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THAMES WATER PLC
ANNUAL REPORT AND ACCOUNTS
31 MARCH 2001



Registered Office:
14 Cavendish Place
London
W1G 9NU

Registered No:
2366623

Thames Water plc
Annual Report and Accounts
31 March 2001

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Thames Water plc

Directors' Report

The Directors' present their report and the audited financial statements for the year ended 31 March 2001.

Principal activities

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

Review of business and future developments

Trading in 2001 reflected the substantially growing contribution to the operating profit from activities outside the United Kingdom, particularly in the Americas. We have continued to invest strongly in asset creation and renewal and in acquisitions.

Thames Water has businesses operating in four principal geographic regions:

- United Kingdom
- Europe, Middle East, Africa
- Americas
- Asia Pacific.

and worldwide provides water and wastewater services to more than 43 million people.

United Kingdom

London based Thames Water Utilities Limited, is one of the most efficient water and wastewater companies in the world. Its sustained programme of investment and commitment to customer service has ensured that it has met or exceeded all its regulatory targets and continues to provide the lowest average combined water and wastewater bills in England and Wales.

Against a background of continuing real growth and a substantial capital investment programme, operating costs were again reduced in 2001. In common with all UK water companies, Thames Water Utilities experienced a reduction in prices with effect from April 2000 and is progressively offsetting the impact of this with a programme of operating and capital efficiency improvements.

The non-regulated UK commercial activities, including property and infrastructure services, continued to progress well in 2001 in a market where further rationalisation of the water industry is expected. Following the earlier success in the provision of wastewater services in Scotland, Thames Water was awarded the contract to manage customer contact, billing and revenue collection operations in Wales for more than 1 million Dwr Cymru customers.

Europe, Middle East and Africa

In Turkey, the operations in Izmit have continued to progress well and the Group has increased its shareholding in the venture such that, as from 1 November 2000, it is now accounted for as a subsidiary. Opportunities to grow the business in Turkey are being pursued, leveraging the strong market position which has been established.

Americas

The Group's position in the North and South American markets was substantially increased by two major acquisitions in November/December 2000:

- E'Town Corporation which provides clean water services to more than 1 million people in New Jersey, USA and
- ESSBIO which provides water and wastewater services to 1.5 million people in Concepcion, Chile and builds upon ESSEL our first Joint Venture investment in Chile acquired in March 2000.

Both businesses are progressing well and efficiency improvements and earnings contributions are expected to increase as substantial capital investment programmes are reflected in tariff reviews by the local regulators.

Asia Pacific

The Group has major contracts in Thailand, Indonesia, Malaysia, China and Australia.

Thames Water was pleased to win the contract for the largest water project in Asia. This US\$240m project is to construct and operate a water treatment plant and distribution network for the western sector of the city of Bangkok in Thailand and builds on previous major contract wins in that country. Thames Water will become the leading private supplier of water services in Thailand supplying approximately 2 million customers.

Asian economies are gradually recovering from the downturn of recent years although in some cases recovery is slow and

Thames Water plc

Directors' Report

Review of business and future developments (continued)

political stability remains fragile. However, the Asia Pacific Region is expected to make a growing contribution to the Group's results.

Acquisition by RWE AG

On 9 November 2000 the recommended offer made by RWE AG, one of Europe's largest utility companies, to purchase the Company's outstanding share capital was accepted by shareholders.

Looking forward, the merger with RWE AG will provide many new and exciting opportunities for the Group and its employees, whilst at the same time providing the financial resources we needed to continue to invest in improving customer service and environmental performance in the future.

Financial performance

The results for the year are set out in the profit and loss account on page 8.

Turnover increased by 1.3% to £1,385.2m comprising growth of £129m (9%) offset by the regulatory price reduction of £112m in the UK Utility. Turnover in the International business in the year ended 31 March 2001 increased by £106.9m from £143.5m to £250.4m and constituted 16.5% of group and joint venture turnover.

Operating costs increased by £65.9m from £860.1m to £926.0m. Exceptional costs of £57.1m were incurred, arising from the acquisition of Thames Water by RWE AG.

Operating profit in the year to 31 March 2001 was £49.6m lower than the prior year.

Operating margin in the year reduced from 37.6% to 33.6%. The UK utility price reduction accounted for a 9% reduction which was offset by an increase of 5.0% for efficiency improvements and new business changes in the year.

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 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.

Group Treasury operations are managed centrally by a small specialist team. Its objective is to ensure availability of a timely flow of funds at a cost which reflects the credit standing of the Group. It is managed as a cost, not profit centre; no material open or speculative positions are taken. These and other statements of treasury policy and procedures are formally established and monitored by the Board. 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 £3,446.5m 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 £78.6m, most of which were held by the Group's captive insurance company.

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% (2000: 73%).

Outlook

We remain committed to developing our position as a leading international competitive force in water related services and products and to the improvement of operational efficiency through continuous innovation. In particular we are focusing on the opportunities emerging in the UK water market through unbundling and also those that will arise in the Americas.

Post balance sheet event

On 17 September it was announced that RWE AG have entered into a definitive agreement with American Water Works Company, Inc under which RWE AG will purchase all the outstanding shares of America Water. The transaction is subject to shareholder and regulatory approval.

Thames Water plc

Directors' Report

Dividends

Dividends paid on non-equity shares during the year totalled £0.8m. An interim dividend of 20.0p per share (2000: 15.3p) was paid on 2 April 2001. The Directors recommend a final dividend of £52m which will be paid to the RWE AG.

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 Boettcher (Appointed 1 September 2001)
C J Bunker (Appointed 1 April 2000)
Dr U Gudden (Appointed 1 December 2000, Resigned 13 July 2001)
Dr R R Klein (Appointed 17 November 2000)
Dr D Kuhnt (Appointed 17 November 2000)
J Pelczer (Appointed 1 July 2001)
Dr K Sturany (Appointed 17 November 2000)
D Badcock (Resigned 17 November 2000)
R Carr (Resigned 17 November 2000)
T Hobson (Resigned 17 November 2000)
L Knox (Resigned 17 November 2000)
A Longhurst (Resigned 17 November 2000)
D J Luffrum (Resigned 30 April 2000)

Note 4 to the financial statements details the interests of the Directors in the shares of Thames Water plc during the year covered by this report. None of the Directors has any interest in the shares of Thames Water plc's subsidiary companies.

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

Research & development activities

Thames Water is continually improving services to its customers and is committed to finding new and better ways of delivering value for money to them through its research and development programme.

Among the projects linked to key operational and customer service requirements has been the successful operation of advanced water recycling and membrane desalination technology, reducing fresh water use for large buildings by 50%.

More efficient solutions to reduce phosphate and ammonia levels in wastewater effluent have been developed to further improve the quality of rivers in the UK.

Fundamental research with four Universities has enhanced understanding of the impact climate and ground conditions have on the condition and performance of the vast buried pipe network under London. The results are being used in a leakage reduction programme and to improve planning of future investments.

Donations for charitable and political purposes

The Charities Committee of the Board continues to take a leadership role in the community investment programme. This year the Committee made donations of £0.2m 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 recognise the contribution our employees make to the success of the Group. We seek to provide employees with the opportunity to fulfil their potential and contribute fully to our success. Our training and development strategy reflects this, with a range of programmes to suit all needs. We operate a successful graduate recruitment programme, attracting and developing specialists and the leaders of the future. We are supporting a number of people in continuing professional development, including MBAs and MAs in business-related disciplines. For Directors and Managers, we continue to offer development through Templeton College, Oxford and through our links with UK and international business schools.

Thames Water plc

Directors' Report

Employees (continued)

Employee involvement takes many forms in the Group, ranging from team briefings to formal consultation. A new "Partnership" agreement with recognised trade unions and employees balances the need for further changes to working practices and terms and conditions, with a commitment from the Group to address topical issues such as work life balance, training and development in key skills, and employability.

We are committed to the sharing of information with employees on key business issues. We have improved on this through a variety of channels, including the employee magazine "Thames Water News" and "FACT", together with the holding of team building conferences and events.

The Group recognises the importance of non-discriminatory employment and has strengthened its equal opportunities and disability policies to ensure commitment to best practice. The Group endeavours to continue to employ any person who has become disabled during the course of their employment.

Policy on Payment of Suppliers

Thames Water's policy in respect of all of its suppliers and contractors is to make payments in accordance with mutually agreed payment terms which are established as part of the purchase contract. Working practices incorporate the recommendations set out in BS7890: 1996 *Achieving good payment performance in commercial transactions*. The amount due to trade creditors at 31 March 2001 represents 43 days (UK Utility: 53 days) purchases received from those creditors.

Directors' Responsibilities

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit of the Group for that year. 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 which disclose, with reasonable accuracy at any time, the financial position of 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 Group and, hence, for taking reasonable steps for the prevention and detection of fraud and other regularities.

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

Resolutions to reappoint PricewaterhouseCoopers as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Approved by the Board on 27 September 2001



Christopher Bunker
Group Finance Director

Thames Water plc

Auditors' Report to the Shareholder of Thames Water plc

We have audited the financial statements which comprise the profit and loss account, the balance sheet, the cash flow statement, the statement of total recognised gains and losses 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.

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 United Kingdom 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.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the Directors' report.

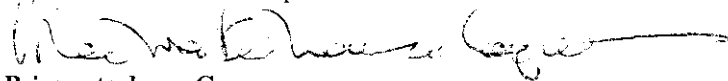
Basis of audit opinion

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 March 2001 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

Chartered Accountants and Registered Auditors

London

27 September 2001

Thames Water plc
Consolidated Profit & Loss Account
Year Ended 31 March

	Notes	2001 £m	2001 £m	2000 £m	2000 £m
Turnover, including share of joint ventures					
- Continuing operations			1,409.8		1,483.7
- Acquisitions			105.9		-
			<u>1,515.7</u>		<u>1,483.7</u>
Less: Share of joint ventures turnover – continuing operations			(130.5)		(115.9)
Group turnover	2		<u>1,385.2</u>		<u>1,367.8</u>
Operating Costs	3		(926.0)		(860.1)
Other operating income	6		12.2		7.9
Group operating profit					
- Continuing operations		414.9		515.6	
- Acquisitions		56.5		-	
Group operating profit			<u>471.4</u>		<u>515.6</u>
Share of operating profit/(loss) in:					
- Joint ventures			50.4		43.4
- Associates			(0.9)		0.4
Total operating profit: group and share of joint venture and associates			<u>520.9</u>		<u>559.4</u>
Exceptional costs of acquisition by RWE AG	3		(57.1)		-
Net interest expense:					
- Group	7	(180.2)		(121.5)	
- Share of joint ventures		(11.9)		(16.3)	
- Share of associates		(2.2)		(2.0)	
			<u>(194.3)</u>		<u>(139.8)</u>
Profit on ordinary activities before taxation	2		<u>269.5</u>		<u>419.6</u>
Tax on profit on ordinary activities	8		(158.5)		(76.4)
			<u>111.0</u>		<u>343.2</u>
Equity minority interest			(8.4)		-
Non-equity dividend	11		(0.8)		(1.0)
Profit for the financial year	23		<u>101.8</u>		<u>342.2</u>
Ordinary dividends	11/23		(122.8)		(168.4)
Deficit/ retained profit transferred to reserves			<u>(21.0)</u>		<u>173.8</u>

There is no difference between the profit on ordinary activities before taxation and the deficit/retained profit transferred to reserves for the year stated above and their historical cost equivalents.

Statement of Total Recognised Gains and Losses
Year Ended 31 March

	2001 £m	2000 £m
Profit for the financial year	101.8	342.2
Adjustments for qualifying employee share trust	(0.5)	(5.3)
Foreign exchange adjustments	(9.7)	(2.4)
Utilisation of ACT on 1997 share purchase previously written off to reserves	45.0	-
Total recognised gains for the financial year	<u>136.6</u>	<u>334.5</u>

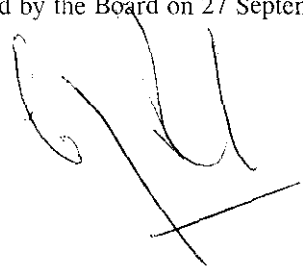
Thames Water plc
Consolidated and Company Balance Sheets
At 31 March

	Note	2001		2000		Group	Company
		£m	£m	£m	£m	2001 £m	2000 £m
Fixed assets							
Intangible assets	12		486.8		27.1	-	-
Tangible assets	13		5,498.3		4,297.2	0.1	0.2
Investments in joint ventures and associates:							
- Share of gross assets		338.3		481.8			
- Share of gross liabilities		(247.3)		(370.4)			
- Share of minority interests		(19.0)		-			
- Net assets		72.5		111.4			
- Goodwill		22.5		15.0			
Investments in associates		(3.5)		3.4			
Fixed asset investments	14		91.5		129.8	2,802.3	1,805.6
			6,076.6		4,454.1	2,802.4	1,805.8
Current assets							
Stocks and work in progress	15		45.9		39.5	-	-
Debtors	16		524.3		362.9	44.3	22.7
Investments	17		78.6		72.1	-	-
Cash at bank and in hand			155.2		83.6	5.2	29.4
			804.0		558.1	9.5	52.1
Creditors: amounts falling due within one year	18		(1,956.8)		(940.3)	(1,134.0)	(322.6)
Net current liabilities			(1,152.8)		(382.2)	(1,074.5)	(270.5)
Total assets less current liabilities			4,923.8		4,071.9	1,727.9	1,535.3
Creditors: amounts falling due after more than one year							
	19		(2,426.7)		(1,729.8)	(279.0)	(168.8)
Provisions for liabilities and charges	21		(58.7)		(59.9)	-	-
Net assets			2,438.4		2,282.2	1,448.9	1,366.5
Capital and reserves							
Called up share capital	22/23		81.8		102.9	81.9	102.9
Share premium	23		104.5		69.9	104.5	69.9
Capital redemption reserve	23		320.8		319.9	320.8	319.9
Profit and loss account	23		1,802.4		1,789.5	941.8	873.8
Shareholders' funds			2,309.5		2,282.2	1,448.9	1,366.5
Minority interest			128.9		-	-	-
Capital Employed			2,438.4		2,282.2	1,448.9	1,366.5
Shareholders' funds:							
- equity shareholders funds			2,438.4		2,260.1	1,448.9	1,344.4
- non-equity shareholders funds			-		22.1	-	22.1
			2,438.4		2,282.2	1,448.9	1,366.5

The notes on pages 13 to 43 form part of these accounts.

The accounts were approved by the Board on 27 September 2001

Christopher Bunker
Group Finance Director



Thames Water plc
Consolidated Cash Flow Statement
Year Ended 31 March

	2001 £m	2001 £m	2000 £m	2000 £m
Cash inflow from operating activities (note a)		720.1		673.3
Returns on investment and servicing of finance				
Non-equity dividends paid	(0.8)		-	
Interest received	33.9		14.8	
Interest paid	(215.4)		(113.0)	
Interest element of finance lease rental payments	(12.8)		(16.8)	
Net cash outflow for returns on investment and servicing of finance		(195.1)		(115.0)
Taxation				
UK corporation tax paid	(143.6)		(46.7)	
Overseas tax paid	(2.0)		(3.4)	
Net cash outflow for taxation		(145.6)		(50.1)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(391.9)		(469.8)	
Infrastructure renewals expenditure	(42.8)		(47.4)	
Capital contributions received	49.1		39.6	
Proceeds on sale of tangible fixed assets	-		3.9	
Net cash outflow for capital expenditure and financial investment		(385.6)		(473.7)
Acquisitions and disposals				
Purchase of fixed asset investments	(9.4)		(64.0)	
Acquisition of new businesses (note b)	(614.7)		-	
Sale of business (note c)	-		13.3	
Exceptional costs of acquisition by RWE AG	(57.1)		-	
Net cash outflow for acquisitions and disposals		(681.2)		(50.7)
Equity dividends paid to shareholders				(204.3)
Cash outflow before management of liquid resources and financing		(687.8)		(220.5)
Management of liquid resources		(6.5)		13.4
Financing				
Issue of shares	14.5		14.6	
Purchase of own shares	(0.9)		(2.4)	
Payments under qualifying employee share trust	(0.5)		(7.6)	
Cash inflow from increase in debt and lease financing	779.3		225.7	
		792.4		230.3
Increase in cash during period		98.5		23.2

Reconciliation of Net Cash Flow to Movement in Net Debt
Year Ended 31 March

	2001 £m	2000 £m
Increase in cash during year	98.5	23.2
Cash inflow from increase in debt and lease financing:		
- loans due within one year	(273.5)	51.4
- loans due after more than one year	(509.3)	(281.6)
- borrowings acquired with subsidiaries	(687.3)	-
- capital repayment of finance leases	3.5	4.5
Cash inflow from decrease in liquid resources	6.5	(13.4)
Change in net debt resulting from cash flows	(1,361.6)	(215.9)
Other non-cash movements:		
- new finance leases	(0.4)	(3.7)
- foreign exchange translation differences	(21.2)	1.6
	-	(218.0)
Net debt at 1 April	(1,810.2)	(1,592.2)
Net debt at 31 March	(3,193.4)	(1,810.2)

Thames Water plc
Notes to the Consolidated Cash Flow Statement
Year Ended 31 March

a) Reconciliation of Operating Profit to Operating Cash Flow

	2001 £m	2000 £m
Operating profit	520.9	559.4
Depreciation	243.4	197.4
Loss on disposal of fixed assets	3.4	-
(Increase) in stocks	(2.9)	(10.8)
(Increase) in debtors	(25.7)	(57.9)
Increase/(decrease) in creditors	(9.4)	15.1
Increase in long-term provisions	41.3	8.5
Other and foreign exchange	(50.9)	(38.4)
Net cash inflow from operating activities	720.1	673.3

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

b) Acquisitions of new Subsidiaries

	Book Value 2001 £m	Book Value 2000 £m
Intangible assets	41.7	-
Tangible fixed assets	992.9	-
Debtors/stock	139.2	-
Current liabilities	(624.2)	-
Cash at bank & in hand	74.0	-
Long term liabilities	(202.5)	-
Provisions	(27.8)	-
Minority interests	(120.6)	-
Net assets acquired	272.7	-
Goodwill	416.0	-
Consideration – satisfied wholly by cash	688.7	-
Cash acquired	(74.0)	-
Net outflow in respect of acquisitions	614.7	-

c) Sale of Businesses

	2001 £m	2000 £m
Tangible fixed assets	-	3.0
Debtors	-	10.0
Creditors	-	(5.9)
Net assets	-	7.1
Gain on disposal	-	1.2
Satisfied by cash	-	8.3
Net debt disposed	-	5.0
Cash on sale	-	13.3

Thames Water plc
Notes to the Consolidated Cash Flow Statement
Year Ended 31 March

	At 31 March 2000	Cash Flow	Other non-cash movements	Exchange movements	At 31 March 2001
d) Analysis of Net Debt	£m	£m	£m	£m	£m
Cash in hand	83.6	71.6	-	-	155.2
Bank overdraft	(46.6)	26.9	-	-	(19.7)
Net cash	37.0	98.5	-	-	135.5
Loans due within one year	(253.1)	(273.5)	(521.9)	(16.1)	(1,064.6)
Loans due after more than one year	(1,399.6)	(509.3)	(165.4)	(5.1)	(2,079.4)
Finance leases	(266.6)	3.5	(0.4)	-	(263.5)
Liquid resources	72.1	6.5	-	-	78.6
	<u>(1,810.2)</u>	<u>(674.3)</u>	<u>(687.7)</u>	<u>(21.2)</u>	<u>(3,193.4)</u>

The Group includes as liquid resources term deposits of less than one year and fixed and floating interest rate securities.

During the year, the Group entered into finance leases amounting to £0.4m (2000: £3.7m) to fund capital plant, equipment and vehicles.

Thames Water plc

Notes to the Financial Statements

1 Principal Accounting Policies

A summary of the more important Group accounting policies, which have been consistently applied, is set out below:

Change in accounting policy

The Group has considered the requirements of the new Financial Reporting Standards, FRS 17,18 and 19, issued by the Accounting Standards Board during the year ended 31 March 2001. There are no requirements within these standards which are mandatory for this year, and accordingly, the new FRS's have not been applied. These financial statements have been prepared on a basis consistent with the prior year.

a Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions and retranslation of long term foreign currency liabilities, with the Companies Act 1985. An explanation of these departures from the requirements of the Act is given in notes 1(e) and (j) below.

b 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. The principle undertaking where this occurs is Izmit Su AS which has accounts drawn up to 31 December. 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

- c **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.
- d **Tangible fixed assets** comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines); landfill sites; 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.
 - **Landfill sites** are included at cost less accumulated depreciation. The provision for depreciation is based upon the average cost per cubic metre of void space consumed from the deposit of waste. Restoration and after-care costs are estimated in full at commencement of operations and recognised in the financial statements at discounted values. A corresponding asset is created within fixed assets which represents access to future economic benefits. The asset is amortised over the expected life of the site.

Thames Water plc

Notes to the Financial Statements

1 Principal Accounting Policies (continued)

- **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	30-60 years
Fixed and mobile plant	20-40 years
Vehicles, computers, fixtures and fittings	3-10 years

- e **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 should be 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 as, while a provision is made for depreciation of infrastructure assets, these assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. 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 useful lives of the assets.

f Leased assets

Where assets are financed by leasing arrangements which transfer substantially 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. Rental costs arising under operating leases are expensed in the year in which they are incurred.

g 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 based on audited financial statements for the year. 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.

Thames Water plc

Notes to the Financial Statements

1 Principal Accounting Policies (continued)

- h 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.

i Pension costs

The majority of the Group's employees belong to pension schemes which are funded by both employers' and employees' contributions and which are of the defined benefit type. The pension cost is assessed in accordance with the advice of an independent qualified actuary to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any difference between the cost charged and the amounts paid by the Group is treated as a prepayment or accrual.

j Foreign currencies

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of transaction. Assets and liabilities in foreign currencies including long term liabilities are translated into sterling at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account. This treatment is required by Statement of Standard Accounting Practice (SSAP) Number 20 in order to give a true and fair view of the Group's results. Compliance with SSAP 20 overrides Schedule 4 Paragraph 12 of the Companies Act 1985 which states that only profits realised at the balance sheet date should be included in the profit and loss account. The effect of currency revaluation is disclosed in note 3. The results of overseas subsidiary undertakings 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.

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

l Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the appropriate foreseeable rate, and applied when the liability or asset is expected to crystallise.

m 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.

Thames Water plc

Notes to the Financial Statements

1 Principal Accounting Policies (continued)

- n 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. Where goodwill has a useful life up to 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. Where goodwill is amortised over a period in excess of 20 years the carrying value of goodwill will be reviewed annually by reference to the expected future cash flows.

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. The Group has not reinstated goodwill written off in prior periods.

o Interest

Interest payable is written off to the profit and loss account as it is incurred except that relating to monies borrowed to finance:

- specific long-term contracts which is included in the cost of long-term contract work in progress; interest receivable from the temporary investment of these monies is credited to the cost of long-term contract work in progress;
- the up front construction element of Build, Operate and Transfer schemes.

p Derivative financial instruments

Interest rate and cross currency swaps 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. Incomes, costs, gains, losses and expenses are recognised within net interest payable in the profit and loss account over the life of the instruments.

q Related party disclosures

The company is exempt under the terms of Financial Reporting Standard 8 from disclosing related party transactions with entities that are part of the RWE AG group or investees of the RWE AG group. For details of other related party transactions see note 27.

2 Segmental analysis

The segments by class of business are:

UK Utility: the UK regulated water and wastewater business

International operations: international water and wastewater operations and the marketing of technical managerial services

Products: the development and manufacture of products for the treatment of water, wastewater and industrial process fluids

Services: the provision of underground, waste management and urban environmental services

Insurance: captive insurer to the Group

Property: land and property development

Other activities: those carried out by the Company in managing the Group, including development of new business opportunities

Thames Water plc
Notes to the Financial Statements

2 Segmental analysis (continued)

Turnover

By class of business

	2001			2000		
	Total	Inter-segment	External	Total	Inter-segment	External
	£m	£m	£m	£m	£m	£m
UK Utility	1,026.6	(26.2)	1,000.4	1,125.9	(13.6)	1,112.3
International operations	259.5	(9.1)	250.4	150.6	(7.1)	143.5
Products	104.8	(7.7)	97.1	96.6	(8.6)	88.0
Services	197.7	(105.2)	92.5	210.6	(116.9)	93.7
Insurance	15.1	(15.1)	-	13.0	(13.0)	-
Property	81.9	(6.6)	75.3	52.4	(6.2)	46.2
Group and Joint Ventures	<u>1,685.6</u>	<u>(169.9)</u>	<u>1,515.7</u>	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>
Joint ventures (included above)			(130.5)			(115.9)
Group			<u>1,385.2</u>			<u>1,367.8</u>

Geographical segment by origin

	2001			2000		
	Total	Inter-segment	External	Total	Inter-segment	External
	£m	£m	£m	£m	£m	£m
UK	1,396.7	(162.5)	1,234.2	1,481.8	(159.5)	1,322.3
Europe	120.2	(4.8)	115.4	62.9	(4.3)	58.6
Americas	114.2	(1.8)	112.4	44.8	(1.6)	43.2
Asia Pacific	54.5	(0.8)	53.7	59.6	-	59.6
Group and Joint Ventures	<u>1,685.6</u>	<u>(169.9)</u>	<u>1,515.7</u>	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>
Joint ventures (included above)			(130.5)			(115.9)
Group			<u>1,385.2</u>			<u>1,367.8</u>

Geographical segment by destination

	2001			2000		
	Total	Inter-segment	External	Total	Inter-segment	External
	£m	£m	£m	£m	£m	£m
UK	1,387.1	(163.7)	1,223.4	1,483.0	(160.6)	1,322.4
Europe	125.7	(0.5)	125.2	58.6	-	58.6
Americas	109.4	(3.4)	106.0	44.2	(1.0)	43.2
Africa	2.0	(1.0)	1.0	-	-	-
Asia Pacific	61.4	(1.3)	60.1	63.3	(3.8)	59.5
Group and Joint Ventures	<u>1,685.6</u>	<u>(169.9)</u>	<u>1,515.7</u>	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>
Joint ventures (included above)			(130.5)			(115.9)
Group			<u>1,385.2</u>			<u>1,367.8</u>

Thames Water plc
Notes to the Financial Statements

2 Segmental analysis (continued)

Profit

By class of business	2001 £m	2000 £m
UK Utility	409.1	487.7
International operations	85.4	43.7
Products	4.8	5.6
Services	10.4	8.2
Insurance	6.9	6.5
Property	32.0	20.9
Other activities	(12.4)	(11.6)
Inter-segment trading	(15.3)	(1.6)
Operating profit	520.9	559.4
Exceptional costs of acquisition by RWE AG	(57.1)	-
Interest	(194.3)	(139.8)
Profit on ordinary activities before taxation	2,438.4	2,282.2

By geographical segment	2001 £m	2000 £m
UK	391.9	518.2
Europe	58.8	35.5
Americas	14.0	2.3
Asia Pacific	(0.9)	3.4
	520.9	559.4
Exceptional costs of acquisition by RWE AG	(57.1)	-
Interest	(194.3)	(139.8)
Profit on ordinary activities before taxation	2,438.4	2,282.2

Net Assets

By class of business	2001 £m	2000 £m
UK Utility	4,198.4	3,995.4
International operations	1,650.0	139.8
Products	63.7	33.9
Services	40.5	(13.1)
Insurance	(35.5)	(38.2)
Property	94.3	67.7
Other activities	(379.6)	(93.1)
	5,631.8	4,092.4
Net debt	(3,193.4)	(1,810.2)
Net assets	2,438.4	2,282.2

Thames Water plc
Notes to the Financial Statements

2 Segmental analysis (continued)

By geographical segment	2001 £m	2000 £m
UK	4,040.9	3,919.3
Europe	467.2	55.2
Americas	1,059.6	71.5
Asia Pacific	64.1	46.4
	<u>5,631.8</u>	<u>4,092.4</u>
Net debt	(3,193.4)	(1,810.2)
Net assets		
	<u>2,438.4</u>	<u>2,282.2</u>

Acquisitions

The above analysis of turnover, operating profit and net assets in 2001 by class of business and geographical segment includes contributions from the acquisitions made during the year as follows. Further information on the acquisitions is provided in note 14.

	Turnover £m	Operating Profit £m	Nets Assets (excluding net debt) £m
Elizabeth Water Corporation:			
By class of business			
International operations	<u>36.9</u>	<u>8.4</u>	<u>718.0</u>
By geographical segment – origin and destination			
Americas	<u>36.9</u>	<u>8.4</u>	<u>718.0</u>
Other acquisitions:			
By class of business			
International operations	<u>69.0</u>	<u>9.7</u>	<u>767.6</u>
By geographical segment – origin and destination			
Europe	55.2	5.4	464.9
Americas	<u>13.8</u>	<u>4.3</u>	<u>302.7</u>

Thames Water plc
Notes to the Financial Statements

3 Operating costs

Analysis of operating costs by type of expense	2001 £m	2001 £m	2000 £m	2000 £m
Manpower		261.8		260.5
Materials and consumables		173.2		138.1
Other operating charges		258.3		280.3
Depreciation:				
- owned assets	181.6		140.1	
- infrastructure assets	39.8		43.0	
- assets held under finance leases	12.7		14.3	
		234.1		197.4
Rentals under operating leases:				
- hire of plant and machinery	12.6		5.9	
- other	10.0		8.4	
		22.6		14.3
Research and development		9.6		9.0
Auditors' remuneration in respect of:				
- audit work and other statutory and regulatory requirements	0.8		0.8	
- non-audit work : UK	0.3		0.3	
		1.1		1.1
Foreign currency gains		(3.0)		(1.2)
		957.7		899.5
Own work capitalised		(31.7)		(39.4)
		926.0		860.1
Exceptional costs of acquisition by RWE AG		57.1		-

Included in auditors' remuneration is £90,000 (2000 £93,000) in respect of audit fees incurred by the Company for the year to March 2001. £Nil (2000: £0.8m) was paid in respect of information systems consultancy which has been capitalised.

In concluding the transaction with RWE AG, Thames Water incurred exceptional costs of £57.1m

Thames Water plc
Notes to the Financial Statements

4 Information regarding Directors

Directors' Emoluments

	2001 £000	2000 £000
Salaries and benefits	947	925
Bonus	324	154
Compensation for loss of office	451	-
	<u>1,722</u>	<u>1,079</u>

Retirement benefits are accruing to 2 (2000: 3) Directors under a defined benefit scheme.

Highest Paid Director

	2001 £000	2000 £000
Aggregate emoluments and benefits	572	396
Accrued pension at end of year	18	17
	<u>590</u>	<u>413</u>

Directors' interests

Incentive Plans

a) Long-Term Restricted Share Plan

Director	Date of award	Number of shares – maximum	Number of shares vested in year		Balance at 31.03.01
W J Alexander	02.08.96	6,941	(6,941)	[1]	-
W J Alexander	09.07.97	6,525	(6,525)	[2]	-
W J Alexander	11.08.98	7,003	(7,003)	[2]	-
W J Alexander	04.08.99	10,108	(10,108)	[2]	-
W J Alexander	20.06.00	12,847	(12,847)	[2]	-
D Badcock	09.07.97	1,932	(1,932)	[2]	-
D Badcock	11.08.98	3,220	(3,220)	[2]	-
D Badcock	04.08.99	4,891	(4,891)	[2]	-
D Badcock	20.06.00	5,729	(5,729)	[2]	-
C J Bunker	20.06.00	7,986	(7,986)	[2]	-

[1] Exercised on 24 May 2000 at 803p per share.

[2] Following the acquisition of Thames Water plc by RWE AG, under the terms of the long term plan, the share bonuses were deemed to have vested at 9 November 2000. The cash consideration received was 1,215 pence per share.

Thames Water plc

Notes to the Financial Statements

4 Information regarding Directors (continued)

b) Cash/Share Bonus Plan

Director	Date of award	Number of shares – maximum	Number of shares vested in year		Balance at 31.03.01
W J Alexander	09.07.97	2,237	(2,237)	[1]	-
W J Alexander	11.08.98	1,478	(1,478)	[2]	-
W J Alexander	04.08.99	1,065	(1,065)	[2]	-
W J Alexander	20.06.00	2,799	(2,799)	[2]	-
D Badcock	11.08.98	634	(634)	[2]	-
D Badcock	04.08.99	478	(478)	[2]	-
D Badcock	20.06.00	1,342	(1,342)	[2]	-

[1] Vested on 10 July 2000 at 860p per share.

[2] Following the acquisition of Thames Water plc by RWE AG, under the terms of the share bonus plan, the share bonuses were deemed to have vested at 9 November 2000. The cash consideration received was 1,215 pence per share

c) Executive share options

Director	Balance at 1.04.00	Exercise/cancellation of share scheme	Balance at 31.03.01		Exercise price
W J Alexander	18,000	(18,000)	-	[1]	347p
W J Alexander	31,000	(31,000)	-	[1]	418p
W J Alexander	22,000	(22,000)	-	[2]	453p
D Badcock	10,000	(10,000)	-	[2]	453p
D Badcock	14,000	(14,000)	-	[2]	560p

[1] Exercised on 23 May 2000. The market price on this date was 795.5p.

[2] Following the acquisition of Thames Water plc by RWE AG, the Thames Water Executive Share Option Scheme was cancelled. The share price on the cancellation of the scheme was deemed to be 1,215 pence per share.

d) Sharesave scheme

Director	Balance at 1.04.00	Options granted	Cancellation of share scheme	Balance at 31.03.01	Exercise price
W J Alexander	2,071	2,767	(4,838)	-	664p-887p
D Badcock	1,092	-	(1,092)	-	664p-887p
C J Bunker	-	1,458	(1,458)	-	664p

W J Alexander and C J Bunker received £2,904 and D Badcock received £3,201 payments in respect of the sharesave scheme cancellation.

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 are there any related party transactions with the Directors or connected persons.

Thames Water plc
Notes to the Financial Statements

5 Employees

	2001 £m	2000 £m
Group employment costs including Executive Directors' remuneration were:		
- Salaries and wages	242.8	239.5
- Social security costs	21.2	20.2
- Pension costs (note 26)	3.3	3.1
	<u>267.3</u>	<u>262.8</u>

Total employment costs contain £3.1m (2000: £3.0m) and £2.4m (2000: £2.3m) which are included in infrastructure assets depreciation and research and development costs respectively in note 3.

	2001 number	2000 number
Average monthly number of persons employed by the Group including Executive Directors		
UK Utility	5,166	5,268
International operations	4,076	2,043
Products	808	871
Services	3,090	3,773
Property	82	83
Other activities	-	36
	<u>13,222</u>	<u>12,074</u>

6 Other operating income

	2001 £m	2000 £m
Realised/unrealised gains and losses on fixed interest short-term investments	-	1.3
Other investment income	2.3	3.4
Miscellaneous	9.9	3.2
	<u>12.2</u>	<u>7.9</u>

7 Interest

	2001 £m	2000 £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	113.7	66.1
- Repayable within five years by instalments	26.8	0.7
- Not wholly repayable within five years	70.8	51.3
Finance charges in respect of finance leases	12.8	16.8
Other finance charges	4.1	1.4
Interest payable and similar charges	228.2	136.3
Interest receivable	(33.9)	(14.8)
	<u>194.3</u>	<u>121.5</u>

Thames Water plc
Notes to the Financial Statements

7 Interest (continued)

Bank loans, overdrafts and other loans repayable within five years otherwise than by instalments includes £10.5m (2000: £Nil) in respect of interest on the late payment of Corporation Tax. This arose from a decision to disclaim capital allowances in prior years in order to utilise ACT credits available within the group.

8 Taxation on profit on ordinary activities

	2001 £m	2001 £m	2000 £m	2000 £m
UK Corporation tax at 30% (2000: 30%)				
- current year	2.6		76.4	
- prior year	<u>245.2</u>		<u>(29.7)</u>	
		247.8		46.7
Overseas taxation		10.2		1.9
Advance corporation tax (relieved)/charged				
- current year	-		(0.4)	
- prior year	<u>(113.3)</u>		<u>20.1</u>	
		(113.3)		19.7
Share of associates/joint venture tax		13.8		8.1
		<u>158.5</u>		<u>76.4</u>

9 Deferred taxation

The Group's medium and long-term plans for capital investment indicate that for the foreseeable future, the amount of tax allowances in respect of eligible plant and machinery will exceed the depreciation on existing and new assets. Accordingly, no provision for deferred taxation is required in the Group accounts. If a provision for deferred tax had been made on the full liability method, there would have been a corporate tax charge of £187.5m (2000: £136.5m).

An analysis of amounts unprovided is as follows:

	2001 £m	2000 £m
Accelerated capital allowances:		
- Infrastructure assets	333.6	344.5
- Other assets	302.4	420.0
Other timing differences	(11.9)	(10.6)
Advance corporation tax	-	(158.8)
	<u>624.1</u>	<u>595.1</u>

10 Profit for the financial year

Consolidated profit attributable to shareholders of £147.2m (2000: £105.4m) has been dealt with in the accounts of the Company. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

Thames Water plc
Notes to the Financial Statements

11 Dividends

	2001 £m	Group 2000 £m
Equity - ordinary 23p		
Interim	70.8	53.5
Final proposed	<u>52.0</u>	109.6
	122.8	163.1
Compensation for deferred payment	-	5.3
	<u>122.8</u>	168.4
Non equity - "B" shares 79p	<u>0.8</u>	1.0

Payment of the 2000 final dividend on ordinary shares was deferred until 2 April 2001 and on the same date shareholders were paid compensation for the delayed payment.

12 Intangible assets

	Goodwill £m	Other Intangible assets £m	Group Total £m
Cost			
At 1 April 2000	17.0	14.0	31.0
Additions	-	2.3	2.3
Acquisition of subsidiary undertakings (note 14)	416.0	41.7	457.7
Exchange adjustments	10.7	(2.9)	7.8
At 31 March 2001	<u>443.7</u>	<u>55.1</u>	<u>498.8</u>
Aggregate amortisation			
At 1 April 2000	1.2	2.7	3.9
Charge for the year	6.2	1.9	8.1
At 31 March 2001	<u>7.4</u>	<u>4.6</u>	<u>12.0</u>
Net book value			
At 31 March 2001	<u>436.3</u>	<u>50.5</u>	<u>486.8</u>
At 31 March 2000	<u>15.8</u>	<u>11.3</u>	<u>27.1</u>

The Company has no intangible assets (2000 : £Nil). Other intangibles relate to start-up charges and fees on concession contracts which are being amortised over their remaining useful lives of between 14 and 40 years.

Goodwill arising on the acquisitions of E'Town, Essbio and Essel is being amortised over 40 years. This period is the period over which the Directors' estimate that the value of the underlying businesses acquired are expected to exceed the value of the underlying assets. The durability of the goodwill arising is justified on the following basis:

- The businesses operate in stable markets in which barriers to entry are high due to the significant infrastructure requirements, and

Thames Water plc
Notes to the Financial Statements

12 Intangible assets (continued)

- the licenses, held by the businesses establish them as a regulated monopoly with the right to operate in their current territories over the longer term.

The goodwill is capable of continued measurement and is annually reviewed in conjunction with its remaining useful life. Impairment updates and reviews are conducted by discounting expected earnings at the Group's cost of capital and benchmarking to the carrying amount of goodwill. Actual earnings are compared to those in the pre-acquisition models.

13 Tangible fixed assets

	Land and buildings £m	Infrastructure Assets £m	Plant and equipment £m	Group Total £m	Company Plant and Equipment £m
Cost					
At 1 April 2000	1,644.1	2,214.5	2,018.2	5,876.8	1.1
Acquisition of subsidiary undertakings	48.0	1,137.5	99.3	1,284.8	-
Additions	87.8	122.5	223.1	433.4	-
Disposals	(4.9)	(0.1)	(20.2)	(25.2)	-
Foreign exchange adjustments	(0.9)	36.6	(3.5)	32.2	-
At 31 March 2001	1,774.1	3,511.0	2,316.9	7,602.0	1.1
Capital contributions					
At April 2000	-	252.0	-	252.0	-
Acquisition of subsidiary undertakings	-	39.8	-	39.8	-
Additions	-	49.1	-	49.1	-
At 31 March 2001	-	340.9	-	340.9	-
Accumulated depreciation					
At 1 April 2000	352.7	355.2	619.7	1,327.6	0.9
Acquisition of subsidiary undertaking	9.2	185.2	23.0	217.4	-
Provided during the year	35.6	59.3	139.2	234.1	0.1
Disposals	(2.1)	(0.1)	(19.6)	(21.8)	-
Foreign exchange adjustments	-	5.6	(0.1)	5.5	-
At 31 March 2001	395.4	605.2	762.2	1,762.8	1.0
Net book value					
At 31 March 2001	1,378.7	2,564.9	1,554.7	5,498.3	0.1
At 31 March 2000	1,291.4	1,607.3	1,398.5	4,297.2	0.2

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

	Group	
	2001 £m	2000 £m
Freehold land and buildings	1,332.9	1,243.8
Leaseholds : over 50 years	31.8	33.5
: under 50 years	14.0	14.1
	1,378.7	1,291.4

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Notes to the Financial Statements

13 Tangible fixed assets (continued)

No depreciation has been charged on freehold land included at a cost of £12.3m (2000: £12.3m).

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

	Cost		Net book value	
	2001 £m	2000 £m	2001 £m	2000 £m
Plant and equipment	281.0	277.7	227.6	239.7

Tangible fixed assets at 31 March 2001 include £487.5m (2000: £467.1m) of assets in the course of construction.

14 Fixed asset investments

		Group		Company	
		Interests in joint venture and Associated undertakings £m	Subsidiaries £m	Investments in undertakings: Joint venture £m	
At 1 April 2000	- net assets	103.4			
	- goodwill	<u>26.4</u>			
			129.8	1,762.4	43.2
Additions	- net assets	9.4			
	- goodwill	<u>-</u>			
			9.4	976.8	-
Transfer	- net assets	(80.4)			
	- goodwill	<u>(1.1)</u>			
			(81.5)	47.5	(47.5)
Foreign exchange adjustments	- net assets	8.5			
	- goodwill	<u>(1.6)</u>			
			6.9	15.6	4.3
Share of retained profit for year			28.1	-	-
Amortisation of goodwill			<u>(1.2)</u>	-	-
At 31 March 2001	- net assets	69.0			
	- goodwill	22.5			
		91.5	2,802.3		

The cost of the Group's interests in associated undertakings and joint ventures at 31 March 2001 amounted to £88.8m (2000: £126.9m). The Group's share of post-acquisition accumulated profits at 31 March 2001 was £62.2m (2000: £14.2m). The associated undertakings and joint ventures are all unlisted.

Group

The Group has undertaken a number of transactions during the year including the acquisition of E'Town, the acquisition of a controlling interest in ESSBIO and the acquisition of a further shareholding in Izmit Su As, which had led to the Group holding the controlling interest. Further details of these transactions are given below.

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Notes to the Financial Statements

14 Fixed asset investments (continued)

Acquisition of ESSBIO:

On 14 December 2000 the Group acquired 50.964% of the ordinary share capital of ESSBIO, a company incorporated in Chile, through its wholly owned subsidiary, Inversiones Aguas Arauco.

The table below sets out details of the acquisition of ESSBIO which has been accounted for as an acquisition. Goodwill arising is being amortised over 40 years (see note 12).

	At acquisition £m	Accounting policy conformity £m	Other £m	Fair value £m
Net assets acquired				
Intangible assets	1.2	-	-	1.2
Tangible assets	103.1	-	[1] 27.4	130.5
Investments	5.9	-	-	5.9
Stocks and work in progress	0.4	-	-	0.4
Debtors	38.5	-	-	38.5
Cash at bank and in hand	0.3	-	-	0.3
Creditors falling due within one year:				
Bank debt	(11.5)	-	-	(11.5)
Other	(5.2)	-	[2] (11.3)	(16.5)
Creditors falling due after more than one year	(0.1)	-	-	(0.1)
	<u>132.6</u>	<u>-</u>	<u>16.1</u>	<u>148.7</u>
Share of net assets acquired				<u>75.8</u>
Goodwill				<u>155.8</u>
Consideration				<u>231.6</u>
Consideration satisfied by:				
Cash				<u>230.1</u>
Other costs of acquisition				<u>1.5</u>
				<u>231.6</u>

[1] Adjustment to reflect fair value of regulatory assets

[2] Includes severance accruals of £8.1m

The company's profit after tax and minority interests was £6.8m for the period from 1 January 2000 to 13 December 2000 and £8.9m for its preceding financial year ended 31 December 1999.

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Notes to the Financial Statements

14 Fixed asset investments (continued)

Acquisition of Elizabethtown Water Corporation:

On 29 November 2000 the Group acquired the entire issued share capital of Elizabethtown Water Corporation, a company incorporated in USA.

The table below sets out details of the acquisition of Elizabethtown Water Corporation which has been accounted for as an acquisition. Goodwill arising is being amortised over 40 years (see note 12).

	At acquisition	Accounting policy conformity	Other	Fair value
	£m	£m	£m	£m
Net assets acquired				
Intangible assets	43.8	-	[3] (3.3)	40.5
Tangible assets	426.0	[1] (20.0)	-	406.0
Stocks and work in progress	3.1	-	-	3.1
Debtors	53.0	[2] 6.2	-	59.2
Cash at bank and in hand	7.0	-	-	7.0
Creditors falling due within one year				
Bank debt	(83.2)	-	-	(83.2)
Other	(63.2)	-	[4] (4.2)	(67.4)
Creditors falling due after more than one year				
Bank debt	(167.8)	-	[5] (2.7)	(170.5)
Redeemable preferred stock	(8.4)	-	-	(8.4)
	<u>211.3</u>	<u>(14.8)</u>	<u>(10.2)</u>	<u>186.3</u>
Share of net assets acquired				186.3
Goodwill				<u>257.6</u>
Consideration				<u>443.9</u>
Consideration satisfied by:				
Cash				428.8
Other costs of acquisition				<u>15.1</u>
				<u>443.9</u>

[1] Accounting policy alignments in respect of regulatory assets (£9.6m), adjustment to asset lives (£6.8m) and write off of capitalised finance costs (£3.6m)

[2] Adjustment to pension accounting

[3] Write off of capitalised goodwill

[4] Includes write off of debt issuance costs (£2.7m)

[5] Restatement of financial instruments to fair value

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Notes to the Financial Statements

14 Fixed asset investments (continued)

The results of Elizabethtown Water Corporation for the period 1 January 2000 to 28 November 2000 and for its preceding financial year ended 31 December 1999 are set out below.

	Period 1 January 2000 to 23 November 2000 £m	Year ended 31 December 1999 £m
Turnover	101.5	111.1
Operating Costs	(74.3)	(78.6)
Operating Profit	27.2	32.5
Other Income	(1.3)	3.3
Net Interest	(15.3)	(13.3)
Profit before taxation	10.6	22.5
Taxation	(3.8)	(7.9)
Dividends	(0.5)	(0.6)
Profit for the period	6.3	14.0

There were no recognised gains or losses, other than the profit for the period.

Other acquisitions:

On 10 November 2000 the Group gained a controlling interest in Izmit Su As by increasing its investment for a consideration of £13.2m, including goodwill of £2.6m which will be written off over the remaining life of the concession. The book value of the assets acquired was considered to equate to fair value.

Izmit Su As is now accounted for as a subsidiary undertaking. The impact of the adoption of this accounting treatment was to recognise tangible fixed assets of £490.5m and net debt of £376.6m within the opening balances of Izmit Su As.

Company

Investments amounting to £9.8m (2000: £20.4m) were made by the Company during the year through subsidiary and associated undertakings to assist in the development of the Group's non-regulated trading activities.

15 Stocks and work in progress

	2001 £m	Group 2000 £m
Raw materials and consumables	10.4	20.3
Work in progress	23.7	10.5
Finished goods and goods for resale	11.8	8.7
	45.9	39.5
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	73.9	300.0
Applicable payments on account	(67.4)	(296.6)
	6.5	3.4

Applicable payments on account in excess of net costs less foreseeable losses are included in creditors. The Company has no stocks and work in progress.

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16 Debtors

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Due within one year:				
Trade debtors	239.3	171.0	-	-
Amounts recoverable on contracts	1.3	1.1	-	-
Amounts owed by subsidiary undertakings	-	-	39.3	20.2
Other debtors	81.8	50.5	5.0	1.6
Prepayments and accrued income	175.5	138.5	-	0.9
	497.9	361.1	44.3	22.7
Due after more than one year:				
Trade debtors	9.7	0.8	-	-
Other debtors	16.7	0.9	-	-
Prepayments and accrued income	-	0.1	-	-
	524.3	362.9	44.3	22.7

17 Current asset investments

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Fixed term deposits and certificates of deposit	15.2	14.4	-	-
Fixed and floating interest rate securities	63.4	57.7	-	-
	78.6	72.1	-	-

18 Creditors: amounts falling due within one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans and overdrafts	198.0	86.8	-	18.5
Other loans	886.3	212.9	701.0	111.5
Obligations under finance leases	6.9	6.4	-	-
Progress claims and advance payments	2.7	77.3	-	-
Trade creditors - operating	80.0	78.4	-	-
Trade creditors - capital	91.4	109.2	-	-
Amounts owed to subsidiary undertakings	-	-	148.8	72.9
Taxation and social security	46.1	64.4	-	-
Accruals and deferred income	296.7	172.6	7.5	1.1
Other creditors	111.0	17.4	39.0	3.7
Proposed dividend	237.7	114.9	237.7	114.9
	1,956.8	940.3	1,134.0	322.6

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Notes to the Financial Statements

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	891.2	410.3	-	-
Other loans	1,188.2	989.3	174.7	71.9
Obligations under finance leases	256.6	260.2	-	-
Amounts owed to subsidiary undertakings	-	-	104.3	96.9
Deferred income	71.4	63.5	-	-
Other creditors	19.3	6.5	-	-
	2,426.7	1,729.8	279.0	168.8

20 Financial instruments

Short term debtors and creditors have been excluded from financial instruments' disclosures, other than the currency risk disclosures. Provisions for liabilities and charges are payable within 1 year and also excluded.

Financial assets

Interest rate risk profile

									For fixed rate assets only			
	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	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 %	2000 %	2001 Years	2000 Years
Current asset investment												
- £ Sterling	-	-	3.8	11.8	12.6	12.4	16.4	24.2	5.5	5.9	9.9	6.3
- \$ US	-	-	9.3	15.7	-	-	9.3	15.7	5.8	6.5	14.1	9.7
- Others	10.4	4.2	42.5	28.0	-	-	52.9	32.2	4.2	4.3	7.3	7.4
	10.4	4.2	55.6	55.5	12.6	12.4	78.6	72.1	4.5	5.2	8.5	7.9
Cash at bank/hand												
- £ Sterling	38.3	68.3	-	-	0.5	-	38.8	68.3	-	-	-	-
- \$ US	97.5	4.0	-	-	4.2	-	101.7	4.0	-	-	-	-
- Others	13.1	11.3	-	-	1.6	-	14.7	11.3	-	-	-	-
	148.9	83.6	-	-	6.3	-	155.2	83.6	-	-	-	-
Debtors > 1 year	-	-	-	-	16.7	1.8	16.7	1.8	-	-	-	-
Totals	159.3	87.8	55.6	55.5	35.6	14.2	250.5	157.5	4.5	5.2	8.5	7.9

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.

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Notes to the Financial Statements

20 Financial instruments (continued)

Non interest assets of £12.6m (2000: £12.4m) are held as units in investment and unit trusts and have no maturity period.

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

Financial liabilities

Interest rate risk profile

									For fixed rate liabilities only			
	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	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	2001 %	2000 %	2001 years	2000 years
Bank loans & overdraft												
- £ Sterling	144.2	59.5	404.0	376.9	-	-	548.2	436.4	7.3	7.6	7.2	7.7
- \$ US	218.4	34.8	295.7	-	-	-	514.1	34.8	6.0	-	4.8	-
- Others	24.4	25.9	2.5	-	-	-	26.9	25.9	6.8	-	1.0	-
	<u>387.0</u>	<u>120.2</u>	<u>702.2</u>	<u>376.9</u>	<u>-</u>	<u>-</u>	<u>1,089.2</u>	<u>497.1</u>	<u>6.8</u>	<u>7.6</u>	<u>4.7</u>	<u>7.7</u>
Other loans & finance leases												
- £ Sterling	451.0	518.6	838.5	950.2	-	-	1,289.5	1,468.8	7.3	7.1	19.5	18.7
- \$ US	793.6	-	248.8	-	4.1	-	1,048.5	-	6.8	-	14.4	-
Others	1.9	-	-	-	0.1	-	-	-	-	-	-	-
	<u>1,246.5</u>	<u>518.6</u>	<u>1,087.3</u>	<u>950.2</u>	<u>4.2</u>	<u>-</u>	<u>2,338.0</u>	<u>1,468.8</u>	<u>7.2</u>	<u>7.1</u>	<u>18.3</u>	<u>18.2</u>
Non-equity shares												
- £ Sterling	-	-	-	-	-	22.1	-	22.1	-	-	-	-
Creditors > 1 year												
- Others	-	6.5	-	-	19.3	-	19.3	6.5	-	-	-	-
Totals	<u>1,633.5</u>	<u>645.3</u>	<u>1,789.5</u>	<u>1,327.1</u>	<u>23.5</u>	<u>22.1</u>	<u>3,446.5</u>	<u>1,994.5</u>	<u>7.0</u>	<u>7.2</u>	<u>11.8</u>	<u>15.6</u>

The Group's interest rate and cross currency swaps convert £293m (2000: £109m) of floating rate borrowings to fixed rate and £113m (2000: £86m) of fixed rate borrowings to floating rate. Cross currency swaps hedge currency risk on £706m (2000: £334m) of foreign currency borrowings.

Included in these amounts are £11m (2000: £47m) of floating to fixed rate swaps, £153m (2000: £41m) of fixed to floating rate swaps, and £189m (2000: £150m) of foreign currency to sterling swaps for the Company.

Short term borrowing bear interest at rates linked to LIBOR.

Fixed rate borrowings of £1,790m (2000: £1,327m) equate to 51% (2000: 68%) of gross borrowings and 55% (2000: 73%) 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.

Thames Water plc

Notes to the Financial Statements

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. In the prior year the amounts were not significant.

	Gains £m	Losses £m	Net Total £m
Unrecognised gains/(losses) on hedges at 1 April	-	-	-
Gains/(losses) arising in the year that were not recognised in the year	0.4	(3.8)	(3.4)
Unrecognised gains/(losses) on hedges at 31 March	0.4	(3.8)	(3.4)
of which:			
Gains/(losses) expected to be recognised in the next financial year	-	(0.3)	(0.3)
Gains/(losses) expected to be recognised after the next financial year	0.4	(3.5)	(3.1)

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 2001 £m	Book value 2000 £m	Fair value 2001 £m	Fair value 2000 £m
Primary financial instruments				
Financial assets:				
Current asset investments	78.6	72.1	77.5	73.4
Cash at bank/hand	155.2	83.6	155.2	83.6
Debtors > 1 year	16.9	1.8	16.9	1.8
Financial liabilities:				
Bank loans and overdrafts	(1,089.2)	(497.1)	(1,133.0)	(515.9)
Other loans and finance leases	(2,338.1)	(1,468.8)	(2,446.0)	(1,468.1)
Non-equity shares	-	(22.1)	-	(22.1)
Creditors > 1 year	(19.3)	(6.5)	(19.3)	(6.5)
Derivative financial instruments				
Interest rate and cross currency swaps	-	-	(57.0)	(7.1)
	(3,195.9)	(1,837.0)	(3,405.7)	(1,860.9)

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 2001 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.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effects of revaluing foreign currency borrowings at closing rates is included in the fair valuation.

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Notes to the Financial Statements

20 Financial instruments (continued)

Maturities

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans and overdrafts				
- Within one year	198.0	86.8	-	18.5
- Between one and two years	119.6	17.5	-	-
- Between two and five years	121.8	111.9	-	-
- After more than five years	649.8	280.9	-	-
	1,089.2	497.1	-	18.5
Other loans and finance leases				
- Within one year	893.2	219.3	701.0	111.5
- Between one and two years	177.7	176.5	126.9	-
- Between two and five years	227.8	210.0	6.2	24.1
- after more than five years	1,039.3	863.0	41.6	47.8
	2,338.0	1,468.8	875.7	183.4
Total borrowings	3,427.2	1,965.9	875.7	201.9

Loans are repayable between 2001 and 2032.

Loans wholly repayable after more than five years are:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Bank loans	602.8	225.0	-	-
Other loans	808.0	631.0	41.7	47.8
	1,410.8	856.0	41.7	47.8

Other loans include:

- £150m 10½% Guaranteed Bonds due 2001
- \$150m 6¾% Notes due 2004
- £330m 6¾% MTN Eurobond due 2028
- £200m 6½% MTN Eurobond due 2032
- Loans totalling £32.4m (2000: £32.4m) which are secured on the revenues of Thames Water Utilities Limited
- Elizabethtown Water Corporation bonds totalling \$233m

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Notes to the Financial Statements

20 Financial instruments (continued)

Loans repayable by instalments after more than five years hence are:

	2001	Group 2000
	£m	£m
Bank Loans	46.9	55.9
Other Loans	0.2	-
Finance Leases	231.1	232.0
	<u>278.2</u>	<u>287.9</u>

The range of interest rates on outstanding bank loans are 5.6% to 11.5% (2000: 5.9% to 11.5%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate derivatives.

Borrowing facilities

At 31 March 2001, the Group had unused committed borrowing facilities with a range of financial institutions totalling £370m (2000: £420m) expiring as follows:

	Group		Company	
	2001	2000	2001	2000
	£m	£m	£m	£m
Within one year	270	320	-	-
Between one and two years	100	100	-	-
After more than two years	-	-	-	-
	<u>370</u>	<u>420</u>	<u>-</u>	<u>-</u>

The Group also has a US\$ 4 billion (2000: US \$ 3 billion) uncommitted Euro Medium Term Note programme. This provides for both the Company and Thames Water Utilities Limited to access the capital markets in a range of currencies and maturities. At 31 March 2001 £1,403m of private issuance (2000: £903m) had been borrowed with a weighted average term of 11.7 years (2000: 18.3 years) at a weighted average rate of 5% (2000: 6.5%).

These facilities are required for continuing investment within the Group and the Directors consider them sufficient for the Group's requirements.

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21 Provisions for liabilities and charges

	Group		
	Insurance Liabilities £m	Other £m	Total £m
At 1 April 2000	40.1	19.8	59.9
Acquisition of subsidiary undertaking	-	9.8	9.8
Provided during the year	15.8	(7.1)	8.7
Utilised during the year	(15.3)	(1.5)	(16.8)
Released during the year	(1.9)	(3.8)	(5.7)
Foreign exchange adjustments	-	2.6	2.6
At 31 March 2001	38.7	20.0	58.7

22 Share capital

	Group and Company	
	2001 £m	2000 £m
Authorised:		
976,128,916 (2000: 976,128,916) ordinary shares of 23p each and 380,367,532 (2000: 380,367,532) 'B' shares of 79p each	525.0	525.0
Allotted, called up and fully paid		
355,770,743 (2000: 351,419,736) ordinary shares of 23p each	81.8	80.8
Nil (2000: 28,050,782) 'B' shares of 79p each	-	22.1
	81.8	102.9

The B shares were issued on 10 August 1998 as part of a capital reorganisation and were non-voting shares carrying a net non-cumulative preferential dividend at a rate linked to LIBOR payable every six months in arrears. On 8 December 2001 all of the 26,876,964 remaining 'B' shares, of 79p each, in issue were converted into 1,791,797 ordinary shares of 23p each and 2,082,068,825 deferred shares of 1p each. On 31 March 2001 all the deferred shares were repurchased by the company for total consideration of 1p.

Details of ordinary shares allotted during the year are as follows:

	Number of shares allotted		Consideration	
	2001 000	2000 000	2001 £m	2000 £m
Employee share schemes:				
- Sharesave Scheme	228	1,518	2.3	14.0
- Executive Share Option Scheme	2,202	22	11.1	0.1
- Profit Sharing Scheme	129	62	1.0	0.5
	2,559	1,602	14.4	14.6

Following the acquisition of the Company by RWE AG the employee share schemes were closed. Accordingly, there are no share options outstanding at 31 March 2001.

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Notes to the Financial Statements

23 Movement in Shareholder's Funds

	Share capital £m	Share premium £m	Capital Redemp- -tion Reserve £m	Profit and loss account £m	2001 Total £m	2000 Total £m
Group						
At 1 April	102.9	69.9	319.9	1,789.5	2,282.2	2,103.9
Foreign exchange adjustments	-	-	-	(9.7)	(9.7)	(2.4)
Profit for the financial year	-	-	-	101.8	101.8	342.2
Dividends	-	-	-	(122.8)	(122.8)	(168.4)
New share capital subscribed (see note 22)	0.6	13.8	-	-	14.4	14.6
Cancellation of deferred shares (see note 22)	(20.8)	20.8	-	-	-	-
Purchase of own shares	(0.9)	-	0.9	(0.9)	(0.9)	(2.4)
Adjustments for qualifying employee share trust	-	-	-	(0.5)	(0.5)	(5.3)
Utilisation of ACT on 1997 share purchase previously written off to reserves	-	-	-	45.0	45.0	-
At 31 March	81.8	104.5	320.8	1,802.4	2,309.5	2,282.2
Company						
At 1 April	102.9	69.9	319.9	873.8	1,366.5	1,422.6
Profit for the financial year	-	-	-	147.2	147.2	105.4
Dividends	-	-	-	(122.8)	(122.8)	(168.4)
New share capital subscribed (see note 22)	0.6	13.8	-	-	14.4	14.6
Conversion of 'B' shares to ordinary shares (see note 22)	(20.8)	20.8	-	-	-	-
Purchase of own shares	(0.9)	-	0.9	-	(0.9)	(2.4)
Adjustments for qualifying employee share trust	-	-	-	(0.5)	(0.5)	(5.3)
Utilisation of ACT on 1997 share purchase previously written off to reserves	-	-	-	45.0	45.0	-
At 31 March	81.8	104.5	320.8	941.8	1,448.9	1,366.5

The cumulative goodwill of £71.5m relating to acquisitions made to 31 March 1997 is included in Group reserves.

On 15 September 2000, 1,173,818 B Shares were repurchased for total consideration of £0.9m.

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24 Operating leases

At 31 March 2001, the Group was committed to making the following payments in respect of non-cancellable operating leases:

	Group		Company	
	2001 £m	2000 £m	2001 £m	2000 £m
Land and buildings				
Leases which expire:				
- Within one year	1.0	0.2	-	-
- Between one and two years	1.0	0.2	-	-
- Between two and five years	1.2	0.5	-	-
- After more than five years	4.0	1.6	-	0.4
	<u>7.2</u>	<u>2.5</u>	-	<u>0.4</u>
Other				
Leases which expire:				
- Within one year	3.5	1.9	-	-
- Between one and two years	2.9	1.8	-	-
- Between two and five years	5.5	2.4	-	-
- After more than five years	-	0.1	-	-
	<u>11.9</u>	<u>6.2</u>	-	-

25 Capital commitments

	Group	
	2001 £m	2000 £m
Contracted for but not provided in the financial statements	<u>141.3</u>	<u>109.0</u>

In addition to these commitments, the Group has long-term capital investment plans to meet shortfalls in performance and asset condition 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.

26 Post Retirement Schemes

	2001 £m	2000 £m
Total pension costs	3.2	3.1
Total post retirement (non-pension) benefit costs	0.1	-
Total pension and post retirement benefit costs	<u>3.3</u>	<u>3.2</u>

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26 Post Retirement Schemes (continued)

Following completion of the acquisition of Elizabethtown Water Company, its post retirement schemes have been bought into the balance sheet on a fair value basis, which has been reflected in this note, see note 14.

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 unfunded defined benefits provided for directors and senior employees affected by the cap on earnings which can be pensioned through approved arrangements. Overseas arrangements are established in accordance with local custom and practice. In particular, a defined benefit scheme is operated in the US for Elizabethtown Water Company employees.

The total ongoing pension cost of the Group during the year ended 31 March 2001 was £3.2m (2000: £3.1m) of which £0.7m (2000: £0.5m) relates to the overseas schemes. The pension cost relating to the UK schemes is assessed in accordance with advice received from Bacon & Woodrow, the consulting actuaries to the schemes. The pension costs relating to the overseas schemes are assessed in accordance with local practice, with liabilities provided to meet the pensions reporting requirements of Statement of Standard Accounting Practice number 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 UK schemes, more conservative actuarial assumptions have been used and any surplus or deficit may be recognised more quickly. For funding purposes in respect of the US defined benefit plan for employees of Elizabethtown Water Company, contributions are determined by independent actuaries in line with US statutory requirements.

The principal assumptions used in determining the pension cost for both the UK and US schemes and components of the pension cost are set out in the table below:

Method	UK schemes	Elizabethtown Water Company
	Projected unit method for schemes open to new members. Attained age method for closed scheme.	Projected unit credit method
Interest rate	6% pa	7.5% pa
Earnings increases	4% pa (exc. promotional increases)	3.5% pa
Pension increases	3%	0% pa
Asset valuation	Market value	Market value
Regular cost	£20.1m	£0.4m
Variation cost	£20.1m	£0.0m

In respect of the UK schemes pension increases are pre-funded in line with inflation for three UK pension schemes and are granted in line with the rules of each scheme and any statutory requirements. For the fourth UK scheme, pension increases are at the rate of 5% per annum or the annual movement in the Retail Prices Index if less.

The cost for Elizabethtown Water Company is for the four months from 1 December 2000.

Contributions to the UK schemes for the year ended 31 March 2001 are based on actuarial reviews of the individual schemes as at 31 March 1999.

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26 Post Retirement Schemes (continued)

The three largest schemes cover the majority of UK employees. Total market value of the assets of these three schemes as at the last valuation date was £955m and represented 135% of the value of the benefits that had accrued to members after allowing for expected future salary increases. In respect of the US defined benefit plan for Elizabethtown Water Company employees, the total market value of assets at acquisition date was £40m which represented 121% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

As at 31 March 2001, a prepayment of £10.7m was included in debtors (note 16) (2000 accruals of £0.3m were included in creditors) in relation to the funded schemes and accruals of £3.7m (2000: £0.8m) were included in creditors (note 18) in relation to the unfunded schemes.

Other post retirement schemes

The Group also operates a plan in the United States, which provides employees of Elizabethtown Water Company with certain post retirement benefits other than pensions. The liabilities in respect of these benefits are assessed by qualified independent actuaries, applying the projected unit credit method. A provision of £3.1m was included in debtors.

The assumptions which have the most significant effects on the valuations of the scheme are summarised in the table below:

	US
Discount rate	7.75%
Healthcare inflation	9% decreasing linearly each successive year until it reaches 3.8% in 2008.

27 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	Sale value £m	Amount due £m
Izmit Su As	Joint Venture (until 30 October 2000)	9.2	0.1
Pathum Thani Water Company Limited	Associate	0.1	-
United Water International Pty Limited	Joint Venture	0.5	-
St James Homes Limited	Joint Venture	25.0	-
Stirling Water Seafield Limited	Joint Venture	9.6	1.0

At 31 March 2001 the following balances were owed to the Group: St James Homes Ltd £Nil (2000: £10.8m), Stirling Water Ltd £6.3m (2000: £4.5m), Pathum Thani Water Company Ltd Nil (2000: £6.2m) TWCK Nil (2000: £1.6m) and Izmit Su AS £0.2m. (2000: £Nil).

28 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £751.4m (2000: £578.9m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £60.2m at 31 March 2001 (2000: £68.5m). 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.

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29 Thames Water Utilities Limited

Condition F of the Instrument of Appointment under which Thames Water Utilities Limited operates requires specified accounting statements to be published with its annual accounts or those of its parent company. Anyone requiring a copy of these accounts including the specified statements for the year ended 31 March 2001 should apply to: The Company Secretary, Thames Water Utilities Limited, Gainsborough House, Manor Farm Road, Reading, RG2 0JN or telephone 0118 373 8564.

30 Group undertakings

At 31 March 2001, 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	Nature of business
Subsidiary Undertakings					
Thames Water Utilities Limited	Great Britain	Ordinary	100%		Water and wastewater services
CONNECT 2020 Limited	Great Britain	Ordinary		100%	Procurement logistics
International Operations:					
Thames Water International Services Holdings Limited	Great Britain	Ordinary	100%		Management company
Thames Water International Services Limited	Great Britain	Ordinary	100%		Marketing of technical managerial services
Thames Water Overseas Limited	Great Britain	Ordinary		100%	Management company
Thames Water Overseas Consultancy Limited	Great Britain	Ordinary	100%		Marketing of technical managerial services
PWT Projects Limited	Great Britain	Ordinary		100%	Process engineering
Water Projects International Limited	Great Britain	Ordinary	100%		Process engineering
Thames Pam Jaya	Indonesia	Ordinary		100%	Water operations and maintenance
Thames Water Asia/Pacific Pty Limited	Australia	Ordinary		100%	Process engineering
Thames Water International (Singapore) Pte Limited	Singapore	Ordinary		100%	Process engineering
Thames Water Engineering (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Process engineering
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		90%	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Water operations and maintenance
Thames Water International (Hong Kong) Limited	Hong Kong	Ordinary		100%	Process engineering
Izmit Su As	Turkey	Ordinary	55%		Water operations and maintenance
BJT Water Company Limited	Thailand	Ordinary		75%	Industrial estate management
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		51%	Water operations and maintenance
E town Corporation Inc	USA	Ordinary		100%	Water operations and maintenance
Products:					
Thames Water Products Limited	Great Britain	Ordinary	100%		Water & wastewater equipment, industrial membrane filtration, pipeline products and water disinfection, product technology.
Thames Water Holdings Inc	USA	Common Convertible		100% 100%	Management company
Ashbrook Corporation Inc	USA	Ordinary		100%	Water and wastewater equipment

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30 Group undertakings (continued)

Hydro-Aerobics Inc	USA	Ordinary	100%	Packaged water treatment systems
F B Leopold Company Inc	USA	Ordinary	100%	Water & wastewater treatment equipment
Services:				
Thames Water Services Limited	Great Britain	Ordinary	100%	Drain and pipe cleaning & rehabilitation, sewerage, waste and incineration facilities management, grounds maintenance
Insurance:				
Isis Insurance Company Limited	Isle of Man	Ordinary	100%	Insurance
Property:				
Kennet Properties Limited	Great Britain	Ordinary	100%	Property
Thames Water Investments Limited	Great Britain	Ordinary	100%	Property
Thames Water Property Limited	Great Britain	Ordinary	100%	Property
Thames Water Developments Limited	Great Britain	Ordinary	100%	Property
Joint Ventures				
Binnie Thames Water Limited	Great Britain	Ordinary	50%	International consultancy
Gemwel Limited	Great Britain	Ordinary	50%	Water and sewerage services
St James Homes Limited	Great Britain	Ordinary	50%	Property
Thames Dick Superaqueduct Partners Inc	USA	Ordinary	50%	Water operations and maintenance
Thames Water Japan Limited	Japan	Ordinary	50%	Finance company
United Water International Pty Limited	Australia	Ordinary	47.5%	Water operations and maintenance
Thames Water International (Thailand) & Ch. Karnchang Public Limited Company Limited (TWCK)	Thailand	Ordinary	50%	Water operations and maintenance
Bovis Thames (Shanghai) Limited	British Virgin Islands	Ordinary	50%	Management company
Stirling Water Seafeld Limited	Great Britain	Ordinary	49%	Water operations and maintenance
Inversiones Anders Sur	Chile	Ordinary	50%	Management company
Associate Undertakings				
Pathum Thani Water Company Limited	Thailand	Ordinary	31%	Water operations and maintenance
Pathum Thani Water Ops Company Limited	Thailand	Ordinary	36%	Water operations and maintenance
JNPA Company Ltd	Thailand	Ordinary	32.8%	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.

31 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.