0	120.4	153.5	144.8
Other debtors	71.0	100.3	25.0	20.8
Prepayments and accrued income	219.6	220.6	-	-
	646.0	685.0	178.5	165.6
Due after more than one year:				
Trade debtors	23.0	22.8	-	-
Other debtors	45.6	46.3	-	-
Prepayments and accrued income	0.6	5.1	-	-
	715.2	759.2	178.5	165.6

17 Current asset investments

	Group	
	2003	2002
	£m	£m
Fixed term deposits and certificates of deposit	11.8	26.7
Fixed and floating interest rate securities	61.8	37.1
Managed fund	9.5	8.1
	83.1	71.9

The company had no current asset investments as at 31 December 2003 (2002: £nil).

Notes to the financial statements for the year ended 31 December 2003

18 Creditors: amounts falling due within one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans and overdrafts	281.6	163.1	18.3	27.8
Other loans	90.5	130.3	-	-
Trade creditors – operating	100.3	75.4	-	-
Trade creditors – capital	138.0	125.8	-	-
Amounts owed to group companies – loans	466.3	243.9	775.9	456.8
Obligations under finance leases	6.6	5.6	-	-
Progress claims and advance payments	3.0	3.0	-	-
Corporation tax	28.1	10.0	-	-
Other taxation and social security	15.0	12.3	-	-
Other creditors	92.0	54.1	11.7	0.8
Accruals and deferred income	418.1	419.6	13.5	21.9
Proposed dividend	92.4	122.3	92.4	122.3
	1,731.9	1,365.4	911.8	629.6

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans	842.7	1,032.2	-	-
Other loans	842.4	931.9	-	-
Amounts owed to group companies - loans	323.5	309.5	-	102.1
Obligations under finance leases	233.6	240.2	-	-
Progress claims and advance payments	1.0	3.6	-	-
Corporation tax	1.9	2.4	-	-
Other creditors	10.0	21.4	-	-
Deferred income	131.2	101.2	-	-
	2,386.3	2,642.4	-	102.1

Notes to the financial statements for the year ended 31 December 2003

20 Financial instruments

Short-term debtors and creditors

Short-term debtors and creditors have been excluded from the following financial instruments' disclosures, other than the currency risk disclosures.

Financial assets

Interest rate risk profile

	Total at floating rates		Total at fixed rates		No interest		Total book value		For fixed rate assets only			
									Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 £m	2002 £m	2003 %	2002 %	2003 Years	2002 Years
Current asset investment												
- £ Sterling	0.7	48.1	-	-	9.6	8.1	10.3	56.2	-	-	-	-
- \$ US	11.6	-	-	-	-	-	11.6	-	-	-	-	-
- Other	61.2	15.7	-	-	-	-	61.2	15.7	-	-	-	-
	73.5	63.8	-	-	9.6	8.1	83.1	71.9	-	-	-	-
Cash at bank/hand									-			
- £ Sterling	28.4	40.9	-	-	-	-	28.4	40.9	-	-	-	-
- \$ US	37.1	34.8	-	-	0.4	-	37.5	34.8	-	-	-	-
- Other	28.1	28.6	-	-	5.9	4.5	34.0	33.1	-	-	-	-
	93.6	104.3	-	-	6.3	4.5	99.9	108.8	-	-	-	-
Debtors > 1 year	-	-	-	-	68.6	69.1	68.6	69.1	-	-	-	-
	167.1	168.1	-	-	84.5	81.7	251.6	249.8	-	-	-	-

The Group is not exposed to currency risk on non sterling current asset investments, as they are held within an overall portfolio managed by external fund managers.

Non interest bearing assets of £9.6m (2002: £8.1m) are held as units in investment and unit trusts and have no maturity period.

Adjusted LIBOR and base rates are the benchmark rates for floating current asset investments and cash at bank respectively.

Notes to the financial statements for the year ended 31 December 2003

20 Financial instruments (continued)

Financial liabilities

Interest rate risk profile

	Total at floating rates		Total at fixed rates		No interest		Total book value		Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Bank loans and overdraft												
- £ Sterling	120.5	168.1	392.3	380.5	-	0.1	512.8	548.7	7.0	7.1	5.0	5.5
- \$ US	113.2	118.9	130.5	191.0	-	-	243.7	309.9	7.5	7.5	4.9	6.0
- Other	226.4	121.8	141.4	214.9	-	-	367.8	336.7	6.7	3.9	3.2	4.2
	460.1	408.8	664.2	786.4	-	0.1	1,124.3	1,195.3	7.0	6.3	4.6	5.3
Other loans and finance leases												
- £ Sterling	811.2	668.2	838.3	844.2	-	-	1,649.5	1,512.4	6.3	6.4	22.0	22.2
- \$ US	41.7	2.2	84.7	167.9	-	-	126.4	170.1	6.4	5.9	0.1	2.6
- Other	150.2	144.7	36.8	34.0	-	0.2	187.0	178.9	6.1	6.1	9.0	10.0
	1,003.1	815.1	959.8	1,046.1	-	0.2	1,962.9	1,861.4	6.3	6.3	19.6	18.7
Creditors > 1 year												
- Other	-	-	-	-	10.0	21.4	10.0	21.4	-	-	-	-
	1,463.2	1,223.9	1,624.0	1,832.5	10.0	21.7	3,097.2	3,078.1	6.6	6.3	13.5	13.0

Other loans include amounts owed to RWE group companies.

The Group's interest rate and cross currency swaps are £293m (2002: £243m) of floating to fixed interest rate swaps and £43m (2002: £43m) of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £455m (2002: £492m) of foreign currency borrowings.

Included in these amounts are £nil (2002: £nil) of floating to fixed interest rate swaps, £16m (2002: £16m) of fixed to floating interest rate swaps, and £46m (2002: £63m) of cross currency swaps for the Company.

Short term borrowings at floating rates bear interest at rates linked to LIBOR.

Fixed rate borrowings of £1,624.0m (2002: £1,832.5m) equate to 52% (2002: 60%) of gross borrowings and 56% (2002: 64%) of net debt.

Currency risk

The Group is not exposed to any significant currency risk after matching foreign currency assets and liabilities, and taking the effects of its hedging instruments into consideration.

Notes to the financial statements for the year ended 31 December 2003

20 Financial instruments (continued)

Gains and losses on hedges

The table below shows the extent to which the Group has unrecognised gains and losses in respect of hedges at the beginning and end of the year.

	Gains	Losses	Net
	£m	£m	£m
Unrecognised gains/(losses) on hedges at start of year	14.9	(55.4)	(40.5)
Recognised during the year	(1.9)	12.4	10.5
Gains arising in the year that were not recognised	16.6	21.1	37.7
Unrecognised gains/(losses) on hedges at end of year	29.6	(21.9)	7.7
of which:			
Gains expected to be recognised in the next financial year	4.3	-	4.3
Gains/(losses) expected to be recognised after the next financial year	25.3	(21.9)	3.4

Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Group's financial instruments.

	Book value		Fair value	
	2003	2002	2003	2002
	£m	£m	£m	£m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets:				
Current asset investments	83.1	71.9	83.1	71.9
Cash at bank and in hand	99.9	108.8	99.9	108.8
Debtors > 1 year	68.6	69.1	68.6	69.1
Financial liabilities:				
Bank loans and overdrafts	(1,124.3)	(1,195.3)	(1,164.6)	(1,245.3)
Other loans and finance leases	(1,962.9)	(1,861.4)	(2,158.2)	(2,077.5)
Creditors > 1 year	(10.0)	(21.4)	(10.0)	(21.4)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps, cross currency swaps and forward foreign currency contracts	-	-	7.7	(40.5)
	(2,845.6)	(2,828.3)	(3,073.5)	(3,134.9)

Notes to the financial statements for the year ended 31 December 2003

20 Financial instruments (continued)

Fair values (continued)

Primary financial instruments include bonds, which are traded on a public market. Fair values for these have been calculated using the 31 December 2003 and 31 December 2002 quoted prices. Mark to market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values which approximate to book value.

Maturities

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors > 1 year, as disclosed on page 28, is as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans and overdrafts				
- Within one year	281.6	163.1	18.3	27.8
- Between one and two years	65.0	175.4	-	-
- Between two and five years	476.4	459.1	-	-
- After more than five years	301.3	397.7	-	-
	1,124.3	1,195.3	18.3	27.8
Other loans				
- Within one year	556.8	374.2	775.9	456.8
- Between one and two years	0.3	98.8	-	102.1
- Between two and five years	130.2	87.3	-	-
- after more than five years	1,035.4	1,055.3	-	-
	1,722.7	1,615.6	775.9	558.9
Finance leases				
- Within one year	6.6	5.6	-	-
- Between one and two years	8.1	6.6	-	-
- Between two and five years	33.4	29.8	-	-
- after more than five years	192.1	203.8	-	-
	240.2	245.8	-	-
Total borrowings	3,087.2	3,056.7	794.2	586.7

The analysis of maturities excludes creditors due after more than one year. Loans are repayable between 2004 and 2032.

Notes to the financial statements for the year ended 31 December 2003

20 Financial instruments (continued)

Loans wholly repayable after more than five years are:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Bank loans	295.1	347.4	-	-
Other loans	1,035.4	1,055.3	-	-
	1,330.5	1,402.7	-	-

Other loans include:

€210m floating rate loans EURIBOR from RWE AG due 2004

£266m floating rate loans LIBOR from RWE AG due 2004

\$73m floating rate loan LIBOR from RWE AG due 2007

£95m floating rate loan LIBOR from RWE Innogy plc due 2004

£225m 5.94% loan from RWE Finance BV due 2021

£175m EURIBOR MTN Eurobond loan due 2021

£330m 6.75% MTN Eurobond due 2028

£200m 6.5% MTN Eurobond due 2032

Loans totalling £nil (31 December 2002: £32.4m) which are secured on the revenues of Thames Water Utilities Limited

Loans repayable by instalments after more than five years are:

	2003 £m	2002 £m
Group		
Bank loans	6.2	50.3
Finance leases	192.1	203.8
	198.3	254.1

The range of interest rates on outstanding bank loans are 5.4% to 11.5% (2002: 3.8% to 11.5%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate derivatives.

Borrowing facilities

At 31 December 2003, the Group had unused committed borrowing facilities with a range of financial institutions totalling £150m (2002: £220m) expiring as follows:

	Group		Company	
	2003 £m	2002 £m	2003 £m	2002 £m
Within one year	150	220	-	-

The Group also has a US\$4billion (2002: US\$4billion) uncommitted Euro Medium Term Note programme. The programme provides access for Thames Water Utilities Limited (via Thames Water Utilities Finance plc) to the capital markets in a range of currencies and maturities. At 31 December 2003, £808.6m of issuance (2002: £907.6m) had been borrowed with a weighted average term of 21.6 years (2002: 20.2 years) at a weighted average rate of 5.78% (2002: 5.68%). These facilities are required for continuing investment within the Group and the Directors consider them sufficient for the Group's requirements.

Notes to the financial statements for the year ended 31 December 2003

21 Provisions for liabilities and charges

Group

	Deferred Tax £m	Insurance Liabilities £m	Other £m	Total £m
At 1 January 2003	765.3	38.2	13.1	816.6
Provided during the year	69.4	17.4	64.0	150.8
Utilised during the year	-	(9.0)	(10.7)	(19.7)
Released during the year	-	-	(3.7)	(3.7)
Reclassification	(7.2)	1.2	6.0	-
Foreign exchange adjustments	0.2	-	-	0.2
At 31 December 2003	827.7	47.8	68.7	944.2

Deferred taxation

An analysis of amounts provided at current tax rates is as follows:

	2003 £m	2002 £m
Accelerated capital allowances	805.7	767.8
Tax losses carried forward	-	(5.6)
Other timing differences	22.0	3.1
	827.7	765.3

Insurance liabilities

Insurance liabilities comprise provisions for claims received but not yet settled and anticipated claims not yet reported.

These provisions are held by the Group's captive insurance company.

Other provisions

Other provisions primarily relate to liabilities in respect of contracts, third party claims and restructuring and reorganisation.

Company

	Other £m
At 31 December 2003 and 31 December 2002	1.5

Notes to the financial statements for the year ended 31 December 2003

22 Share capital

	2003 £m	2002 £m
Group and Company		
Authorised:		
976,128,916 ordinary shares of 23p each and 380,367,532 'B' shares of 79p each	525.0	525.0
Allotted, called up and fully paid		
355,770,743 ordinary shares of 23p each	81.8	81.8

23 Share capital and reserves

					2003	2002
	Share capital £m	Share pre- mium £m	Capital redemp- -tion reserve £m	Profit and loss account £m	Total £m	Total £m
Group						
At 1 January	81.8	104.5	320.8	1,119.9	1,627.0	1,561.4
Retained profit for the year	-	-	-	13.9	13.9	25.4
Foreign exchange adjustments	-	-	-	(4.1)	(4.1)	0.8
Goodwill written back on disposal of businesses	-	-	-	3.0	3.0	39.4
At 31 December	81.8	104.5	320.8	1,132.7	1,639.8	1,627.0
Company						
At 1 January	81.8	104.5	320.8	831.8	1,338.9	1,401.7
Profit/(deficit) for the year	-	-	-	17.9	17.9	(62.8)
At 31 December	81.8	104.5	320.8	849.7	1,356.8	1,338.9

The cumulative goodwill of £10.5m (2002: £13.5m) relating to acquisitions made to 31 March 1997 is included in Group reserves.

Notes to the financial statements for the year ended 31 December 2003

24 Operating leases

At 31 December 2003, the Group was committed to making the following payments in respect of non-cancellable operating leases:

Group	2003	2002
	£m	£m
Land and buildings		
Leases which expire:		
- Within one year	0.4	0.4
- Between one and two years	0.1	0.6
- Between two and five years	0.4	0.7
- After more than five years	5.7	5.8
	6.6	7.5
Other		
Leases which expire:		
- Within one year	0.6	1.1
- Between one and two years	0.4	0.6
- Between two and five years	0.1	0.3
	1.1	2.0

At 31 December 2003 and 2002 the Company has no commitments to make payments in respect of non-cancellable operating leases.

25 Capital commitments

	2003	2002
	£m	£m
Group		
Contracted for but not provided in the financial statements	269.8	271.7

In addition to these commitments, the Group has long-term capital investment plans to meet performance and asset condition requirements and to provide for new demand and growth.

The Company has no capital commitments.

The Group's share of joint ventures and associated undertakings' capital commitments are not separately disclosed since they are not material to the Group.

Notes to the financial statements for the year ended 31 December 2003

26 Post retirement schemes

	2003 £m	2002 £m
Pension costs	15.9	5.3
Post retirement (non-pension) benefit costs	-	1.3
	15.9	6.6

Pension Schemes

Pension arrangements for the majority of the Group's UK employees are of the defined benefit type. They are funded through pension schemes, whose assets are held separately from Group assets in independently administered funds. In addition, there are un-funded defined benefits provided for Directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements. Other overseas arrangements are established in accordance with local custom and practice.

The total ongoing pension cost of the Group during the year was £15.9m (2002: £5.3m) of which £0.4m (2002: £2.7m) relates to the overseas schemes. The pension costs relating to the UK schemes are assessed in accordance with advice received from the consulting actuaries to the schemes. The pension costs relating to the other overseas schemes are assessed in accordance with local practice, with liabilities provided to meet the pensions reporting requirements of SSAP 24 where material differences arise.

For accounting purposes, any surplus of pension fund assets in excess of pension liabilities is being recognised as a percentage of pensionable salaries spread over the average future working lifetime of the members. For funding purposes, in respect of the UK schemes, any surplus or deficit may be recognised more quickly.

Information on UK schemes

The principal assumptions used in determining the pension costs for the UK schemes during 2003, and the components of the pension cost, are set out in the table below:

Method	UK schemes
	Projected unit method for schemes open to new members
	Attained age method for closed scheme
Interest rate	5.8% pa
Earnings increases	3.7% pa
Pension increases	2.7% pa
Asset valuation	Market value
Regular cost	£18.4m
Variation cost	£(2.6)m
Interest cost	£(0.8)m

Notes to the financial statements for the year ended 31 December 2003

26 Post retirement schemes (continued)

The UK schemes pension increases are pre-funded in line with inflation and are granted in line with the rules of each scheme and any statutory requirements.

Contributions to the UK schemes for the year ended 31 December 2003 are based on actuarial reviews of the individual schemes as at 31 December 2001. During the year the Group made company contributions of £8.6m (2002: £7.7m) into the pension schemes for the benefit of members.

The latest full actuarial valuation was undertaken at 31 December 2001. Scheme assets at that date amounted to £947m and this represents 123% of the value of benefits accrued to members as at 31 December 2001.

An interim valuation was undertaken at 31 August 2003. Scheme assets at that date amounted to £863m and this represents 100% of the value of benefits accrued to members as at 31 August 2003.

The total ongoing pension cost of the UK defined benefit schemes for the Group during the year was £15.0m (2002: £nil). The pension cost is assessed in accordance with advice received from Hewitt, Bacon and Woodrow, the independent and professionally qualified consulting actuaries to the schemes. The SSAP 24 pension cost has increased following the interim valuation undertaken at 31 August 2003, which indicated a reduced pension surplus. One of the UK schemes is a closed scheme and as a result, the service cost, as a percentage of pensionable salaries, is expected to increase each year.

The regular cost of benefits amounted to £18.4m (2002: £17.7m) and the actuarial surplus resulted in a variation amounting to a reduction in the pension cost of £2.6m (2002: £17.2m).

As at 31 December 2003, a prepayment of £7.6m (2002: £14.3m) was included in debtors (note 16) in relation to the funded schemes and accruals of £3.7m (2002: £3.5m) were included in creditors (note 18) in relation to the unfunded schemes.

Additional disclosures in respect of FRS 17

In accordance with the requirements of FRS 17, 'Retirement Benefits', this note discloses the main financial assumptions made in valuing the liabilities of the schemes, the fair value of assets held, the opening and closing balance sheet amounts, together with the profit and loss account amounts and statement of total recognised gains and losses amounts.

As permitted by FRS 17, the costs, accruals and prepayments recorded in the financial statements continue to be reported under the requirements of SSAP 24 'Accounting for Pension Costs'.

The disclosures in this note are based on the calculations carried out in connection with the formal actuarial valuation of the main schemes as at 31 December 2001, updated to 31 December 2003, by the actuary.

The Group has taken advice from Hewitt, Bacon and Woodrow in respect of the deficit in the funding position under FRS 17, and with consideration of the funding position of the schemes, the company contribution rate has been increased where necessary in accordance with Hewitt, Bacon and Woodrow recommendations.

The main financial assumptions used for FRS 17 purposes are as follows:

	2003	2002	2001
Price inflation	2.8%	2.4%	2.5%
Salary increases	3.8%	3.4%	3.7%
Pension increases	2.7 – 2.9%	2.4%	2.4%
Discount rate for scheme liabilities	5.4%	5.55%	6.1%

Notes to the financial statements for the year ended 31 December 2003

26 Post retirement schemes (continued)

The fair value of the assets held by the pension schemes, the long-term expected rate of return on each class of assets and the value of the schemes' liabilities assessed on the assumptions described above are shown in the following table:

	2003		2002		2001	
	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m	Long term rate of return expected	Value £m
Equities	8.3%	789	8.0%	582	7.6%	695
Bonds	5.3%	66	5.0%	135	5.6%	197
Property	8.3%	52	8.0%	47	6.0%	45
Other assets	4.3%	10	4.0%	20	3.5%	47
Total market value of assets		917		784		984
Present value of schemes liabilities		(952)		(847)		(842)
(Deficit)/surplus in the schemes		(35)		(63)		142
Irrecoverable surplus		-		-		(65)
(Deficit)/recoverable surplus		(35)		(63)		77
Related deferred tax asset/(liability)		10		19		(23)
Net pension (deficit)/surplus		(25)		(44)		54

The Group's net assets and profit and loss reserve at 31 December 2003 would be as follows in accordance with the requirements of FRS 17:

	2003 £m	2002 £m
Net assets excluding SSAP 24 prepayment and FRS 17 deficit	1,801	1,782
Net pension deficit under FRS 17	(25)	(44)
Net assets including FRS 17 deficit	1,776	1,738
Profit and loss reserve excluding SSAP 24 prepayment and FRS 17 deficit	1,125	1,106
Net pension deficit under FRS 17	(25)	(44)
Profit and loss reserve including FRS 17 deficit	1,100	1,062

The amounts that would have been recognised in the Group's profit and loss account and statement of total recognised gains and losses for the year ended 31 December 2003, if FRS 17 had been adopted, are as follows:

	2003 £m	2002 £m
Operating profit:		
Current service cost	(18.9)	(19.1)
Past service cost	-	(0.3)
Total operating charge included in operating profit	(18.9)	(19.4)

Notes to the financial statements for the year ended 31 December 2003

26 Post retirement schemes (continued)

	2003 £m	2002 £m
Curtailment/settlement income included in profit on disposal of subsidiary undertakings	-	19.5
Other finance income:		
Expected return on pension scheme assets	56.7	60.6
Interest on pension scheme liabilities	(47.0)	(50.6)
Net finance income included within net interest payable	9.7	10.0
Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	96.9	(206.5)
Experience gains and losses arising on the scheme liabilities	4.6	35.6
Changes in assumptions underlying the present value of scheme liabilities	(73.0)	(53.4)
Gains and losses arising due to exchange rate fluctuation	-	1.4
Gains and losses in recognisable surplus	-	65.1
Actuarial gain/(loss) recognised in STRGL	28.5	(157.8)

The movement in the (deficit)/surplus during the year to 31 December 2003 was as follows:

	2003 £m	2002 £m
(Deficit)/surplus in scheme at start of year	(63.1)	142.0
Operating charge	(18.9)	(19.4)
Employer contributions	8.6	7.7
Other finance income	9.7	10.0
Actuarial gain/(loss)	28.5	(222.9)
Curtailment/settlement income on transfer of scheme outside of Group	-	19.5
Deficit in scheme at end of year	(35.2)	(63.1)

The details of experience gains and losses for the year to 31 December 2003 are as follows:

	2003 £m	2002 £m
<i>Difference between the expected gains and losses on scheme assets:</i>		
Amount (£m)	96.9	(206.5)
Percentage of scheme assets	+10.6%	-25.3%
<i>Experience gains and losses on scheme liabilities:</i>		
Amount (£m)	4.6	35.6
Percentage of the present value of the scheme liabilities	+0.5%	4.0%
<i>Total amount recognised in statement of total recognised gains and losses:</i>		
Amount (£m)	28.5	(157.8)
Percentage of the present value of the schemes liabilities	+3.0%	-17.5%

Notes to the financial statements for the year ended 31 December 2003

27 Net cash inflow from operating activities

	2003 £m	2002 £m
Group operating profit	472.3	500.8
Depreciation and amortisation	334.7	363.7
Increase in stocks	(5.9)	(7.8)
Decrease/(increase) in debtors	41.2	(440.6)
Increase in creditors	86.6	444.0
Increase/(decrease) in provisions	52.4	(9.8)
Other and foreign exchange	2.0	7.8
	983.3	858.1

Depreciation includes maintenance expenditure on infrastructure assets in accordance with FRS 15.

28 Return on investments and servicing of finance

	2003 £m	2002 £m
Interest received	18.3	18.9
Interest paid	(180.6)	(200.2)
Interest element of finance lease rental payments	(11.4)	(14.5)
Minority interest dividends	(27.3)	(9.3)
	(201.0)	(205.1)

29 Capital expenditure and financial investment

	2003 £m	2002 £m
Purchase of tangible fixed assets	(597.8)	(559.1)
Purchase of intangible fixed assets	(2.8)	(15.6)
Infrastructure renewals expenditure	(68.1)	(71.8)
Capital contributions received	59.2	37.4
Proceeds on sale of tangible fixed assets	17.6	55.2
	(591.9)	(553.9)

Notes to the financial statements for the year ended 31 December 2003

30 Analysis of net debt

	At 31 December 2002 £m	Cash flow £m	Exchange movements £m	At 31 December 2003 £m
Cash in hand	108.8	(8.9)	-	99.9
Bank overdraft	(49.2)	3.4	-	(45.8)
Net cash	59.6	(5.5)	-	54.1
Loans due within one year	(488.1)	(304.1)	(0.4)	(792.6)
Loans due after more than one year	(2,273.6)	267.7	(2.7)	(2,008.6)
Finance leases	(245.8)	5.6	-	(240.2)
Liquid resources	71.9	11.2	-	83.1
	(2,876.0)	(25.1)	(3.1)	(2,904.2)

The Group includes as liquid resources term deposits of less than one year, fixed and floating interest rate securities and managed funds. Further details are given in note 17.

31 Related parties

During the year, the Group completed the following sales to related parties, all of which were undertaken at arm's length commercial prices in the ordinary course of business:

Related party	Status	Nature of transaction	2003		2002	
			Sale value £m	Amount due £m	Sale value £m	Amount due £m
Metronet Rail SSL Limited	Joint Venture	Technical service fee	0.6	-	-	-
Metronet Rail BCV Limited	Joint Venture	Technical service fee	0.6	-	-	-
St James Group Limited	Joint Venture	Property	39.6	-	38.6	-
Stirling Water Seafield Limited	Joint Venture	Products and services	7.9	0.7	8.3	0.5
United Water International Pty Limited	Joint Venture	Water and wastewater	0.3	-	0.5	-

The Group made sales to the Izmit Municipality, a related party by virtue of its minority shareholding in Izmit Su As, of £101.5m (2002: £120.3m). These transactions were water and wastewater sales. The amount due at 31 December 2003 was £16.3m (2002: £22.6m).

Notes to the financial statements for the year ended 31 December 2003

32 Guarantees

At 31 December 2003 the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £1,154.9m (2002: £1,056.7m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £128.7m at 31 December 2003 (2002: £76.8m) and certain RWE group companies amounting to £62.6m (2002: £32.1). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations which have been entered into in the normal course of business. No loss is expected to arise under these arrangements.

33 Ultimate parent company and controlling party

The ultimate parent company and controlling party is RWE AG, a company incorporated in Germany. Copies of the parent's consolidated financial statements may be obtained from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen, Germany.

34 Group undertakings

At 31 December 2003, the Group held more than 10% of the allotted share capital of the following principal trading undertakings:

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
UK:						
Thames Water Utilities Limited	England & Wales	Ordinary	100%		Subsidiary	Water and wastewater services
Thames Water Procurement Limited	England & Wales	Ordinary		100%	Subsidiary	Procurement logistics
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Subsidiary	Insurance
Kennet Properties Limited	England & Wales	Ordinary	100%		Subsidiary	Property
PWT Projects Limited	England & Wales	Ordinary	100%		Subsidiary	Process engineering
Thames Water Investments Limited	England & Wales	Ordinary	100%		Subsidiary	Property
Thames Water International Services Holdings Limited	England & Wales	Ordinary	100%		Subsidiary	Management Company
Thames Water International Services Limited	England & Wales	Ordinary	100%		Subsidiary	Marketing of technical managerial services
Thames Water Overseas Limited	England & Wales	Ordinary		100%	Subsidiary	Management company
Thames Water Overseas Consultancy Limited	England & Wales	Ordinary	100%		Subsidiary	Marketing of technical managerial services
Thames Water Property Services Limited	England & Wales	Ordinary	100%		Subsidiary	Property
Thames Water Services Limited	England & Wales	Ordinary	100%		Subsidiary	Provision of utility network and facility management services
Water Projects International Limited	England & Wales	Ordinary	100%		Subsidiary	Process engineering
Binnie Thames Water Limited	England & Wales	Ordinary		50%	Joint venture	International Consultancy
St James Group Limited (formerly St James Homes Limited)	England & Wales	Ordinary	50%		Joint venture	Property
Stirling Water Seafeld Limited	Scotland	Ordinary		49%	Joint venture	Waste water treatment services

Notes to the financial statements for the year ended 31 December 2003

34 Group undertakings (continued)

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
Trans4m Limited	England & Wales	Ordinary		25%	Joint venture	Contract management for stations and civil assets
Metronet Rail SSL Holdings Limited	England & Wales	Ordinary	20%		Joint venture	Maintenance and upgrade of London Underground
Metronet Rail BCV Holdings Limited	England & Wales	Ordinary	20%		Joint venture	Maintenance and upgrade of London Underground
Asia Pacific:						
BJT Water Company Limited	Thailand	Ordinary		100%	Subsidiary	Industrial estate management
Thames Pam Jaya	Indonesia	Ordinary		100%	Subsidiary	Water operations and maintenance
Thames Water Projects (Australia) Pty Limited	Australia	Ordinary		100%	Subsidiary	Process engineering
Thames Water Projects (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Subsidiary	Process engineering
Thames Water Projects (Singapore) Pte Limited	Singapore	Ordinary		100%	Subsidiary	Process engineering
Thames Water HK Plc	Hong Kong	Ordinary		100%	Subsidiary	Process engineering
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Subsidiary	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Subsidiary	Water operations and maintenance
Shanghai Da Chang Waterworks Company Limited	China	Ordinary		50%	Joint venture	Water operations and maintenance
Thames Water Japan Limited	Japan	Ordinary		50%	Joint venture	Finance Company
Thames Water International (Thailand) & Ch. Kamchang Public Limited Company Limited (TWCK)	Thailand	Ordinary		50%	Joint venture	Project Management
Pathum Thani Operations Company Limited	Thailand	Ordinary		44.5%	Associate	Water operations and maintenance
Pathum Thani Water Company Limited	Thailand	Ordinary		38.6%	Associate	Water operations and maintenance
United Water International Pty Limited	Australia	Ordinary		47.5%	Joint venture	Water operations and maintenance
Thai Tap Water Supply Company Limited	Thailand	Ordinary	50%		Joint venture	Water operations and maintenance
Europe:						
Izmit Su As	Turkey	Ordinary	55%		Subsidiary	Water operations and maintenance
Americas:						
Aguas Nuevo Sur Maule SA (ANSM)	Chile	Ordinary		100%	Subsidiary	Water operations and maintenance
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		51%	Subsidiary	Water operations and maintenance
Thames Water Chile Limitada	Chile	Ordinary		100%	Subsidiary	Management Company
Thames Dick Superaqueduct Partners Inc	USA	Ordinary		50%	Joint venture	Water operations and maintenance

A full list of subsidiary undertakings within the Group will be filed at Companies House with the Company's annual return.