

Registered Number: 2366623

**Thames Water plc**  
Annual report and financial statements  
for the 9 month period ended 31 December 2001



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# Thames Water plc

## Annual report and financial statements for the 9 month period ended 31 December 2001

### Contents

Directors' report	1
Report of the independent auditors	5
Consolidated profit and loss account	6
Consolidated and company balance sheets	7
Consolidated cash flow statement	8
Statement of group total recognised gains and losses	9
Reconciliation of movements in group shareholder's funds	9
Notes to the financial statements	10

**Directors' report for the 9 month period ended 31 December 2001**

The Directors' present their report and the audited financial statements for the 9 month period ended 31 December 2001.

**Principal activities**

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

**Change in period end**

Thames Water plc has changed its financial year-end from 31 March to 31 December to bring its financial reporting into alignment with that of the RWE Group. Accordingly, the results presented within the annual report are for the 9 month period from 1 April 2001 to 31 December 2001. The comparatives are for the full year to 31 March 2001.

**Financial performance**

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

**Review of business and future developments***Financial performance*

Between 1 April and 31 December 2001, Thames Water's turnover was £1,205.4m (31 March 2001: £1,385.2). The regulated UK utility business accounted for 63% (31 March 2001: 72%) of sales. The proportion of sales from international business has continued to rise, boosted by the Thames Water's acquisition, in the prior year, of E'town in the USA and ESSBIO in Chile. Most of Thames Water's capital expenditure of £438.9m million (31 March 2001: £433.4m) was dedicated to further improvements in quality and environmental standards. Operating profit was £349.1m (31 March 2001: £474.8m). The UK regulated water business, with its stable sales and earnings is still responsible for a large proportion of earnings. The internationalisation of the water business, through the acquisitions mentioned above, has led to growth in the proportion of profits from non-UK sources.

*Acquisitions*

Two significant acquisitions were made by Thames Water during the period.

In Chile, Thames Water acquired the 30-year concession for Empresa de Servicios Sanitarios del Maule S.A. (ESSAM), recently renamed Aguas Nuevo Sur Maule (ANSM) and Thames Water acquired a controlling interest in Empresa de Servicios Sanitarios del Libertador S.A. (ESSEL) in December 2001. Thames Water now provides water services to 3 million customers in three adjoining regions of Chile. Thames Water is the second largest private water services provider in the country, serving 19% of the population, with 1,000 employees.

**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 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.

**Directors' report for the 9 month period ended 31 December 2001 (continued)****Funding and Treasury Policy (continued)**

The current gross debt of £3,712.4m (31 March 2001: £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 period end, the Group also had liquid investments of £73.6m (31 March 2001: £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 period end was 56% (31 March 2001: 56%).

**Dividends**

In respect of the 9 month period, the Company has proposed a dividend of £132.9m, compared with a total of £122.8m on ordinary shares in the previous financial period. The prior year comparative excludes the £0.8m dividend paid to non-equity 'B' shares in the prior year. These shares were re-purchased by the Company in the prior financial period.

**Directors during the period and their interests**

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

W J Alexander  
W Böttcher (Appointed 1 September 2001)  
C J Bunker  
Dr U Gudden (Resigned 13 July 2001)  
Dr R Klein  
Dr D Kuhnt  
J D Pelczer (Appointed 1 July 2001)  
Dr K Sturany

None of the Directors has any interest in the shares of Thames Water plc, or its subsidiary companies.

During the period 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.

Research, often in collaboration with leading universities, continues to provide better understanding of the interactions between the built and natural environment particularly with regards to development of solutions for sustainable, underground network assets.

A new data analysis and modeling system, SPECTRUM, has been developed to improve the understanding of the water distribution system. It is currently being used to support improvements to network levels of service including leakage and pressure control. Research into sludge treatment and recycling has concentrated on maintaining the opportunity for the beneficial use of biosolids in agriculture.

**Donations for charitable and political purposes**

Thames Water continues to take a leadership role in the community. During the period donations of £0.2m (31 March 2001: £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.

**Directors' report for the 9 month period ended 31 December 2001 (continued)****Employees**

Thames Water recognises the contribution its employees make to the success of the Group. Thames Water seeks to provide employees with the opportunity to fulfil their potential and contribute fully to our success. The training and development strategy reflects this, with a range of programmes to suit all needs. Thames Water operates a successful graduate recruitment programme, attracting and developing specialists and the leaders of the future. A number of people are supported in continuing professional development, including MBAs and MAs in business related disciplines. For Directors and Managers, the Group continues to offer development through Templeton College, Oxford and through links with UK and international business schools.

Employee involvement takes many forms in the Group, ranging from team briefings to formal consultation. In the UK, a "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.

Individual employee contribution is recognised through the 'Values In Practice' award, made four times a year and the 'Team Award', which recognised exceptional team contribution.

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

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

**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 December 2001 represents 43 days (31 March 2001: 43 days) (UK Utility: 53 days (31 March 2001: 53 days)) purchases received from those creditors.

**Directors' responsibilities**

Company law requires the Directors to prepare financial statements for each financial period 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 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 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 irregularities.

**Directors' report for the 9 month period ended 31 December 2001 (continued)**

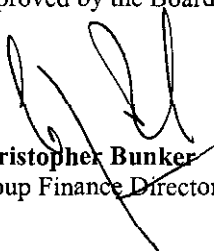
**Directors' responsibilities (continued)**

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 5 July 2002



**Christopher Bunker**  
Group Finance Director

## Report of the independent auditors to the members 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 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 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.

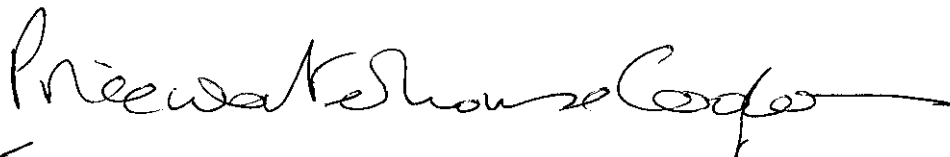
### Basis of audit opinion

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 December 2001 and of the profit and cash flows of the Group for the period then ended and have been properly prepared in accordance with the Companies Act 1985.



5 July 2002

**PricewaterhouseCoopers**

Chartered Accountants and Registered Auditors

London

## Consolidated profit and loss account for the 9 month period ended 31 December 2001

	Notes	9 month period ended 31 December		Restated Year ended 31 March	
		2001	2001	2001	2001
		£m	£m	£m	£m
Turnover (including share of joint ventures)					
- Continuing operations		1,225.7		1,420.3	
- Acquisitions		1.9		-	
- Discontinued operations		48.1		95.4	
			1,275.7		1,515.7
Less: share of turnover of joint ventures					
- Continuing operations			(70.3)		(130.5)
<b>Group turnover</b>	2		<b>1,205.4</b>		<b>1,385.2</b>
Operating costs	3		(874.0)		(926.0)
Other operating income	6		17.7		15.6
- Continuing operations		344.3		470.8	
- Acquisitions		3.6		-	
- Discontinued operations		1.2		4.0	
<b>Group operating profit</b>			<b>349.1</b>		<b>474.8</b>
Share of operating profit/(loss) in:					
- Joint ventures			13.7		50.4
- Associates			(0.2)		(0.9)
<b>Total operating profit: group and share of joint venture and associates</b>	2		<b>362.6</b>		<b>524.3</b>
Exceptional costs of acquisition by RWE AG	3		-		(57.1)
Profit/(loss) on sale of fixed assets			15.9		(3.4)
(Loss) on disposal of subsidiary undertakings					
- Discontinued operations	7		(37.3)		-
Net interest payable	8				
- Group		(158.1)		(180.2)	
- share in joint ventures		(7.0)		(11.9)	
- share in associates		(1.7)		(2.2)	
			(166.8)		(194.3)
<b>Profit on ordinary activities before taxation</b>			<b>174.4</b>		<b>269.5</b>
Taxation on profit on ordinary activities	9		(72.5)		(33.8)
<b>Profit on ordinary activities after taxation</b>			<b>101.9</b>		<b>235.7</b>
Equity minority interest			(13.5)		(8.4)
<b>Profit for the financial period</b>			<b>88.4</b>		<b>227.3</b>
Dividends – including non-equity	11		(132.9)		(123.6)
<b>(Deficit)/retained profit for the financial period</b>	23		<b>(44.5)</b>		<b>103.7</b>

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

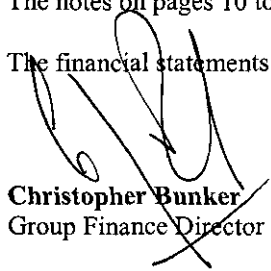


## Consolidated and company balance sheets As at 31 December 2001

	Note	At 31 December 2001 £m	At 31 December 2001 £m	Restated At 31 March 2001 £m	Group Restated At 31 March 2001 £m	At 31 December 2001 £m	Company At 31 March 2001 £m
<b>Fixed assets</b>							
Intangible assets	12		592.9		486.8	-	-
Tangible assets	13		5,660.8		5,498.3	0.1	0.1
Investments in joint ventures and associates:							
- share of gross assets		289.9		338.8		-	-
- share of gross liabilities		(235.0)		(247.3)		-	-
- share of minority interests		-		(19.0)		-	-
- net assets		54.9		72.5		-	-
- goodwill arising on acquisition		-		22.5		-	-
Investments in associates		(2.5)		(3.5)		-	-
Investments in subsidiary undertakings		-		-		2,624.7	2,802.3
Fixed asset investments	14		52.4		91.5	2,624.7	2,802.3
			6,306.1		6,076.6	2,624.8	2,802.4
<b>Current assets</b>							
Stocks and work in progress	15		45.9		45.9	-	-
Debtors	16		654.0		524.3	41.2	44.3
Investments	17		73.6		78.6	-	-
Cash at bank and in hand			130.1		155.2	11.7	15.2
			903.6		804.0	52.9	59.5
Creditors: amounts falling due within one year	18		(2,138.1)		(1,956.8)	(1,172.4)	(1,134.0)
<b>Net current liabilities</b>			(1,234.5)		(1,152.8)	(1,119.5)	(1,074.5)
<b>Total assets less current liabilities</b>			5,071.6		4,923.8	1,505.3	1,727.9
Creditors: amounts falling due after more than one year							
	19		(2,497.9)		(2,426.7)	(102.9)	(279.0)
Provisions for liabilities and charges	21		(836.2)		(770.5)	(0.7)	-
<b>Net assets</b>			1,737.5		1,726.6	1,401.7	1,448.9
<b>Capital and reserves</b>							
Called up share capital	22/23		81.8		81.8	81.8	81.8
Share premium	23		104.5		104.5	104.5	104.5
Capital redemption reserve	23		320.8		320.8	320.8	320.8
Profit and loss account	23		1,054.3		1,090.6	894.6	941.8
<b>Equity shareholder's funds</b>			1,561.4		1,597.7	1,401.7	1,448.9
Minority interest			176.1		128.9	-	-
<b>Capital employed</b>			1,737.5		1,726.6	1,401.7	1,448.9

The notes on pages 10 to 48 form part of these accounts.

The financial statements on pages 6 to 48 were approved by the Board of Directors on 5 July 2002 and signed on its behalf by

  
Christopher Bunker  
Group Finance Director

## Consolidated cash flow statement for the 9 month period ended 31 December 2001

	Notes	9 month period ended 31 December		Year ended 31 March	
		2001 £m	2001 £m	2001 £m	2001 £m
Cash inflow from operating activities	27		638.5		720.1
Returns on investment and servicing of finance	28		(158.0)		(195.1)
Taxation			(16.9)		(145.6)
Capital expenditure and financial investment	29		(366.8)		(385.6)
Acquisitions and disposals					
Acquisitions	30		(157.8)		(614.7)
Disposals	31		28.6		-
Purchase of fixed asset investments			(17.1)		(9.4)
Exceptional costs of acquisition by RWE AG			-		(57.1)
Equity dividends paid			(237.7)		-
<b>Cash outflow before management of liquid resources and financing</b>			<b>(287.2)</b>		<b>(687.4)</b>
Management of liquid resources			5.0		(6.5)
<b>Financing</b>					
Issue of shares		-		14.5	
Purchase of own shares		-		(0.9)	
Payments under qualifying employee share trust		-		(0.5)	
Cash inflow from increase in debt and lease financing		248.1		779.3	
			248.1		792.4
<b>(Decrease)/increase in cash</b>			<b>(34.1)</b>		<b>98.5</b>

## Reconciliation of net cash flow to movement in net debt for the 9 month period ended 31 December 2001

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
<b>(Decrease)/Increase in cash during period</b>	<b>(34.1)</b>	<b>98.5</b>
Cash inflow from increase in debt and lease financing:		
- loans due within one year	(210.9)	(273.5)
- loans due after more than one year	(50.2)	(509.3)
- borrowings acquired/disposed with subsidiaries	0.1	(687.3)
- capital repayment of finance leases	12.9	3.5
Cash inflow from decrease in liquid resources	(5.0)	6.5
<b>Change in net debt resulting from cash flows</b>	<b>(287.2)</b>	<b>(1,361.6)</b>
Other non-cash movements:		
- new finance leases	-	(0.4)
- foreign exchange translation differences	6.5	(21.2)
<b>Movement in net debt</b>	<b>(280.7)</b>	<b>(1,383.2)</b>
<b>Net debt at start of period</b>	<b>(3,193.4)</b>	<b>(1,810.2)</b>
<b>Net debt at end of period</b>	<b>(3,474.1)</b>	<b>(3,193.4)</b>

## Statement of group total recognised gains and losses for the 9 month period ended 31 December 2001

	9 month period ended 31 December 2001 £m	Restated Year ended 31 March 2001 £m
Profit for the financial period	88.4	227.3
Foreign exchange adjustments offset in reserves	(10.2)	(9.7)
Adjustments for qualifying employee share trust	-	(0.5)
Utilisation of ACT on 1997 share purchase previously written off to reserves	-	45.0
	<b>78.2</b>	<b>262.1</b>
Change in accounting policy – deferred taxation (note 21)	(711.8)	-
Total (losses)/gains recognised since the last annual report	<b>(633.6)</b>	<b>262.1</b>

## Reconciliation of movements in group shareholder's funds for the 9 month period ended 31 December 2001

	9 month period ended 31 December 2001 £m	Restated Year ended 31 March 2001 £m
Group profit for the financial period	88.4	227.3
Dividends	(132.9)	(123.6)
	<b>(44.5)</b>	<b>103.7</b>
Other recognised gains and losses relating to the period	(10.2)	34.8
New share capital subscribed	-	14.4
Purchase of own shares	-	(0.9)
Goodwill written back on disposal of businesses	18.4	-
<b>Net change in shareholder's funds for the financial period</b>	<b>(36.3)</b>	<b>152.0</b>
Shareholder's funds at the beginning of the period as previously reported	2,309.5	2,282.2
Restatement to opening balances at 1 April 2000 due to change in accounting policy – deferred taxation (note 21)	-	(766.1)
Restatement to opening balances at 1 April 2001 due to change in accounting policy – deferred taxation (note 21)	(711.8)	-
<b>Shareholder's funds at start of period as restated</b>	<b>1,597.7</b>	<b>1,516.1</b>
Acquisition arising in year ended 31 March 2001 – deferred taxation (note 21)	-	(70.4)
<b>Shareholder's funds at end of period as restated</b>	<b>1,561.4</b>	<b>1,597.7</b>

## Notes to the financial statements

### 1 Accounting policies

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 below. A summary of the more important Group accounting policies is set out below.

#### Changes in accounting policies and presentation of financial statements

Three new Financial Reporting Standards (FRS's) have been adopted in the preparation of the financial statements, as explained below. Other than the adoption of these new accounting standards, the financial statements have been prepared on a consistent basis with those of last year.

##### *FRS 17 'Retirement benefits'*

FRS 17 provides for a phased implementation over the three years to 2003. The Group has implemented the first year's requirements, which are additional disclosures over and above those already required by SSAP 24 'Accounting for pension costs'.

##### *FRS 18 'Accounting policies'*

The Directors' have considered the requirements of FRS 18 and have reviewed the accounting policies and estimation techniques applied, to ensure that they remain the most appropriate to the Group's circumstances, that sufficient information is disclosed, and that the policies adopted are appropriate for the purpose of giving a true and fair view.

##### *FRS 19 'Deferred tax'*

The Group has changed its accounting policy in order to comply with FRS 19. The Group has provided in full for deferred tax on a non-discounted basis and has restated the prior year taxation comparatives.

#### 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 Thames Water Utilities Limited which has accounts drawn up to 31 March to meet with regulatory reporting requirements. 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.

**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.

## Notes to the financial statements

### 1 Accounting policies (continued)

**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.

**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

**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. Rental costs arising under operating leases are expensed in the year in which they are incurred.

## Notes to the financial statements

### 1 Accounting policies (continued)

#### 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 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.

##### 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.

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

## Notes to the financial statements

### 1 Accounting policies (continued)

#### **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 in full, in accordance with the requirements of FRS 19 'Deferred tax'. Provision is made at the rate which is expected to apply when the liability or asset is expected to crystallise. Future liabilities have not been discounted.

#### **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. 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.

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.

#### **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.

#### **Related party disclosures**

The company is exempt under the terms of FRS 8 'Related party disclosures' 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 33.

## Notes to the financial statements

## 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 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.

## Turnover

By class of business	9 month period ended 31 December 2001			Year ended 31 March 2001		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK Utility	778.9	(26.3)	752.6	1,026.6	(26.2)	1,000.4
International operations	290.8	(0.6)	290.2	259.5	(9.1)	250.4
Products	70.5	(2.1)	68.4	104.8	(7.7)	97.1
Services	154.4	(69.2)	85.2	197.7	(105.2)	92.5
Insurance	11.3	(11.3)	-	15.1	(15.1)	-
Property	85.3	(6.0)	79.3	81.9	(6.6)	75.3
Group (including share of joint ventures)	1,391.2	(115.5)	1,275.7	1,685.6	(169.9)	1,515.7
Share of joint ventures (included above)			(70.3)			(130.5)
Group			1,205.4			1,385.2

Geographical segment by origin	9 month period ended 31 December 2001			Year ended 31 March 2001		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK	1,061.6	(109.2)	952.4	1,396.7	(162.5)	1,234.2
Europe	91.2	(1.5)	89.7	120.2	(4.8)	115.4
Americas	174.6	(0.3)	174.3	114.2	(1.8)	112.4
Asia Pacific	59.3	-	59.3	54.5	(0.8)	53.7
Group (including share of joint ventures)	1,386.7	(111.0)	1,275.7	1,685.6	(169.9)	1,515.7
Share of joint ventures (included above)			(70.3)			(130.5)
Group			1,205.4			1,385.2



## Notes to the financial statements

## 2 Segmental analysis (continued)

Geographical segment by destination	9 month period ended 31 December 2001			Year ended 31 March 2001		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK	1,051.5	(110.7)	940.8	1,387.1	(163.7)	1,223.4
Europe	95.7	-	95.7	125.7	(0.5)	125.2
Americas	175.5	(0.2)	175.3	109.4	(3.4)	106.0
Africa	0.1	-	0.1	2.0	(1.0)	1.0
Asia Pacific	63.9	(0.1)	63.8	61.4	(1.3)	60.1
Group (including share of joint ventures)	1,386.7	(111.0)	1,275.7	1,685.6	(169.9)	1,515.7
Share of joint ventures (included above)			(70.3)			(130.5)
Group			1,205.4			1,385.2

## Operating profit

By class of business	9 month period ended	
	31 December 2001 £m	Year ended 31 March 2001 £m
UK Utility	252.3	386.0
International operations	87.1	85.4
Products	7.3	4.8
Services	(3.3)	10.4
Insurance	1.0	6.9
Property	20.0	32.0
Other activities	(0.1)	(12.4)
Inter-segment trading	(1.7)	11.2
Group, joint ventures and associates	362.6	524.3

## Notes to the financial statements

## 2 Segmental analysis (continued)

By geographical segment	9 month period ended	Year ended
	31 December 2001 £m	31 March 2001 £m
UK	269.3	452.4
Europe	51.0	58.8
Americas	26.1	14.0
Asia Pacific	16.2	(0.9)
Group, joint ventures and associates	362.6	524.3

## Net Assets

By class of business	At 31 December 2001 £m	Restated At 31 March 2001 £m
	UK Utility	3,560.5
International operations	1,633.0	1,558.7
Products	33.5	63.7
Services	17.4	40.5
Insurance	(39.1)	(35.5)
Property	136.2	94.3
Other activities	(132.9)	(379.6)
	5,208.6	4,920.0
Net debt	(3,471.1)	(3,193.4)
Net assets	1,737.5	1,726.6

By geographical segment	At 31 December 2001 £m	Restated At 31 March 2001 £m
	UK	3,590.1
Europe	455.4	467.2
Americas	1055.7	968.3
Asia Pacific	107.4	64.1
	5,208.6	4,920.0
Net debt	(3,471.1)	(3,193.4)
Net assets	1,737.5	1,726.6

## Notes to the financial statements

## 2 Segmental analysis (continued)

## 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 period as follows. Further information on the acquisitions is provided in note 14.

	Turnover £m	Operating Profit £m	Nets Assets (excluding net debt) £m
<b>By class of business</b>			
International operations	1.9	0.9	111.5
<b>By geographical segment – origin and destination</b>			
Americas	1.9	0.9	111.5

The above disclosure is for ESSEL only. ESSAM did not contribute to turnover or operating profit during the period where the effective date of the acquisition was 31 December 2001.

## Disposals

The above analysis of turnover, operating profit and net assets in 2001 by class of business and geographical segment includes contributions from the disposals arising during the period as follows. Further information on the disposals is provided in note 7.

	Turnover £m	Operating Profit £m	Nets Assets (excluding net debt) £m
<b>By class of business</b>			
Products	7.8	(1.1)	9.0
Services	40.3	2.3	12.8
	48.1	1.2	21.8
<b>By geographical segment – origin and destination</b>			
UK	48.1	1.2	21.8

## Notes to the financial statements

## 3 Operating costs

	9 month period ended 31 December		Year ended 31 March	
	2001	2001	2001	2001
	£m	£m	£m	£m
Manpower		218.7		261.8
Materials and consumables		126.8		173.2
Other operating charges		248.6		250.2
Amortisation of goodwill and intangibles		23.4		8.1
Depreciation:				
- owned assets	205.1		181.6	
- infrastructure assets	46.7		39.8	
- assets held under finance leases	9.3		12.7	
		261.1		234.1
Rentals under operating leases:				
- hire of plant and machinery	4.2		12.6	
- other	7.1		10.0	
		11.3		22.6
Research and development		7.4		9.6
Auditors' remuneration in respect of:				
- audit work and other statutory and regulatory requirements	0.6		0.8	
- non-audit work : UK	0.1		0.3	
		0.7		1.1
Foreign currency gains/(losses)		0.3		(3.0)
		898.3		957.7
Own work capitalised		(24.3)		(31.7)
		874.0		926.0
Exceptional costs of acquisition by RWE AG		-		57.1

Included in auditors' remuneration is £90,000 (31 March 2001 £90,000) in respect of audit fees incurred by the Company for the period to December 2001.

In the year ending 31 March 2001, in concluding the transaction with RWE AG, Thames Water incurred exceptional costs of £57.1m.

## Notes to the financial statements

## 4 Information regarding Directors

## Directors' Emoluments

	9 month period ended 31 December 2001 £000	Year ended 31 March 2001 £000
Salaries and benefits	732	947
Bonus	1,942	324
Compensation for loss of office	-	451
	<b>2,674</b>	<b>1,722</b>

Retirement benefits are accruing to 3 (31 March 2001: 2) Directors under a defined benefit scheme.

## Highest Paid Director

	9 month period ended 31 December 2001 £000	Year ended 31 March 2001 £000
Aggregate emoluments and benefits	1,405	572
Accrued pension at end of year	19	18

## Directors' interests

None of the Directors has any interest in the shares of Thames Water plc, or its subsidiary companies.

During the period 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.

## 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

## 5 Employees

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Group employment costs including Executive Directors' remuneration:		
- Salaries and wages	205.7	242.8
- Social security costs	15.2	21.2
- Pension costs (note 26)	3.1	3.3
	<b>224.0</b>	<b>267.3</b>

Total employment costs contain £5.3m (31 March 2001: £3.1m) and £2.3m (31 March 2001: £2.4m), which are included in infrastructure assets depreciation and research and development costs respectively in note 3.

	9 month period ended 31 December 2001 No.	Year ended 31 March 2001 No.
Average monthly number of persons employed by the Group including Executive Directors:		
UK Utility	5,196	5,166
International operations	3,652	4,076
Products	509	808
Services	3,485	3,090
Property	83	82
	<b>12,925</b>	<b>13,222</b>

## 6 Other operating income

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Other investment income	0.2	2.3
Miscellaneous	17.5	13.3
	<b>17.7</b>	<b>15.6</b>

## Notes to the financial statements

## 7 Loss on disposal of businesses

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Loss on disposal of businesses during the period	37.3	-

The Group has disposed of the Brophy Grounds Maintenance, Metro Rod, Talbot, Simon Hartley Penstocks and Thames Waste Management businesses during the current period.

## 8 Interest

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	73.3	113.7
- Repayable within five years by instalments	35.6	26.8
- Not wholly repayable within five years	75.3	70.8
Finance charges in respect of finance leases	8.4	12.8
Other finance charges	1.3	4.1
Interest payable and similar charges	193.9	228.2
Interest receivable	(27.1)	(33.9)
	166.8	194.3

Bank loans, overdrafts and other loans repayable within five years otherwise than by instalments includes £Nil (31 March 2001: £10.5m) in respect of interest on the late payment of Corporation Tax which arose from a decision to disclaim capital allowances in prior years in order to utilise ACT credits available within the Group.

## Notes to the financial statements

## 9 Taxation on profit on ordinary activities

## Analysis of charge in period

	9 month period		Restated	
	ended 31 December		Year ended	
	2001	2001	2001	2001
	£m	£m	£m	£m
Current year:				
UK corporation tax on profits for the period	-		2.6	
Adjustments in respect of previous period	-		245.2	
<b>Total current tax</b>		-		247.8
Deferred tax:				
Origination and reversal of timing differences	56.2		96.5	
Adjustments in respect of previous periods	-		(221.2)	
<b>Total deferred tax</b>		56.2		(124.7)
Overseas taxation		14.2		10.2
Advance corporation tax (relieved)				
- prior year		-		(113.3)
Share of associates/joint venture tax		2.1		13.8
		<b>72.5</b>		<b>33.8</b>

Following the adoption of FRS 19 in the period, the prior year tax charge has been reduced by £124.7m.

## Factors affecting tax charge for period

The tax charge for the period is higher than the standard rate of corporation tax in the UK of 30% (31 March 2001: 30%). The differences are explained below:

	9 month period ended 31 December 2001	Year ended 31 March 2001
	£m	£m
Profit on ordinary activities before taxation	174.4	269.5
Profit on ordinary activities at the standard rate of 30%	52.3	80.1
Effect of:		
Amortisation of intangible assets	6.7	2.4
Effect of overseas tax	11.9	11.2
Advanced corporation tax	-	(75.3)
Other permanent differences	1.6	15.4
<b>Tax charge for the period</b>	<b>72.5</b>	<b>33.8</b>



## Notes to the financial statements

## 10 Profits of holding company

Of the profit, before dividends, of the Group for the financial period, a profit of £85.7m (31 March 2001: £147.2m) has been dealt with in the accounts of 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

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Equity – ordinary 23p		
Interim	-	70.8
Final proposed	132.9	52.0
	132.9	122.8
Non equity – “B” shares 79p	-	0.8
	132.9	123.6

All shares in issue are equity shares.

## Notes to the financial statements

## 12 Intangible assets

	Goodwill £m	Other intangible assets £m	Total £m
<b>Group</b>			
<b>Cost</b>			
At 1 April 2001	443.7	55.1	498.8
Acquisition of subsidiary undertakings (note 14)	103.3	42.4	145.7
Other additions	-	5.8	5.8
Reclassifications from associated undertakings (note 14)	22.5	-	22.5
Disposals	(14.7)	(0.3)	(15.0)
Exchange adjustments	(29.8)	(1.5)	(31.3)
<b>At 31 December 2001</b>	<b>525.0</b>	<b>101.5</b>	<b>626.5</b>
<b>Aggregate amortisation</b>			
At 1 April 2001	7.4	4.6	12.0
Charge for the period	19.6	3.8	23.4
Disposals	(1.5)	-	(1.5)
Exchange adjustments	(0.3)	-	(0.3)
<b>At 31 December 2001</b>	<b>25.2</b>	<b>8.4</b>	<b>33.6</b>
<b>Net book amount</b>			
<b>At 31 December 2001</b>	<b>499.8</b>	<b>93.1</b>	<b>592.9</b>
At 31 March 2001	436.3	50.5	486.8

Goodwill is capitalised on new acquisitions made after 31 March 1997. Such goodwill is amortised over the lower of its useful economic life and a period of 20 years. In prior periods such goodwill was amortised over the lower of its useful life and a period of 40 years. The Directors' considered it appropriate to amend the accounting period over which the goodwill is amortised from 40 years to 20 years. This is not considered a change in accounting policy and accordingly no prior year adjustment is required.

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

Other intangible assets comprise start-up charges and fees on concession contracts. These assets are being amortised over their remaining useful lives of between 14 and 40 years.

The Company has no intangible assets (31 March 2001 : £Nil).

## Notes to the financial statements

## 13 Tangible fixed assets

	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	Group Total £m	Company Plant and equipment £m
<b>Cost</b>					
At 1 April 2001	1,774.1	3,511.0	2,316.9	7,602.0	1.1
Acquisition of subsidiary undertakings	11.3	54.5	33.3	99.1	-
Additions	77.8	184.9	176.2	438.9	-
Reclassifications	(63.4)	-	63.4	-	-
Disposals of businesses	(20.7)	-	(28.2)	(48.9)	-
Disposals	(1.7)	(0.7)	(17.5)	(19.9)	-
Foreign exchange adjustments	(3.6)	(24.9)	(7.5)	(36.0)	-
<b>At 31 December 2001</b>	<b>1,773.8</b>	<b>3,724.8</b>	<b>2,536.6</b>	<b>8,035.2</b>	<b>1.1</b>
<b>Capital contributions</b>					
At April 2001	-	340.9	-	340.9	-
Additions	-	42.2	-	42.2	-
<b>At 31 December 2001</b>	<b>-</b>	<b>383.1</b>	<b>-</b>	<b>383.1</b>	<b>-</b>
<b>Accumulated depreciation</b>					
At 1 April 2001	395.4	605.2	762.2	1,762.8	1.0
Acquisition of subsidiary undertaking	2.8	14.6	6.3	23.7	-
Provided during the period	35.5	86.7	138.9	261.1	-
Reclassifications	(17.2)	-	17.2	-	-
Disposals of businesses	(11.9)	-	(16.8)	(28.7)	-
Disposals	(1.3)	(0.6)	(16.4)	(18.3)	-
Foreign exchange adjustments	(0.6)	(5.7)	(3.0)	(9.3)	-
<b>At 31 December 2001</b>	<b>402.7</b>	<b>700.2</b>	<b>888.4</b>	<b>1,991.3</b>	<b>1.0</b>
<b>Net book value</b>					
<b>At 31 December 2001</b>	<b>1,371.1</b>	<b>2,641.5</b>	<b>1,648.2</b>	<b>5,660.8</b>	<b>0.1</b>
At 31 March 2001	1,378.7	2,564.9	1,554.7	5,498.3	0.1

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

	At 31 December 2001 £m	At 31 March 2001 £m
<b>Group</b>		
Freehold land and buildings	1,333.1	1,332.9
Leaseholds : over 50 years	31.8	31.8
: under 50 years	6.2	14.0
	<b>1,371.1</b>	<b>1,378.7</b>

No depreciation has been charged on freehold land included at a cost of £14.7m (31 March 2001: £12.3m).

## Notes to the financial statements

## 13 Tangible fixed assets (continued)

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

	Cost		Net book value	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Plant and equipment	273.2	281.0	216.7	227.6

Tangible fixed assets at 31 December 2001 include £592.3m (31 March 2001: £487.5m) of assets in the course of construction.

## 14 Fixed asset investments

## Group

	Interests in joint ventures and associated under- takings £m
<b>Share of net assets</b>	
At 1 April 2001	69.0
Additions	17.1
Reclassification	(32.1)
Share of retained profit for period	2.6
Exchange adjustments	(4.2)
<b>At 31 December 2001</b>	<b>52.4</b>
<b>Capitalised goodwill</b>	
At 1 April 2001	22.5
Reclassification	(22.5)
<b>At 31 December 2001</b>	<b>-</b>
<b>Net book amount</b>	
<b>At 31 December 2001</b>	<b>52.4</b>
At 31 March 2001	91.5

Included in the reclassification of £32.1m of net assets is £20.7m with regards to ESSEL. The reclassification of the goodwill relates entirely to ESSEL. See below.

The cost of the Group's interests in associated undertakings and joint ventures at 31 December 2001 amounted to £34.9m (31 March 2001: £88.8m). The Group's share of post-acquisition accumulated profits at 31 December 2001 was £17.5m (31 March 2001: £62.2m). The associated undertakings and joint ventures are all unlisted.

## Notes to the financial statements

## 14 Fixed asset investments (continued)

## Group acquisitions arising during the period

During the period the Group have acquired a controlling interest in ESSEL and the concession of ESSAM in Chile.

The total goodwill capitalised in respect of transactions completed during the period has been provisionally assessed at £103.3m.

Further details of these transactions are given below.

## Acquisition of controlling interest in Empresa de Servicios Sanitarios del Libertador S.A. (ESSEL)

On 1 December the Group increased its effective holding in ESSEL, a water and wastewater company in Chile, to 51% through the acquisition of the remaining issued share capital of Inversiones Andes Sur which, prior to this acquisition was a joint venture company of the Group. The consideration was £49.3m. The effective date of acquisition was 1 December 2001.

The table below sets out details of the acquisition of the controlling interest in ESSEL, which has been accounted for as an acquisition. Goodwill arising is being amortised over 20 years (see note 12).

	Book and fair value £m
Intangible assets	5.9
Tangible assets	74.6
Stocks and work in progress	0.3
Debtors	13.8
Creditors falling due within one year:	
Bank debt	(7.9)
Other	(7.8)
Net assets	78.9
Minority interests	(38.2)
Share of net assets previously held as investments in associated undertakings	(20.7)
Goodwill	29.3
Consideration	49.3
Consideration satisfied by:	
Cash	49.3
	49.3

ESSEL's profit after tax and minority interests was £1.7m for the period from 1 April 2001 to 30 November 2001 and £3.3m for its preceding financial year ended 31 March 2001.

## Notes to the financial statements

## 14 Fixed asset investments (continued)

## Acquisition of concession of Empresa de Servicios Sanitarios del Maule S.A (ESSAM)

On 12 November 2001, the Group was awarded the concession of ESSAM, a water and wastewater company in Chile. Financial completion arose on 7 December 2001. For the purposes of these accounts the effective date of the acquisition is 31 December 2001.

The table below sets out details of the concession of ESSAM which has been accounted for as an acquisition. Goodwill arising is being amortised over 20 years (see note 12).

	Book value prior to acquisition £m	Fair value adjustments £m	Fair value £m
Intangible assets	-	[1] 36.5	36.5
Tangible assets	0.8	-	0.8
Debtors	3.4	-	3.4
Cash at bank and in hand	0.1	-	0.1
Creditors falling due within one year:	(1.4)	-	(1.4)
Creditors falling due after more than one year	-	[2] (4.8)	(4.8)
Net assets	2.9	31.7	34.6
Goodwill			74.0
Consideration			108.6
Consideration satisfied by:			
Cash			108.6
			108.6

[1] Fair value of the concession rights previously unrecorded.

[2] Accrued costs associated with the concession.

## Company

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

	Investment in subsidiary under- takings £m
At 1 April 2001	2,802.3
Additions	38.3
Repayment of loans	(202.8)
Exchange adjustments	(13.1)
At 31 December 2001	2,624.7

## Notes to the financial statements

## 15 Stocks and work in progress

	At 31 December 2001 £m	At 31 March 2001 £m
<b>Group</b>		
Raw materials and consumables	20.1	10.4
Work in progress	6.6	23.7
Finished goods and goods for resale	19.2	11.8
	<b>45.9</b>	<b>45.9</b>

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

Net cost less foreseeable losses	0.9	73.9
Applicable payments on account	(0.2)	(67.4)
	<b>0.7</b>	<b>6.5</b>

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.

During the period the classification of long-term contract balances included in work-in progress has been reassessed and it has been decided it is more appropriate to include these balances in other debtors.

## 16 Debtors

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Due within one year:				
Trade debtors	276.1	239.3	-	-
Amounts recoverable on contracts	0.2	1.3	-	-
Amounts owed by RWE	0.5	-	-	-
Group companies				
Amounts owed by subsidiary undertakings	-	-	-	39.3
Other debtors	121.1	81.8	4.8	5.0
Prepayments and accrued income	221.6	175.5	5.3	-
	<b>619.5</b>	<b>497.9</b>	<b>41.2</b>	<b>44.3</b>
Due after more than one year:				
Trade debtors	15.4	9.7	-	-
Other debtors	19.1	16.7	-	-
	<b>654.0</b>	<b>524.3</b>	<b>41.2</b>	<b>44.3</b>

## Notes to the financial statements

## 17 Current asset investments

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Fixed term deposits and certificates of deposit	10.9	15.2	-	-
Fixed and floating interest rate securities	62.7	63.4	-	-
	73.6	78.6	-	-

## 18 Creditors: amounts falling due within one year

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Bank loans and overdrafts	292.5	198.0	-	-
Other loans	337.4	886.3	278.6	701.0
Amounts owed to RWE Group companies	670.6	-	586.4	-
Obligations under finance leases	5.0	6.9	-	-
Progress claims and advance payments	5.0	2.7	-	-
Trade creditors – operating	75.2	80.0	-	-
Trade creditors – capital	64.2	91.4	-	-
Amounts owed to subsidiary undertakings	-	-	152.5	148.8
Corporation tax	24.8	36.2	-	-
Other taxation and social security	7.6	9.9	-	-
Accruals and deferred income	411.8	296.7	17.1	7.5
Other creditors	111.1	111.0	4.9	39.0
Proposed dividend	132.9	237.7	132.9	237.7
	2,138.1	1,956.8	1,172.4	1,134.0



## Notes to the financial statements

## 19 Creditors: amounts falling due after more than one year

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Bank loans	834.9	891.2	-	-
Other loans	1,056.4	1,188.2	-	174.7
Amounts owed to RWE Group companies	235.4	-	-	-
Obligations under finance leases	245.6	256.6	-	-
Amounts owed to subsidiary undertakings	-	-	102.9	104.3
Corporation tax	1.8	-	-	-
Deferred income	89.2	71.4	-	-
Other creditors	34.6	19.3	-	-
	<b>2,497.9</b>	<b>2,426.7</b>	<b>102.9</b>	<b>279.0</b>

## Notes to the financial statements

## 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

	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	
	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 %	31 March 2001 %	31 Dec- ember 2001 Years	31 March 2001 Years
Current asset investment												
- £ Sterling	-	-	3.9	3.8	11.0	12.6	14.9	16.4	2.2	5.5	7.4	9.9
- \$ US	-	-	13.5	9.3	-	-	13.5	9.3	4.7	5.8	9.3	14.1
- Other	1.7	10.4	43.5	42.5	-	-	45.2	52.9	5.0	4.2	7.4	7.3
	1.7	10.4	60.9	55.6	11.0	12.6	73.6	78.6	4.8	4.5	7.8	8.5
Cash at bank/hand												
- £ Sterling	30.2	38.3	-	-	0.5	0.5	30.7	38.8	-	-	-	-
- \$ US	66.8	97.5	-	-	6.6	4.2	73.4	101.7	-	-	-	-
- Other	24.0	13.1	-	-	2.0	1.6	26.0	14.7	-	-	-	-
	121.0	148.9	-	-	9.1	6.3	130.1	155.2	-	-	-	-
Debtors > 1 year	-	-	-	-	19.1	16.7	19.1	16.7	-	-	-	-
	122.7	159.3	60.9	55.6	39.2	35.6	222.8	250.5	4.8	4.5	7.8	8.5

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 £11.0m (31 March 2001: £12.6m) 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.

## Notes to the financial statements

## 20 Financial instruments (continued)

## Financial liabilities

## Interest rate risk profile

	Total at floating rates		Total at Fixed rates		No Interest		Total book Value		For fixed rate liabilities only		Weighted average period until maturity for which rate is fixed	
									Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 £m	31 March 2001 £m	31 Dec- ember 2001 %	31 March 2001 %	31 Dec- ember 2001 years	31 March 2001 years
Bank loans & overdraft												
- £ Sterling	149.0	144.2	398.8	404.0	-	-	547.8	548.2	7.0	7.3	6.2	7.2
- \$ US	167.8	218.4	248.0	295.7	-	-	415.8	514.1	7.5	6.0	5.9	4.8
- Other	-	24.4	163.8	2.5	-	-	163.8	26.9	5.8	6.8	0.4	1.0
	316.8	387.0	810.6	702.2	-	-	1,127.4	1,089.2	6.9	6.8	5.0	4.7
Other loans & finance leases												
- £ Sterling	472.3	451.0	912.3	838.5	-	-	1,384.6	1,289.5	6.3	7.3	21.9	19.5
- \$ US	952.9	793.6	207.5	248.8	3.7	4.1	1,164.1	1,046.5	6.8	6.8	12.3	14.4
- Other	0.8	1.9	0.7	-	0.2	0.1	1.7	2.0	5.2	-	1.0	-
	1426.0	1,246.5	1,120.5	1,087.3	3.9	4.2	2,550.4	2,338.0	6.3	7.2	20.1	18.3
Creditors > 1 year												
- Other	-	-	-	-	34.6	19.3	34.6	19.3	-	-	-	-
	1,742.8	1,633.5	1,931.1	1,789.5	38.5	23.5	3,712.4	3,446.5	6.6	7.0	13.9	11.8

Other loans include amounts owed to RWE companies.

The Group's interest rate and cross currency swaps convert £245m (31 March 2001: £293m) of floating rate borrowings to fixed rate and £61m (31 March 2001: £113m) of fixed rate borrowings to floating rate. Cross currency swaps hedge currency risk on £691m (31 March 2001: £706m) of foreign currency borrowings.

Included in these amounts are £150m (31 March 2001: £11m) of floating to fixed rate swaps, £26m (31 March 2001: £153m) of fixed to floating rate swaps, and £213m (31 March 2001: £189m) of foreign currency to sterling swaps for the Company.

Short term borrowings bear interest at rates linked to LIBOR.

Fixed rate borrowings of £1,931.1m (31 March 2001: £1,789.5m) equate to 52% (31 March 2001: 52%) of gross borrowings and 56% (31 March 2001: 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

## 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.

	9 month period ended 31 December 2001			Year ended 31 March 2001		
	Gains	Losses	Net Total	Gains	Losses	Net Total
	£m	£m	£m	£m	£m	£m
Unrecognised gains/(losses) on hedges at start of period	0.4	(3.8)	(3.4)	-	-	-
Recognised during the period	-	-	-	-	-	-
Gains/(losses) arising in the period that were not recognised	(0.1)	(0.8)	(0.9)	0.4	(3.8)	(3.4)
Unrecognised gains/(losses) on hedges at end of period	0.3	(4.6)	(4.3)	0.4	(3.8)	(3.4)
of which:						
Gains/(losses) expected to be recognised in the next financial period	0.3	(4.6)	(4.3)	-	-	-
Gains/(losses) expected to be recognised after the next financial period	-	-	-	0.4	(3.8)	(3.4)

## Fair values

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

	Book value at 31 December 2001 £m	Book value At 31 March 2001 £m	Fair value at 31 December 2001 £m	Fair value at 31 March 2001 £m
<b>Primary financial instruments:</b>				
Financial assets:				
Current asset investments	73.6	78.6	73.6	77.5
Cash at bank/hand	130.1	155.2	130.1	155.2
Debtors > 1 year	19.1	16.7	19.1	16.9
Financial liabilities:				
Bank loans and overdrafts	(1,127.3)	(1,089.1)	(1,154.1)	(1,133.0)
Other loans and finance leases	(2,550.4)	(2,338.0)	(2,695.2)	(2,446.0)
Creditors > 1 year	(34.6)	(19.3)	(34.5)	(19.3)
<b>Derivative financial instruments:</b>				
Interest rate and cross currency swaps	-	-	(74.9)	(57.0)
	<b>(3,489.5)</b>	<b>(3,195.9)</b>	<b>(3,735.9)</b>	<b>(3,195.9)</b>

## Notes to the financial statements

## 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 2001 and 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.

## Maturities

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Bank loans and overdrafts				
- Within one year	292.5	198.0	-	-
- Between one and two years	99.6	119.6	-	-
- Between two and five years	223.5	121.8	-	-
- After more than five years	511.8	649.8	-	-
	1,127.4	1,089.2	-	-
Other loans and finance leases				
- Within one year	1013.0	893.2	278.6	701.0
- Between one and two years	134.7	177.7	-	126.9
- Between two and five years	161.8	227.8	-	6.2
- after more than five years	1,240.9	1,039.3	-	41.6
	2,550.4	2,338.0	278.6	875.7
Total borrowings	3,677.8	3,427.2	278.6	875.7

Loans are repayable between 2002 and 2032.

Loans wholly repayable after more than five years are:

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Bank loans	413.1	602.8	-	-
Other loans	1,025.1	808.0	-	41.6
	1,438.2	1,410.8	-	41.6

## Notes to the financial statements

## 20 Financial instruments (continued)

Other loans include:

£75m 4.04% loan from RWE AG due 2002

\$45m loan from RWE AG due 2002

\$386m loan from RWE AG due 2002

\$309m loan from Thames Water Aqua Holdings GmbH due 2002

£225m 6.6% loan from RWE AG due 2021

\$150m 6<sup>3</sup>/<sub>8</sub>% Notes due 2004

£330m 6<sup>3</sup>/<sub>4</sub>% MTN Eurobond due 2028

£200m 6<sup>1</sup>/<sub>2</sub>% MTN Eurobond due 2032

Loans totalling £32.4m (31 March 2001: £32.4m) which are secured on the revenues of Thames Water Utilities Limited  
Elizabethtown Water Corporation bonds totalling \$270m (31 March 2001: \$233m)

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

	At 31 December 2001 £m	At 31 March 2001 £m
<b>Group</b>		
Bank Loans	98.7	46.9
Other Loans	0.2	0.2
Finance Leases	215.6	231.1
	<b>314.5</b>	<b>278.2</b>

The range of interest rates on outstanding bank loans are 4% to 11.5% (31 March 2001: 5.6% 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 2001, the Group had unused committed borrowing facilities with a range of financial institutions totalling £65m (31 March 2001: £370m) expiring as follows:

	Group		Company	
	At 31 December 2001 £m	At 31 March 2001 £m	At 31 December 2001 £m	At 31 March 2001 £m
Within one year	65	370	-	-

The Group also has a US\$4billion (31 March 2001: \$4billion) uncommitted Euro Medium Term Note programme. During the period, the Company was removed as an issuer under the 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 2001 £1,043m of issuance (31 March 2001: £1,403m) had been borrowed with a weighted average term of 15.2 years (31 March 2001: 11.7 years) at a weighted average rate of 5.2% (31 March 2001: 5%).

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

## 21 Provisions for liabilities and charges

## Group

	Deferred Tax [1] £m	Insurance Liabilities £m	Other £m	Total £m
At 1 April 2001 (as restated)	711.8	38.7	20.0	770.5
Provided during the period	56.2	0.5	25.2	81.9
Utilised during the period	-	-	(3.2)	(3.2)
Released during the period	-	(2.7)	(0.4)	(3.1)
Disposal of businesses	-	-	(7.6)	(7.6)
Foreign exchange adjustments	(1.8)	-	(0.5)	(2.3)
<b>At 31 December 2001</b>	<b>766.2</b>	<b>36.5</b>	<b>33.5</b>	<b>836.2</b>

[1] Restated for FRS 19 'Deferred tax'. See below.

## Deferred taxation

*Prior year adjustment*

The adoption of FRS 19 has resulted in the recognition of a deferred tax liability of £711.8m as at 1 April 2001. The opening deferred tax balance at 1 April 2000 as restated is £766.1m. During the year ended 31 March 2001, as a result of the adoption of FRS 19, the tax charge was reduced by £124.7m (refer to note 9) and, in respect of the recognition of deferred tax arising on acquisitions, the profit and loss account reserve reduced by £70.4m.

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

	At 31 December 2001 £m	Restated At 31 March 2001 £m
Accelerated capital allowances	784.2	734.6
Tax losses carried forward	(18.9)	(18.9)
Other timing differences	0.9	(3.9)
	<b>766.2</b>	<b>711.8</b>

## Company

	Other £m	Total £m
At 1 April 2001	-	-
Provided during the period	0.7	0.7
<b>At 31 December 2001</b>	<b>0.7</b>	<b>0.7</b>

## Notes to the financial statements

## 22 Share capital

	At 31 December 2001 £m	At 31 March 2001 £m
<b>Group and Company</b>		
Authorised:		
976,128,916 (31 March 2001: 976,128,916) ordinary shares of 23p each and 380,367,532 (31 March 2001: 380,367,532) 'B' shares of 79p each	<b>525.0</b>	525.0
Allotted, called up and fully paid		
355,770,743 (31 March 2001: 355,770,743) ordinary shares of 23p each	<b>81.8</b>	81.8



## Notes to the financial statements

## 23 Share capital and reserves

	9 month period ended 31 December 2001				Restated Year ended 31 March 2001	
	Share capital £m	Share pre- mium £m	Capital redemp- -tion reserve £m	Profit and loss account £m	Total £m	Total £m
<b>Group</b>						
At start of period						
As previously reported	81.8	104.5	320.8	1,802.4	2,309.5	2,282.2
Restatement due to change in accounting policy – deferred taxation (note 21)	-	-	-	(711.8)	(711.8)	(766.1)
At start of period as restated	81.8	104.5	320.8	1,090.6	1,597.7	1,516.1
Acquisition arising in year ended 31 March 2001 – deferred taxation (note 21)	-	-	-	-	-	(70.4)
(Deficit)/retained profit for the period	-	-	-	(44.5)	(44.5)	103.7
Foreign exchange adjustments	-	-	-	(10.2)	(10.2)	(9.7)
New share capital subscribed	-	-	-	-	-	14.4
Purchase of own shares	-	-	-	-	-	(0.9)
Adjustments for qualifying employee share trust	-	-	-	-	-	(0.5)
Utilisation of ACT on 1997 share purchase previously written off to reserves	-	-	-	-	-	45.0
Goodwill written back on disposal of businesses	-	-	-	18.4	18.4	-
<b>At end of period</b>	<b>81.8</b>	<b>104.5</b>	<b>320.8</b>	<b>1,054.3</b>	<b>1,561.4</b>	<b>1,597.7</b>
<b>Company</b>						
At start of period	81.8	104.5	320.8	941.8	1,448.9	1,366.5
(Deficit)/retained profit for the period	-	-	-	(47.2)	(47.2)	24.4
New share capital subscribed	-	-	-	-	-	14.4
Purchase of own shares	-	-	-	-	-	(0.9)
Adjustments for qualifying employee share trust	-	-	-	-	-	(0.5)
Utilisation of ACT on 1997 share purchase previously written off to reserves	-	-	-	-	-	45.0
<b>At end of period</b>	<b>81.8</b>	<b>104.5</b>	<b>320.8</b>	<b>894.6</b>	<b>1,401.7</b>	<b>1,448.9</b>

The cumulative goodwill of £52.9m (31 March 2001: £71.5m) relating to acquisitions made to 31 March 1997 is included in Group reserves.

The prior year adjustment relates to the implementation of FRS 19. Refer to note 21.

## Notes to the financial statements

## 24 Operating leases

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

Group	At 31 December 2001 £m	At 31 March 2001 £m
<b>Land and buildings</b>		
Leases which expire:		
- Within one year	1.1	1.0
- Between one and two years	0.9	1.0
- Between two and five years	1.1	1.2
- After more than five years	6.0	4.0
	<b>9.1</b>	<b>7.2</b>
<b>Other</b>		
Leases which expire:		
- Within one year	1.8	3.5
- Between one and two years	1.7	2.9
- Between two and five years	0.5	5.5
	<b>4.0</b>	<b>11.9</b>

At 31 December 2001 the Company has no commitments to make payments in respect of non-cancellable operating leases.

## 25 Capital commitments

Group	At 31 December 2001 £m	At 31 March 2001 £m
Contracted for but not provided in the financial statements	141.4	141.3

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

## 26 Post retirement schemes

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Pension costs	2.6	3.2
Post retirement (non-pension) benefit costs	0.5	0.1
	<b>3.1</b>	<b>3.3</b>

*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. 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 9 month period ended 31 December 2001 was £2.6m (31 March 2001: £3.2m) of which £0.6m (31 March 2001: £0.6m) 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 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 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:

	<b>UK schemes</b>	<b>Elizabethtown Water Company</b>
Method	Projected unit method for schemes open to new members. Attained age method for closed scheme.	Projected unit credit method.
Interest rate	6% pa	7.25% pa
Earnings increases	4% pa	6.5% pa
Pension increases	3% pa	0% pa
Asset valuation	Market value	Market value
Regular cost	£36.7m	£1.0m
Variation cost	£(21.3)m	£(0.2)m

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

## Notes to the financial statements

### 26 Post retirement schemes (continued)

Contributions to the UK schemes for the 9 month period ended 31 December 2001 are based on actuarial reviews of the individual schemes as at 31 March 1999.

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 31 December 2001 was £38m which represented 107% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

As at 31 December 2001, a prepayment of £15.5m (31 March 2001: £10.7m) was included in debtors (note 16) in relation to the funded schemes and accruals of £2.8m (31 March 2001: £3.7m) 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 £2.8m (31 March 2001: £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	7.25%
Healthcare inflation	5.00%

#### *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 and the fair value of assets held. However, 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'.

#### *Defined benefit schemes*

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 March 1999, updated to 31 December 2001, by the actuary.

The main financial assumptions used for FRS 17 purposes are shown in the following table:

	UK schemes	Elizabethtown Water Company
Price inflation	2.5%	3.0%
Salary increases	3.5%	6.5%
Pension increases	2.5%	0.0%
Discount rate for scheme liabilities	6.0%	7.25%

## Notes to the financial statements

## 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:

Schemes in surplus:	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £m
Equities	7.6%	695
Bonds	5.6%	197
Property	6%	45
Other assets	3.5%	47
Total market value of assets		984
Present value of schemes liabilities		(842)
Surplus in the schemes		142
Irrecoverable surplus		(65)
Recoverable surplus		77
Related deferred tax liability		(23)
Net pension asset		54

The Group's net assets and profit and loss reserve at 31 December 2001 would be as follows in accordance with the requirements of FRS 17:

	31 December 2001 £m
Net assets excluding SSAP 24 and FRS 17 asset	1,735
Net pension asset under FRS 17	58
Net pension liability under FRS 17	(4)
Net assets including FRS 17 asset	1,789
Profit and loss reserve excluding SSAP 24 and FRS 17 asset	1,051
Net pension asset under FRS 17	54
Profit and loss reserve including FRS 17 asset	1,105

## Notes to the financial statements

## 27 Net cash inflow from operating activities

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Group operating profit	349.1	474.8
Depreciation and amortisation	284.5	243.4
(Increase) in stocks	(2.8)	(2.9)
(Increase) in debtors	(144.7)	(25.7)
Increase/(decrease) in creditors	106.1	(9.4)
Increase in long-term provisions	13.6	41.3
Other and foreign exchange	32.7	(1.4)
	<b>638.5</b>	<b>720.1</b>

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

## 28 Return on investments and servicing of finance

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Non-equity dividends paid	-	(0.8)
Interest received	27.1	33.9
Interest paid	(176.7)	(215.4)
Interest element of finance lease rental payments	(8.4)	(12.8)
	<b>(158.0)</b>	<b>(195.1)</b>

## 29 Capital expenditure and financial investment

	9 month period ended 31 December 2001 £m	Year ended 31 March 2001 £m
Purchase of tangible fixed assets	(379.8)	(391.9)
Infrastructure renewals expenditure	(46.7)	(42.8)
Capital contributions received	42.2	49.1
Proceeds on sale of tangible fixed assets	17.5	-
	<b>(366.8)</b>	<b>(385.6)</b>

## Notes to the financial statements

## 30 Acquisitions

	Book Value At 31 December 2001 £m	Book Value At 31 March 2001 £m
Intangible assets	42.4	41.7
Tangible fixed assets	75.4	992.9
Debtors/stock	17.5	139.2
Current liabilities	(17.1)	(624.2)
Cash at bank & in hand	0.1	74.0
Long term liabilities	(4.8)	(202.5)
Provisions	-	(27.8)
Minority interests	(38.2)	(120.6)
Share of net assets previously held as investments in associated undertakings	(20.7)	-
Net assets acquired	54.6	272.7
Goodwill	103.3	416.0
	157.9	688.7
Consideration – satisfied wholly by cash	(157.9)	(688.7)
Cash acquired	0.1	74.0
	(157.8)	(614.7)

## 31 Disposals

	Book Value At 31 December 2001 £m	Book Value At 31 March 2001 £m
Tangible fixed assets	20.2	-
Debtors/stock	29.5	-
Current liabilities	(13.4)	-
Provisions	(14.5)	-
Net assets disposed	21.8	-
Goodwill pre 1997 written off on disposal of businesses	18.4	-
Goodwill post 1997 written off on disposal of businesses	13.2	-
Disposal provisions	12.7	-
Loss on disposal	(37.3)	-
Satisfied wholly by cash	28.8	-
Net debt disposed	(0.2)	-
	28.6	-

## Notes to the financial statements

## 32 Analysis of net debt

	At 31 March 2001 £m	Cash flow £m	Acquisitions and disposals (excl. cash and overdrafts) £m	Exchange movements £m	At 31 December 2001 £m
Cash in hand	155.2	(25.1)	-	-	130.1
Bank overdraft	(19.7)	(9.0)	-	-	(28.7)
Net cash	135.5	(34.1)	-	-	101.4
Loans due within one year	(1,064.6)	(210.9)	0.1	3.6	(1,271.8)
Loans due after more than one year	(2,079.4)	(50.2)	-	2.9	(2,126.7)
Finance leases	(263.5)	12.9	-	-	(250.6)
Liquid resources	78.6	(5.0)	-	-	73.6
	(3,193.4)	(287.3)	0.1	6.5	(3,474.1)

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

During the period, the Group entered into finance leases amounting to £Nil (31 March 2001: £0.4m) to fund capital plant, equipment and vehicles.

## 33 Related parties

During the period, 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
United Water International Pty Limited	Joint Venture	0.4	-
St James Homes Limited	Joint Venture	16.2	-
Stirling Water Seafeld Limited	Joint Venture	6.8	0.8

At 31 December 2001, the Group was owed £6.5m (31 March 2001: £6.3m) by Stirling Water Seafeld Limited.

## 34 Guarantees

At 31 December 2001 the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £755.3m (31 March 2001: £751.4m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £82.8m at 31 December 2001 (31 March 2001: £60.2m). 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.



## Notes to the financial statements

## 35 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 2002 should apply to: The Company Secretary, Thames Water Utilities Limited, Clearwater Court, Vastern Road, Reading, RG1 8DB.

## 36 Group undertakings

At 31 December 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
<b>Subsidiary Undertakings</b>					
<b>UK:</b>					
CONNECT 2020 Limited	Great Britain	Ordinary		100%	Procurement logistics
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Kennet Properties Limited	Great Britain	Ordinary	100%		Property
PWT Projects Limited	Great Britain	Ordinary		100%	Process engineering
Thames Water Developments Limited	Great Britain	Ordinary	100%		Property
Thames Water Investments Limited	Great Britain	Ordinary	100%		Property
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
Thames Water Products Limited	Great Britain	Ordinary	100%		Water & wastewater equipment, industrial membrane filtration, pipeline products and water disinfection, product technology.
Thames Water Property Limited	Great Britain	Ordinary	100%		Property
Thames Water Services Limited	Great Britain	Ordinary	100%		Drain and pipe cleaning & rehabilitation, sewerage, waste and incineration facilities management
Thames Water Utilities Limited	Great Britain	Ordinary	100%		Water and wastewater services
Water Projects International Limited	Great Britain	Ordinary	100%		Process engineering
<b>Asia Pacific:</b>					
BJT Water Company Limited	Thailand	Ordinary		75%	Industrial estate management
Thames Pam Jaya	Indonesia	Ordinary		100%	Water operations and maintenance
Thames (Shanghai) Limited	British Virgin Islands	Ordinary		50%	Management company
Thames Water Projects (Australia) Pty Limited	Australia	Ordinary		100%	Process engineering
Thames Water Engineering (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Process engineering
Thames Water International (Singapore) Pte Limited	Singapore	Ordinary		100%	Process engineering
Thames Water International (Hong Kong) Limited	Hong Kong	Ordinary		100%	Process engineering

## Notes to the financial statements

## 36 Group undertakings (continued)

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held-directly	Proportion of shares held-indirectly	Nature of business
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		90%	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Water operations and maintenance
<b>Germany, Middle East and Africa:</b>					
Izmit Su As	Turkey	Ordinary	55%		Water operations and maintenance
<b>Americas:</b>					
Aguas Nuevo Sur Maule SA	Chile	Ordinary		100%	Water operations and maintenance
Ashbrook Corporation Inc	USA	Ordinary		100%	Water and wastewater equipment
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		51%	Water operations and maintenance
Empresa de Servicios Sanitarios del Libertador SA (ESSEL)	Chile	Ordinary		51%	Water operations and maintenance
E'town Corporation Inc	USA	Ordinary		100%	Water operations and maintenance
F B Leopold Company Inc	USA	Ordinary		100%	Water & wastewater treatment equipment
Hydro-Aerobics Inc	USA	Ordinary		100%	Packaged water treatment systems
Thames Water Holdings Inc	USA	Common Convertible		100%	Management company
				100%	
<b>Joint Ventures</b>					
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
Stirling Water Seafield Limited	Great Britain	Ordinary		49%	Water operations and maintenance
<b>Associate Undertakings</b>					
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.

## 37 Ultimate parent company and controlling party

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