

Registered number: 2366623

RWE Thames Water plc

Annual report and financial statements
31 December 2004



RWE Thames Water plc

Annual report and financial statements for the year ended 31 December 2004

Contents	Pages
Directors' report	1-4
Independent auditors' report	5
Consolidated profit and loss account	6
Balance sheets	7
Consolidated cash flow statement	8
<i>Statement of consolidated total recognised gains and losses</i>	9
Reconciliation of movements in consolidated shareholder's funds	9
Notes to the financial statements	10-41

Directors' report for the year ended 31 December 2004

The Directors present their report and the audited financial statements for the year ended 31 December 2004.

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.

Review of business

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

For the year ending 31 December 2004 turnover was £1,549.0m (2003: £1,529.1m). Operating profit from continuing operations, excluding exceptional items was £608.4m for the year, £80.9m higher than the previous year. This increase was substantially due to the higher contribution made by the UK regulated and non-regulated businesses. Profit on ordinary activities before taxation and exceptional operating costs, was £418.4m for the year (2003: £351.9m).

Capital expenditure of £665.5m (2003: £678.1m) during the year has been particularly targeted towards security of drinking water supplies to customers, water balance, and water and wastewater quality programmes.

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

Following a strategic review the Group has decided to focus on the UK & Europe region. During the year the Groups interests in Shanghai Da-Chang Waterworks Company Limited and the Thames Water Projects companies in Australia and the Far East were disposed of, and the Group is considering the options for its other international interests. As part of this exercise the Group reviewed the carrying value of its investments, and an impairment charge of £140m against the carrying value of goodwill was made and a £23.0m debtor due from a fellow subsidiary company was written off.

The Group will continue to seek to develop its business in the UK and Europe. This includes bidding for customer services; operations and maintenance; capital programme management; new connections and sludge disposal contracts.

Shortly after the end of the year, the Board of Directors and that of its subsidiary Thames Water Utilities Limited accepted the Final Determination by the Director General of Water Services for the 2004 UK regulatory price review. This will enable Thames Water to increase its programme of investment. Prices will need to rise, but the review demonstrated that this is necessary to improve the essential infrastructure on which our customer service relies. The Group and its employees are fully committed to serving the needs of its customers, the communities within which it operates and the environment in an increasingly efficient and effective way.

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. A specialist team manages treasury operations centrally. 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.

Directors' report for the year ended 31 December 2004 (continued)

The current gross debt of £3,296.0m (2003: £3,097.2m) 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 £82.7m (2003: £83.1m), most of which were held by the Group's captive insurance company.

Dividends

The Company paid an interim dividend of £200.0m and proposed an interim dividend of £25.0m, in respect of the year. The total dividend for the year of £225.0m compares with a total dividend of £138.6m for the year ended 31 December 2003.

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
J D Pelczer
H J M Roels
Dr K Sturany
C J Bunker (resigned 31 March 2004)
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

Expenditure on research and development of £5.8m was made during the year (2003: £4.3m).

The focus of the Group's research and development projects has become mainly aligned with developing knowledge and evaluating technical solutions for future capital investment programmes. In 2004 research was carried out to evaluate alternative and innovative new water resources. This aims to address issues with rising water demands and predicted climatic change impacts on our current and finite fresh water resources.

Research has been carried out to more accurately determine trends in water usage both within defined geographical bounds, such as the new water distribution network and district metered areas, and combined with population and social trends information obtained from 2001 census data. A scoping study on emerging technologies for "smart" metering, real time meter reading and asset tagging was carried out to identify future options for advanced metering trials.

Planning for a renewal programme for Victorian water mains in London was strongly supported by research and development technical evidence and by the development of a new device for assessing the condition of medium diameter (200-300mm) cast iron pipes which was launched for the first time under London's streets in 2004. This is an intelligent pipeline inspection vehicle developed jointly with United Utilities and Severn Trent Water research teams and an external technology development organisation. The inspection device can travel through water filled pipes searching for cracks and corrosion and reporting on condition and need for rehabilitation or renewal over launch and retrieval distances of up to 2km. A programme of proving field trials is scheduled throughout 2005 to train users and to validate the sensor analysis system.

Directors' report for the year ended 31 December 2004 (continued)

Research was conducted on London's combined sewer overflow system to examine water quality under storm-flow conditions. This included development and use of a novel collection system to determine the nature and loading of screenable materials. The results will support planning and selection of potential design solutions for future London Tideway storm sewage schemes.

Research on wastewater treatment technology has been directed to finding ways to upgrade existing biological treatment processes to meet more stringent effluent quality goals or increased flows and loads. Pilot plants have been operated and a full-scale plant was commissioned at Henley STW in the autumn of 2004. Also in the field of wastewater sludge treatment and disposal technology, a new liquid lime and polymer treatment system was fast-tracked from laboratory to full scale in 3 months and is now helping to significantly reduce sludge handling and related odour problems.

The Group continues to support longer-range national and international research on topics such as climate change and water quality implications of the new European Water Framework Directive through funding and collaboration with universities and organisations such as UK Water Industry Research (UKWIR).

Donations for charitable and political purposes

Thames Water continues to take a leadership role in the community. During the year donations of £0.2m (2003: £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

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

We have improved access for employees in gaining training and development and we have further developed the range of training solutions available for a wide range of needs. In particular, we have continued our focus on developing excellence in people management.

Our graduate recruitment programme continues to prove attractive to a high quality of recruit and we have been pleased to be able to offer our graduate recruits development opportunities in the form of secondments and training courses within the wider RWE Group.

Directors and managers have the opportunity to enhance their leadership, people and general business management skills, through access to formal qualifications and through links with UK and international business schools. We continue to see the benefits of informal and formal networking with colleagues in other parts of the RWE Group, in offering our 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 in the business and to assist in career and succession planning. A further innovation has been the introduction, in September 2004, of a programme of Development Needs Analysis for managers. This is a comprehensive and individually oriented approach to addressing the development needs of our management population and is designed to complement the appraisal process.

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

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. We have outlined our commitment to the recruitment, development and retention of employees with disabilities through our Disability Policy. We are committed to ensuring that we treat people fairly and that we combat discrimination, through our Equal Opportunities Policy. The Environmental and Corporate Responsibility Committee has discussed a range of possible actions for further promoting diversity in the Group.

Directors' report for the year ended 31 December 2004 (continued)

We are committed to sharing information with employees on key business issues and our communications framework is subject to continual review and development. We have in operation 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.

Policy on payment of suppliers

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 Group'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. The average amount due to trade creditors during the year to 31 December 2004 represented 68 days (2003: 54 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.

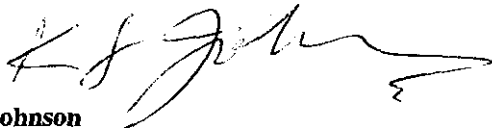
The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding 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 1 July 2005



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.

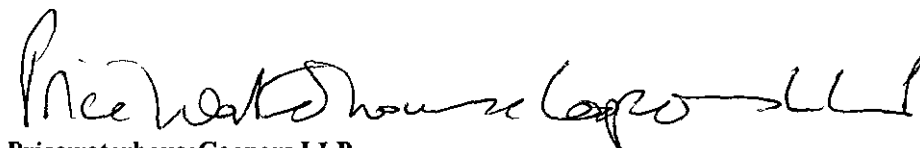
Basis of audit opinion

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 2004 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

1 July 2005

Consolidated profit and loss account for the year ended 31 December 2004

	Note	2004 £m	2003 £m
Turnover (including share of joint ventures)		1,878.2	1,754.0
Less: share of turnover of joint ventures		(329.2)	(224.9)
Group turnover	2	1,549.0	1,529.1
Operating costs	3	(1,000.7)	(1,040.7)
Other operating income	6	8.8	10.4
Group operating profit		557.1	498.8
Share of operating profit in:			
- Joint ventures		48.7	27.8
- Associates		2.6	0.9
Operating profit: group and share of joint ventures and associates (before exceptional items)		608.4	527.5
Impairment of goodwill – exceptional	3, 12	(140.0)	-
Other costs – exceptional	3	(23.0)	(26.5)
Operating profit: group and share of joint ventures and associates (after exceptional operating items)		445.4	501.0
Profit on sale of fixed assets		6.2	14.7
(Loss) / profit on disposal of businesses	7	(2.2)	0.7
Net interest payable:			
- Group		(174.4)	(173.7)
- Share of joint ventures		(18.0)	(15.6)
- Share of associates		(1.6)	(1.7)
	8	(194.0)	(191.0)
Profit on ordinary activities before taxation	2	255.4	325.4
Taxation on profit on ordinary activities	9	(119.5)	(142.4)
Profit on ordinary activities after taxation		135.9	183.0
Equity minority interests		(17.3)	(30.5)
Profit for the financial year		118.6	152.5
Dividends	11	(225.0)	(138.6)
(Loss) / retained profit for the financial year	23	(106.4)	13.9

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

With the exception of the loss on disposal of businesses all amounts relate to continuing operations.

Balance sheets at 31 December 2004

	Note	Group		Company	
		2004 £m	2003 £m	2004 £m	2003 £m
Fixed assets					
Intangible assets	12	83.3	258.8	-	-
Tangible assets	13	5,806.2	5,598.0	0.8	1.0
Investments in joint ventures:					
- share of gross assets		709.2	639.6		
- share of gross liabilities		(634.2)	(586.9)		
		75.0	52.7	35.2	26.7
Investments in associates		(3.8)	(9.0)	-	-
Investments in subsidiary undertakings		-	-	2,108.5	2,063.9
Fixed asset investments	14	71.2	43.7	2,143.7	2,090.6
		5,960.7	5,900.5	2,144.5	2,091.6
Current assets					
Stocks and work in progress	15	31.5	48.3	-	-
Debtors	16	720.9	739.2	133.0	178.5
Investments	17	82.7	83.1	-	-
Cash at bank and in hand		67.7	99.9	2.2	-
		902.8	970.5	135.2	178.5
Creditors: amounts falling due within one year	18	(1,993.0)	(1,731.9)	(1,225.1)	(911.8)
Net current liabilities		(1,090.2)	(761.4)	(1,089.9)	(733.3)
Total assets less current liabilities		4,870.5	5,139.1	1,054.6	1,358.3
Creditors: amounts falling due after more than one year	19	(2,193.0)	(2,386.3)	-	-
Provisions for liabilities and charges	21	(980.0)	(944.2)	(95.0)	(1.5)
Net assets		1,697.5	1,808.6	959.6	1,356.8
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	23	1,029.3	1,132.7	452.5	849.7
Equity shareholder's funds		1,536.4	1,639.8	959.6	1,356.8
Equity minority interest		161.1	168.8	-	-
Capital employed		1,697.5	1,808.6	959.6	1,356.8

The notes on pages 10 to 41 form part of these accounts.

The financial statements on pages 6 to 41 were approved by the Board of Directors on 1 July 2005 and signed on its behalf by


T P Weller
Group Finance Director

Consolidated cash flow statement for the year ended 31 December 2004

	Note	2004 £m	2003 £m
Net cash inflow from operating activities	27	790.8	976.7
Dividends received from joint ventures		2.3	0.8
Returns on investments and servicing of finance	28	(170.9)	(201.0)
Taxation		(41.4)	(48.0)
Capital expenditure and financial investment	29	(580.4)	(591.9)
Acquisitions and disposals			
Disposals	7	25.4	18.9
Purchase of fixed asset investments	14	(9.0)	(12.1)
Equity dividends paid to shareholder		(292.4)	(168.5)
Net cash (outflow) before management of liquid resources and financing		(275.6)	(25.1)
Management of liquid resources	30	0.4	(11.2)
Financing			
Cash inflow from increase in debt and lease financing	30	158.3	30.8
(Decrease) in net cash		(116.9)	(5.5)

Reconciliation of net cash flow to movement in net debt for the year ended 31 December 2004

	2004 £m	2003 £m
(Decrease) in net cash	(116.9)	(5.5)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing:		
- loans due within one year	(330.4)	(304.1)
- loans due after more than one year	165.5	267.7
- capital repayment of finance leases	6.6	5.6
Cash (inflow)/outflow from liquid resources	(0.4)	11.2
(Increase) in net debt resulting from cash flows	(275.6)	(25.1)
Other non-cash movements:		
- foreign exchange translation differences	58.6	3.5
- RPI uplift on index-linked bond	(4.9)	(6.6)
(Increase) in net debt	(221.9)	(28.2)
Net debt at 1 January	(2,904.2)	(2,876.0)
Net debt at 31 December	(3,126.1)	(2,904.2)

**Statement of group total recognised gains and losses
for the year ended 31 December 2004**

	2004 £m	2003 £m
Group profit for the financial year	118.6	152.5
Foreign exchange adjustments offset in reserves	3.0	(4.1)
Total gains recognised for the year	121.6	148.4

**Reconciliation of movements in group shareholder's funds
for the year ended 31 December 2004**

	2004 £m	2003 £m
Group profit for the financial year	118.6	152.5
Dividends	(225.0)	(138.6)
	(106.4)	13.9
Other recognised gains and losses relating to the year	3.0	(4.1)
Goodwill written back on disposal of businesses	-	3.0
Net change in shareholder's funds	(103.4)	12.8
Shareholder's funds as at 1 January	1,639.8	1,627.0
Shareholder's funds as at 31 December	1,536.4	1,639.8

Notes to the financial statements for the year ended 31 December 2004

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 2004 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.

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 2004

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 2004

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. These tests involve a comparison of the book value with the higher of the net realisable value and the value in use.

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

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

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 2004

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

	2004			2003		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
Water and wastewater	1,441.2	(9.8)	1,431.4	1,479.6	(12.6)	1,467.0
Products and services	241.4	(32.1)	209.3	213.8	(85.6)	128.2
Property	242.2	(8.3)	233.9	167.7	(8.9)	158.8
Other activities	20.9	(17.3)	3.6	19.5	(19.5)	-
Group (including share of joint ventures)	1,945.7	(67.5)	1,878.2	1,880.6	(126.6)	1,754.0
Share of joint ventures (included above)			(329.2)			(224.9)
Group			1,549.0			1,529.1

By geographical segment -
origin

	2004			2003		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
UK	1,640.5	(6.8)	1,633.7	1,464.0	(4.6)	1,459.4
Europe	88.6	(5.6)	83.0	106.8	(4.0)	102.8
Americas	75.8	(0.2)	75.6	73.4	-	73.4
Asia Pacific	89.3	(3.4)	85.9	118.7	(0.3)	118.4
Group (including share of joint ventures)	1,894.2	(16.0)	1,878.2	1,762.9	(8.9)	1,754.0
Share of joint ventures (included above)			(329.2)			(224.9)
Group			1,549.0			1,529.1

There is no material difference between the origin and destination of turnover.

Notes to the financial statements for the year ended 31 December 2004

2 Segmental analysis (continued)

Profit on ordinary activities before taxation

By class of business	2004 £m	2003 £m
Water and wastewater	145.5	243.7
Products and services	24.2	17.3
Property	89.5	67.4
Other activities	(3.8)	(3.0)
Group, joint ventures and associates	255.4	325.4
By geographical segment	2004 £m	2003 £m
UK	377.2	293.4
Europe	7.5	23.7
Americas	(142.9)	(2.3)
Asia Pacific	13.6	10.6
Group, joint ventures and associates	255.4	325.4

Net Assets

By class of business	2004 £m	2003 £m
Water and wastewater	4,671.6	4,669.1
Products and services	39.2	16.5
Property	156.4	132.1
Other activities	(43.6)	(104.9)
	4,823.6	4,712.8
Net debt	(3,126.1)	(2,904.2)
Net assets	1,697.5	1,808.6
By geographical segment	2004 £m	2003 £m
UK	4,179.2	3,889.3
Europe	244.4	269.9
Americas	337.5	523.8
Asia Pacific	62.5	29.8
	4,823.6	4,712.8
Net debt	(3,126.1)	(2,904.2)
Net assets	1,697.5	1,808.6

Notes to the financial statements for the year ended 31 December 2004

3 Operating costs

		2004	2003
	Note	Total £m	Total £m
Staff costs	5	215.3	239.1
Materials and consumables		107.2	171.6
Other operating charges		374.8	317.8
Amortisation of goodwill and intangibles	12	14.4	14.5
Depreciation:			
- owned assets		223.4	205.0
- infrastructure assets		87.9	106.0
- assets held under finance leases		9.7	9.2
Rentals under operating leases:			
- hire of plant and machinery		3.1	4.3
- other		8.2	10.0
Research and development		5.8	4.3
Auditors' remuneration in respect of audit work and other statutory and regulatory requirements		1.2	1.1
Foreign currency losses		0.7	2.0
		1,051.7	1,084.9
Own work capitalised		(51.0)	(44.2)
		1,000.7	1,040.7

Included in auditors' remuneration is £50,000 (2003: £50,000) in respect of audit fees incurred by the Company for the year ended 31 December 2004.

In addition to the above operating costs, there were exceptional costs in 2004 in respect of a goodwill impairment charge of £140.0m and the write off of a £23.0m debtor due from a fellow subsidiary company. In 2003 exceptional costs of £26.5m were incurred in respect of a restructuring and reorganisation programme. These items are included on the face of the Consolidated profit and loss account as exceptional items.

Notes to the financial statements for the year ended 31 December 2004

4 Information regarding Directors**Directors' emoluments**

	2004 £000	2003 £000
Aggregate emoluments	2,059	1,714
Compensation for lost office	506	
Contributions paid into money purchase schemes	-	89
	2,565	1,803

Retirement benefits are accruing to 3 (2003: 3) Directors under a defined benefit pension scheme and Nil (2003: 2) Directors under a defined contribution scheme.

Highest paid Director

	2004 £000	2003 £000
Aggregate emoluments and benefits	923	794
Accrued pension at end of year – accruing under a defined benefit pension scheme	238	213

The above details of Directors' emoluments do not include the emoluments of HJM Roels and Dr K Sturany in respect of their services to the Group. The emoluments of HJM Roels and Dr K Sturany are dealt within the accounts of RWE AG.

J D Pelczer is remunerated by American Water in respect of his services as Deputy CEO of RWE Thames Water Division and President of American Water, a fellow subsidiary company of the RWE group. It is not possible to separate out his emoluments in respect of services to the Group from those in respect of services to American Water therefore no emoluments have been included in the above disclosures.

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 2004

5 Employees

Employment costs

	2004 £m	2003 £m
Group employment costs including Executive Directors' remuneration:		
- Wages and salaries	181.7	210.5
- Social security costs	15.6	16.2
- Other pension costs (note 26)	21.2	15.9
	218.5	242.6
Employment costs included within research and development	(3.2)	(3.5)
Net employment costs	215.3	239.1

Employee numbers

	2004 No.	2003 No.
Average monthly number of persons employed by the Group including Executive Directors:		
Water and wastewater	7,853	7,973
Products and services	826	1,480
Property	83	86
	8,762	9,539

6 Other operating income

	2004 £m	2003 £m
Investment income	5.7	8.9
Other income	3.1	1.5
	8.8	10.4

7 Profit on disposal of businesses

	2004 £m	2003 £m
(Loss) / profit on disposal of businesses during the period	(2.2)	0.7

On 26 April 2004, the Group disposed of Shanghai Thames Da-Chang Waterworks Company Limited, for consideration of £19.5m. Net assets disposed of, after provisions for disposal, were £21.4m, giving a loss on disposal of £1.9m.

On 30 June 2004, the Group disposed of Thames Water Projects (Australia) Pty Limited, Thames Water Projects (Singapore) Pte Limited, Thames Water Projects (Malaysia) Sdn Bhd, and Thames Water Victoria Pty Limited for consideration of £5.9m. Net assets disposed of, after provisions for disposal, were £6.2m, giving a loss on disposal of £0.3m.

Notes to the financial statements for the year ended 31 December 2004

8 Net interest payable

	2004 £m	2003 £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	61.0	52.6
- Repayable within five years by instalments	51.7	58.8
- Not wholly repayable within five years	84.4	84.5
Finance charges in respect of finance leases	11.1	11.4
Other finance charges	0.6	2.0
Interest payable and similar charges	208.8	209.3
Interest receivable	(14.8)	(18.3)
	194.0	191.0

Included within bank loans, overdrafts and other loans repayable within five years otherwise than by instalments is £44.1m (2003: £26.9m) of interest paid to RWE group companies.

9 Taxation on profit on ordinary activities**Analysis of charge in year**

	2004 £m	2003 £m
UK corporation tax - amounts payable in respect of corporation tax for the period	45.8	50.3
UK corporation tax - adjustments in respect of previous periods	(19.4)	-
Overseas corporation taxes	17.8	17.1
Share of associates and joint venture tax	10.4	5.6
Total current tax	54.6	73.0
Deferred tax - origination and reversal of timing differences	49.2	69.4
Deferred tax - adjustments in respect of previous periods	15.7	-
Total deferred tax	64.9	69.4
Taxation on profit on ordinary activities	119.5	142.4

Notes to the financial statements for the year ended 31 December 2004

9 Taxation on profit on ordinary activities (continued)

Factors affecting tax charge for period

The current tax charge for the period is lower (2003: lower) than the standard rate of corporation tax in the UK of 30% (2003: 30%). The differences are explained below:

	2004 £m	2003 £m
Profit on ordinary activities before taxation	255.4	325.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (2003: 30%)	76.6	97.6
Effects of:		
Capital allowances in excess of depreciation	(47.9)	(44.9)
Other timing differences	(1.3)	(18.9)
Utilisation of Group tax losses	-	(5.6)
Amortisation of goodwill	3.4	2.3
Disallowable expenditure and other permanent differences	50.5	14.4
International corporate tax rate differentials and other items	(7.3)	28.1
Adjustments in respect of previous periods	(19.4)	-
Current tax charge for the year	54.6	73.0

10 Profits of holding company

Of the profit, before dividends, of the Group for the financial year, a loss of £172.2m (2003: profit of £156.5m) 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

	2004 £m	2003 £m
Equity		
Interim paid – 56.2p (2003: 13.0p) per 23p share	200.0	46.2
Interim proposed – 7.0p (2003: 26.0p) per 23p share	25.0	92.4
	225.0	138.6

All shares in issue are equity shares.

Notes to the financial statements for the year ended 31 December 2004

12 Intangible assets

	Group		
	Goodwill	Other	Total
	£m	intangible	£m
		assets	
		£m	£m
Cost			
At 1 January 2004	241.2	73.2	314.4
Additions	-	0.4	0.4
Disposals	-	(5.1)	(5.1)
Foreign exchange adjustments	(17.3)	(5.1)	(22.4)
At 31 December 2004	223.9	63.4	287.3
Aggregate amortisation			
At 1 January 2004	30.2	25.4	55.6
Charge for the year	11.3	3.1	14.4
Impairment charge	140.0	-	140.0
Disposals	-	(1.6)	(1.6)
Foreign exchange adjustments	(2.3)	(2.1)	(4.4)
At 31 December 2004	179.2	24.8	204.0
Net book value			
At 31 December 2004	44.7	38.6	83.3
At 31 December 2003	211.0	47.8	258.8

As a result of a review in the year of the carrying value of the Group's investments, a Goodwill impairment charge of £140.0m (2003: £nil) was made.

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 £nil intangible assets (2003: £nil).

Notes to the financial statements for the year ended 31 December 2004

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 2004	2,004.8	3,623.8	2,899.5	8,528.1	2.4
Additions	165.4	213.2	286.9	665.5	0.1
Disposals	(15.9)	-	(94.5)	(110.4)	-
Foreign exchange adjustments	(46.6)	(2.0)	(31.1)	(79.7)	-
At 31 December 2004	2,107.7	3,835.0	3,060.8	9,003.5	2.5
Capital contributions					
At 1 January 2004	-	477.5	-	477.5	-
Additions	-	48.6	-	48.6	-
At 31 December 2004	-	526.1	-	526.1	-
Accumulated depreciation					
At 1 January 2004	456.7	894.7	1,101.2	2,452.6	1.4
Provided during the year	48.8	87.9	184.3	321.0	0.3
Disposals	(13.4)	-	(65.1)	(78.5)	-
Foreign exchange adjustments	(16.6)	-	(7.3)	(23.9)	-
At 31 December 2004	475.5	982.6	1,213.1	2,671.2	1.7
Net book value					
At 31 December 2004	1,632.2	2,326.3	1,847.7	5,806.2	0.8
At 31 December 2003	1,548.1	2,251.6	1,798.3	5,598.0	1.0

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

	2004 £m	2003 £m
Group		
Freehold land and buildings	1,597.7	1,512.3
Leaseholds - over 50 years	20.1	20.3
- under 50 years	14.4	15.5
	1,632.2	1,548.1

No depreciation has been charged on freehold land included at a cost of £30.0m (2003: £30.6m).

Notes to the financial statements for the year ended 31 December 2004

13 Tangible fixed assets (continued)

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

	Cost		Net book value	
	2004 £m	2003 £m	2004 £m	2003 £m
Plant and equipment	272.6	273.0	186.5	196.2

Tangible fixed assets at 31 December 2004 include £860.0m (2003: £751.7m) of assets in the course of construction.

14 Fixed asset investments**Group****Interests in joint ventures and associated undertakings**

	2004 £m	2003 £m
Share of net assets		
At 1 January	43.7	25.7
Additions	9.0	12.1
Share of profit after tax for year	21.3	5.8
Dividends paid to group companies	(2.3)	(0.8)
Foreign exchange adjustments	(0.5)	0.9
At 31 December	71.2	43.7

The additions arising during the year relate to equity investments in Metronet Rail SSL Holdings Limited (£4.4m) and Metronet Rail BCV Holdings Limited (£4.6m).

The cost of the Group's interests in associated undertakings and joint ventures at 31 December 2004 amounted to £31.8m (2003: £22.8m). The Group's share of post-acquisition accumulated profits at 31 December 2004 was £39.4m (2003: £20.8m). The associated undertakings and joint ventures are all unlisted.

Notes to the financial statements for the year ended 31 December 2004

14 Fixed asset investments (continued)

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 2004	26.7	2,063.9	2,090.6
Additions	10.3	257.0	267.3
Repayment of loans	-	(17.8)	(17.8)
Foreign exchange adjustments	(1.8)	(9.8)	(11.6)
Provisions against investments	-	(184.8)	(184.8)
At 31 December 2004	35.2	2,108.5	2,143.7

The additions in interests in joint ventures arising during the year relate to equity investments in Thai Tap Water Supply Company Limited (£1.3m), Metronet Rail SSL Holdings Limited (£4.4m) and Metronet Rail BCV Holdings Limited (£4.6m). The additions in the investments in subsidiary undertakings relate to additional loans made to existing subsidiary undertakings.

Following the Group's strategic decision to focus on the UK and Europe region, the Company reviewed the carrying value of all of its investments. As a result of this review, a provision of £184.8m was made against the carrying value of the Company's investments, £53.3m of debtor balances due from Group companies were written off and a £95.0m provision was made in respect of certain International interests.

15 Stocks and work in progress

	2004 £m	2003 £m
Group		
Raw materials and consumables	9.1	9.0
Work in progress	2.7	5.7
Finished goods and goods for resale	19.7	33.6
	31.5	48.3

Work in progress includes long-term contract balances as follows:

Net cost less foreseeable losses	-	0.9
----------------------------------	---	-----

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 2004 (2003: £nil).

Notes to the financial statements for the year ended 31 December 2004

16 Debtors

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Due within one year:				
Trade debtors	230.0	218.9	-	-
Amounts recoverable on contracts	-	1.5	-	-
Amounts owed by parent and fellow subsidiary undertakings	116.4	108.2	113.6	146.6
Amounts owed by joint venture undertakings	87.4	50.8	15.9	6.9
Amounts owed by associated undertakings	0.1	-	-	-
Other debtors	105.2	71.0	3.5	25.0
Prepayments and accrued income	149.7	219.6	-	-
	688.8	670.0	133.0	178.5
Due after more than one year:				
Trade debtors	15.6	23.0	-	-
Other debtors	16.5	45.6	-	-
Prepayments and accrued income	-	0.6	-	-
	720.9	739.2	133.0	178.5

17 Current asset investments

	Group	
	2004 £m	2003 £m
Fixed term deposits and certificates of deposit	2.5	11.8
Fixed and floating interest rate securities	66.7	61.8
Managed fund	13.5	9.5
	82.7	83.1

The company had no current asset investments as at 31 December 2004 (2003: £nil).

Notes to the financial statements for the year ended 31 December 2004

18 Creditors: amounts falling due within one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans and overdrafts	300.2	281.6	127.9	18.3
Other loans	17.7	90.5	17.8	-
Trade creditors – operating	48.7	100.3	-	-
Trade creditors – capital	148.8	138.0	-	-
Amounts owed to parent and fellow subsidiary undertakings	939.7	466.3	1,043.0	775.9
Obligations under finance leases	8.1	6.6	-	-
Progress claims and advance payments	-	3.0	-	-
Corporation tax	31.7	28.1	-	-
Other taxation and social security	10.9	15.0	-	-
Other creditors	114.6	92.0	3.2	11.7
Accruals and deferred income	347.6	418.1	8.2	13.5
Proposed dividend	25.0	92.4	25.0	92.4
	1,993.0	1,731.9	1,225.1	911.8

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans	735.2	842.7	-	-
Other loans	846.2	842.4	-	-
Amounts owed to parent and fellow subsidiary undertakings	225.0	323.5	-	-
Obligations under finance leases	225.5	233.6	-	-
Progress claims and advance payments	-	1.0	-	-
Corporation tax	1.5	1.9	-	-
Other creditors	19.5	10.0	-	-
Deferred income	140.1	131.2	-	-
	2,193.0	2,386.3	-	-

Amounts owed to parent and fellow subsidiary undertakings are:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Inter-company loans				
- Within one year	918.6	466.3	875.3	638.6
- After more than one year	225.0	323.5	-	-
	1,143.6	789.8	875.3	638.6
Non-loan amounts due within one year	21.1	-	158.9	137.3
	1,164.7	789.8	1,034.2	775.9

Notes to the financial statements for the year ended 31 December 2004

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Current asset investment												
- £ Sterling	74.1	0.7	-	-	-	9.6	74.1	10.3	-	-	-	-
- \$ US	-	11.6	-	-	-	-	-	11.6	-	-	-	-
- Other	8.6	61.2	-	-	-	-	8.6	61.2	-	-	-	-
	82.7	73.5	-	-	-	9.6	82.7	83.1	-	-	-	-
Cash at bank/hand												
- £ Sterling	31.1	28.4	-	-	0.4	-	31.5	28.4	-	-	-	-
- \$ US	3.7	37.1	-	-	14.6	0.4	18.3	37.5	-	-	-	-
- Other	6.0	28.1	-	-	11.9	5.9	17.9	34.0	-	-	-	-
	40.8	93.6	-	-	26.9	6.3	67.7	99.9	-	-	-	-
Debtors > 1 year	-	-	-	-	32.1	68.6	32.1	68.6	-	-	-	-
	123.5	167.1	-	-	59.0	84.5	182.5	251.6	-	-	-	-

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 £Nil (2003: £9.6m) 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 2004

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	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Bank loans and overdraft												
- £ Sterling	260.4	120.5	291.1	392.3	-	-	551.5	512.8	6.7	7.0	4.5	5.0
- \$ US	-	113.2	134.7	130.5	-	-	134.7	243.7	7.3	7.5	4.0	4.9
- Other	122.8	226.4	226.4	141.4	-	-	349.2	367.8	6.5	6.7	2.9	3.2
	383.2	460.1	652.2	664.2	-	-	1,035.4	1,124.3	6.8	7.0	3.8	4.6
Other loans and finance leases												
- £ Sterling	1,053.1	811.2	1,109.9	838.3	-	-	2,163.0	1,649.5	6.7	6.3	20.7	22.0
- \$ US	43.2	41.7	-	84.7	-	-	43.2	126.4	-	6.4	-	0.1
- Other	0.1	150.2	34.8	36.8	-	-	34.9	187.0	4.0	6.1	4.9	9.0
	1,096.4	1,003.1	1,144.7	959.8	-	-	2,241.1	1,962.9	6.4	6.3	19.2	19.6
Creditors > 1 year												
- Other	-	-	-	-	19.5	10.0	19.5	10.0	-	-	-	-
	1,479.6	1,463.2	1,796.9	1,624.0	19.5	10.0	3,296.0	3,097.2	6.6	6.6	13.8	13.5

Other loans include amounts owed to RWE group companies.

The Group's interest rate and cross currency swaps are £276m (2003: £293m) of floating to fixed interest rate swaps and £43m (2003: £43m) of fixed to floating interest rate swaps. Cross currency swaps hedge currency risk on £456m (2003: £455m) of foreign currency borrowings.

Included in these amounts are £nil (2003: £nil) of floating to fixed interest rate swaps, £16m (2003: £16m) of fixed to floating interest rate swaps, and £46m (2003: £46m) of cross currency swaps for the Company.

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

Fixed rate borrowings of £1,796.9m (2003: £1,624.0m) equate to 55% (2003: 52%) of gross borrowings and 57% (2003: 56%) 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 2004

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 £m	Losses £m	Net £m
Unrecognised gains/(losses) on hedges at start of year	29.6	(21.9)	7.7
Recognised during the year	(0.1)	-	(0.1)
Gains arising in the year that were not recognised	(3.8)	5.4	1.6
Unrecognised gains/(losses) on hedges at end of year	25.7	(16.5)	9.2
of which:			
Gains/(losses) expected to be recognised in the next financial year	7.7	(0.4)	7.3
Gains/(losses) expected to be recognised after the next financial year	18.0	(16.1)	1.9

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	
	2004 £m	2003 £m	2004 £m	2003 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets:				
Current asset investments	82.7	83.1	82.7	83.1
Cash at bank and in hand	67.7	99.9	67.7	99.9
Debtors > 1 year	32.1	68.6	32.1	68.6
Financial liabilities:				
Bank loans and overdrafts	(1,035.4)	(1,124.3)	(1,062.0)	(1,164.6)
Other loans and finance leases	(2,241.1)	(1,962.9)	(2,345.6)	(2,158.2)
Creditors > 1 year	(19.5)	(10.0)	(19.5)	(10.0)
Derivative financial instruments held to manage the interest rate and currency profile:				
Interest rate swaps, cross currency swaps and forward foreign currency contracts	-	-	9.2	7.7
	(3,113.5)	(2,845.6)	(3,235.4)	(3,073.5)

Notes to the financial statements for the year ended 31 December 2004

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 2004 and 31 December 2003 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	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans and overdrafts				
- Within one year	300.2	281.6	127.9	18.3
- Between one and two years	52.5	65.0	-	-
- Between two and five years	428.2	476.4	-	-
- After more than five years	254.5	301.3	-	-
	1,035.4	1,124.3	127.9	18.3
Other loans				
- Within one year	936.3	556.8	893.2	775.9
- Between one and two years	13.0	0.3	-	-
- Between two and five years	83.0	130.2	-	-
- after more than five years	975.2	1,035.4	-	-
	2,007.5	1,722.7	893.2	775.9
Finance leases				
- Within one year	8.1	6.6	-	-
- Between one and two years	9.8	8.1	-	-
- Between two and five years	44.3	33.4	-	-
- after more than five years	171.4	192.1	-	-
	233.6	240.2	-	-
Total borrowings	3,276.5	3,087.2	1,021.1	794.2

The analysis of maturities excludes creditors due after more than one year. Loans are repayable between 2005 and 2032.

Notes to the financial statements for the year ended 31 December 2004

20 Financial instruments (continued)

Loans wholly repayable after more than five years are:

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Bank loans	254.5	295.1	-	-
Other loans	975.2	1,035.4	-	-
	1,229.7	1,330.5	-	-

Other loans include:

€218m floating rate loans EURIBOR from RWE AG due 2005
 £712m floating rate loans LIBOR from RWE AG due 2005
 \$29m floating rate loan LIBOR from RWE AG due 2005
 £225m 6.60% loan from RWE Finance BV due 2021
 £175m 3.375% RPI index-linked bond due 2021
 £330m 6.75% MTN Eurobond due 2028
 £200m 6.50% MTN Eurobond due 2032

Loans repayable by instalments after more than five years are:

	2004 £m	2003 £m
Group		
Bank loans	-	6.2
Other loans and finance leases	171.4	192.1
	171.4	198.3

The range of interest rates on outstanding bank loans are 4.0% to 11.1% (2003: 5.4% 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 2004, the Group had a committed borrowing facilities with RWE AG of £150m. This facility replaced a number of committed facilities with a range of financial institutions which expired during the year.

	Group		Company	
	2004 £m	2003 £m	2004 £m	2003 £m
Expiring:				
Within one year	150.0	150.0	-	-

The Group also has a US\$4billion (2003: 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 2004, £807.8m of issuance (2003: £814.0m) had been borrowed with a weighted average term of 22.0 years (2003: 22.7 years) at a weighted average rate of 6.10% (2003: 6.05%). 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 2004

21 Provisions for liabilities and charges

Group

	Deferred Tax £m	Insurance Liabilities £m	Other £m	Total £m
At 1 January 2004	827.7	47.8	68.7	944.2
Provided during the year	64.9	22.8	21.9	109.6
Utilised during the year	-	(18.4)	(43.2)	(61.6)
Released during the year	-	-	(8.7)	(8.7)
Foreign exchange adjustments	-	-	(3.5)	(3.5)
At 31 December 2004	892.6	52.2	35.2	980.0

Deferred taxation

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

	2004 £m	2003 £m
Accelerated capital allowances	887.0	805.7
Other timing differences	5.6	22.0
	892.6	827.7

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

	2004 £m	2003 £m
Other	95.0	1.5

During the year the Company reviewed the carrying value of all its investments. As a result of this review a £95.0m provision was made in respect of certain International interests. For further information see note 14.

Notes to the financial statements for the year ended 31 December 2004

22 Share capital

	2004 £m	2003 £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

	Share capital £m	Share pre- mium £m	Capital redemp- -tion reserve £m	Profit and loss reserve £m	2004 Total £m	2003 Total £m
Group						
At 1 January 2004	81.8	104.5	320.8	1,132.7	1,639.8	1,627.0
(Loss) / retained profit for the year	-	-	-	(106.4)	(106.4)	13.9
Foreign exchange adjustments	-	-	-	3.0	3.0	(4.1)
Goodwill written back on disposal of businesses	-	-	-	-	-	3.0
At 31 December 2004	81.8	104.5	320.8	1,029.3	1,536.4	1,639.8
Company						
At 1 January 2004	81.8	104.5	320.8	849.7	1,356.8	1,338.9
(Loss) / profit for the year	-	-	-	(397.2)	(397.2)	17.9
At 31 December 2004	81.8	104.5	320.8	452.5	959.6	1,356.8

The cumulative goodwill of £10.5m (2003: £10.5m) relating to acquisitions made prior to 31 March 1997 is included in Group reserves.

Notes to the financial statements for the year ended 31 December 2004

24 Operating leases

At 31 December 2004, the Group was committed to making the following annual payments in respect of non-cancellable operating leases:

Group	2004 £m	2003 £m
Land and buildings		
Leases which expire:		
- Within one year	0.1	0.4
- Between one and two years	0.3	0.1
- Between two and five years	0.2	0.4
- After more than five years	5.1	5.7
	5.7	6.6
Other		
Leases which expire:		
- Within one year	0.4	0.6
- Between one and two years	0.4	0.4
- Between two and five years	0.1	0.1
	0.9	1.1

At 31 December 2004 and 2003 the Company has no commitments to make payments in respect of non-cancellable operating leases.

25 Capital commitments

Group	2004 £m	2003 £m
Contracted for but not provided in the financial statements	196.9	269.8

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 2004

26 Post retirement schemes

	2004 £m	2003 £m
Pension costs	21.2	15.9

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 £21.2m (2003: £15.9m) of which £0.2m (2003: £0.4m) 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 2004, and the components of the pension cost, are set out in the table below:

	UK schemes
Method	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	£19.5m
Variation cost	£1.2m
Interest cost	£(0.2)m

Notes to the financial statements for the year ended 31 December 2004

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 2004 are based on actuarial reviews of the individual schemes as at 31 December 2001. During the year the Group made company contributions of £13.4m (2003: £8.6m) 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 £20.5m (2003: £15.0m). 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 £19.5m (2003: £18.4m) and the reduced actuarial surplus resulted in a variation amounting to an increase in the pension cost of £1.0m (2003: reduction in the pension cost of £2.6m).

As at 31 December 2004, a prepayment of £0.5m (2003: £7.6m) was included in debtors (note 16) in relation to the funded schemes and accruals of £4.2m (2003: £3.7m) 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 2004, 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:

	2004	2003	2002
Price inflation	2.9%	2.8%	2.4%
Salary increases	3.9%	3.8%	3.4%
Pension increases	3.0%	2.7 – 2.9%	2.4%
Discount rate for scheme liabilities	5.25%	5.4%	5.55%

Notes to the financial statements for the year ended 31 December 2004

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:

	2004		2003		2002	
	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	8.0%	445	8.3%	789	8.0%	582
Bonds	4.5 – 5.0%	477	5.3%	66	5.0%	135
Property	8.0%	87	8.3%	52	8.0%	47
Other assets	4.0%	-	4.3%	10	4.0%	20
Total market value of assets		1,009		917		784
Present value of schemes liabilities		(1,114)		(952)		(847)
(Deficit) in the schemes		(105)		(35)		(63)
Related deferred tax asset		31		10		19
Net pension (deficit)		(74)		(25)		(44)

The Group's net assets and profit and loss reserve at 31 December 2004 would be as follows in accordance with the requirements of FRS 17:

	2004 £m	2003 £m
Net assets excluding SSAP 24 prepayment and FRS 17 deficit	1,697	1,801
Net pension deficit under FRS 17	(74)	(25)
Net assets including FRS 17 deficit	1,623	1,776
Profit and loss reserve excluding SSAP 24 prepayment and FRS 17 deficit	1,029	1,125
Net pension deficit under FRS 17	(74)	(25)
Profit and loss reserve including FRS 17 deficit	955	1,100

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 2004, if FRS 17 had been adopted, are as follows:

	2004 £m	2003 £m
Operating profit:		
Current service cost	(21.4)	(18.9)
Total operating charge included in operating profit	(21.4)	(18.9)

Notes to the financial statements for the year ended 31 December 2004

26 Post retirement schemes (continued)

	2004 £m	2003 £m
Other finance income:		
Expected return on pension scheme assets	70.1	56.7
Interest on pension scheme liabilities	(51.6)	(47.0)
Net finance income included within net interest payable	18.5	9.7

Statement of total recognised gains and losses (STRGL):		
Actual return less expected return on pension scheme assets	37.0	96.9
Experience gains and losses arising on the scheme liabilities	(39.1)	4.6
Changes in assumptions underlying the present value of scheme liabilities	(78.1)	(73.0)
Actuarial (loss)/gain recognised in STRGL	(80.2)	28.5

The movement in the deficit during the year to 31 December 2004 was as follows:

	2004 £m	2003 £m
(Deficit) in scheme at start of year	(35.2)	(63.1)
Operating charge	(21.4)	(18.9)
Employer contributions	13.4	8.6
Other finance income	18.5	9.7
Actuarial (loss)/gain	(80.2)	28.5
(Deficit) in scheme at end of year	(104.9)	(35.2)

The details of experience gains and losses for the year to 31 December 2004 are as follows:

	2004 £m	2003 £m
Difference between the expected gains and losses on scheme assets:		
Amount (£m)	37.0	96.9
Percentage of scheme assets	+3.7%	+10.6%
Experience gains and losses on scheme liabilities:		
Amount (£m)	(39.1)	4.6
Percentage of the present value of the scheme liabilities	-3.5%	+0.5%
Total amount recognised in statement of total recognised gains and losses:		
Amount (£m)	(80.2)	28.5
Percentage of the present value of the schemes liabilities	-7.2%	+3.0%

Notes to the financial statements for the year ended 31 December 2004

27 Net cash inflow from operating activities

	2004 £m	2003 £m
Group operating profit (after exceptional operating items)	394.1	472.3
Depreciation and amortisation	335.4	334.7
Impairment of goodwill – exceptional	140.0	-
Other costs – exceptional	23.0	-
Decrease/(increase) in stocks	16.8	(5.9)
(Increase)/decrease in debtors	(19.9)	34.6
(Decrease)/increase in creditors	(70.2)	86.6
(Decrease)/increase in provisions	(29.1)	52.4
Foreign exchange	0.7	2.0
	790.8	976.7

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

28 Return on investments and servicing of finance

	2004 £m	2003 £m
Interest received	14.0	18.3
Interest paid	(148.8)	(180.6)
Interest element of finance lease rental payments	(11.1)	(11.4)
Minority interest dividends	(25.0)	(27.3)
	(170.9)	(201.0)

29 Capital expenditure and financial investment

	2004 £m	2003 £m
Purchase of tangible fixed assets	(586.0)	(597.8)
Purchase of intangible fixed assets	(0.4)	(2.8)
Infrastructure renewals expenditure	(68.7)	(68.1)
Capital contributions received	64.9	59.2
Proceeds on sale of tangible and intangible fixed assets	9.8	17.6
	(580.4)	(591.9)

Notes to the financial statements for the year ended 31 December 2004

30 Analysis of net debt

	At 31 December 2003 £m	Cash flow £m	Exchange movements £m	Other non- cash movements £m	At 31 December 2004 £m
Cash in hand	99.9	(32.2)	-	-	67.7
Bank overdraft	(45.8)	(84.7)	-	-	(130.5)
Net cash	54.1	(116.9)	-	-	(62.8)
Loans due within one year	(792.6)	(330.4)	17.0	-	(1,106.0)
Loans due after more than one year	(2,008.6)	165.5	41.6	(4.9)	(1,806.4)
Finance leases	(240.2)	6.6	-	-	(233.6)
	(3,041.4)	(158.3)	58.6	(4.9)	(3,146.0)
Liquid resources	83.1	(0.4)	-	-	82.7
Total	(2,904.2)	(275.6)	58.6	(4.9)	(3,126.1)

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.

Other non-cash movements comprise the carrying value uplift by RPI, of an RPI index-linked bond. This adjustment is in accordance with FRS 4 'Capital instruments', which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

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	2004		2003	
			Sale value £m	Amount due £m	Sale value £m	Amount due £m
Metronet Rail SSL Limited	Joint Venture	Technical service fee	0.7	-	0.6	-
Metronet Rail BCV Limited	Joint Venture	Technical service fee	0.3	-	0.6	-
St James Group Limited	Joint Venture	Property	27.1	15.3	39.6	11.0
Stirling Water Seafield Limited	Joint Venture	Products and services	5.3	1.0	7.9	0.7
United Water International Pty Limited	Joint Venture	Water and wastewater	0.5	0.1	0.3	-

The Group made sales to the Izmit Municipality, a related party by virtue of its minority shareholding in Izmit Su As, of £73.3m (2003: £101.5m). These transactions were water and wastewater sales. The amount due at 31 December 2004 was £14.0m (2003: £16.3m).

Notes to the financial statements for the year ended 31 December 2004

32 Guarantees

At 31 December 2004 the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £946.8m (2003: £1,154.9m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £115.7m at 31 December 2004 (2003: £128.7m) and certain RWE group companies amounting to £51.7m (2003: £62.6). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No unprovided loss is expected to arise under these arrangements.

33 Ultimate parent company and controlling party

The immediate parent company is Thames Water Aqua Holdings GmbH, a 100% subsidiary of the ultimate parent company and controlling party RWE AG, a company incorporated in Germany. Copies of the ultimate parent company's consolidated financial statements may be obtained from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen, Germany.

34 Group undertakings

At 31 December 2004, 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
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Subsidiary	Insurance
Kennet Properties Limited	England & Wales	Ordinary	100%		Subsidiary	Property
Thames Water Investments Limited	England & Wales	Ordinary	100%		Subsidiary	Property
Thames Water International Services 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
Engenica Limited	England & Wales	Ordinary		100%	Subsidiary	Mechanical, electrical and control systems engineering services
St James Group Limited	England & Wales	Ordinary	50%		Joint venture	Property
Stirling Water Seafield Limited	Scotland	Ordinary		49%	Joint venture	Waste water treatment services
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

Notes to the financial statements for the year ended 31 December 2004

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
Asia Pacific:						
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
PT Thames Pam Jaya	Indonesia	Ordinary		100%	Subsidiary	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Subsidiary	Water operations and maintenance
Europe:						
Izmit Su As	Turkey	Ordinary	55%		Subsidiary	Water operations and maintenance
Americas:						
Agua Nuevo Sur Maule SA (ANSM)	Chile	Ordinary		100%	Subsidiary	Water operations and maintenance
Thames Water Chile Limitada	Chile	Ordinary		100%	Subsidiary	Management Company
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		51%	Subsidiary	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.