

Registered Number: 2366623

Thames Water plc
Annual report and financial statements
for the year ended 31 December 2002



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Thames Water plc

Annual report and financial statements for the year ended 31 December 2002

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Directors' report for the year ended 31 December 2002

The Directors' present their report and the audited financial statements for the year ended 31 December 2002.

Principal activities

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

Thames Water plc is the operating management company of the Water Business Area of the RWE group.

Financial performance

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

Review of business and future developments

Financial performance

For the year ending 31 December 2002, Thames Water's turnover was £1,679.6m (9 month period ended 31 December 2001: £1,205.4). Profit on ordinary activities before taxation was £340.4m for the year (9 month period ended 31 December 2001: £174.4m) including a profit of £14.7m arising on disposals of businesses during the year.

Thames Water's capital expenditure of £692.5m (9 month period ended 31 December 2001: £438.9m) during the year has been particularly targeted towards security of drinking water supplies to customers, water balance, water and wastewater quality programmes and the alleviation of sewer flooding.

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

Disposals

During the year, Thames Water has disposed of its industrial membrane filtration business through an asset disposal of the PCI Membranes business of Thames Water Products Limited on 16 December 2002. Further, on 17 December 2002, Thames Water transferred its shareholding in Thames Water Deutschland GmbH, the holding company of the majority of the Group's North American business, including E'Town Corporation, to a fellow subsidiary of the RWE group. The Directors' consider the transfer value to be an approximation to fair value. These transactions have been treated under FRS 3 as discontinued operations and the comparatives restated. In the prior year, the Group disposed of the Brophy Grounds Maintenance, Metro Rod, Talbot, Simon Hartley Penstocks and Thames Waste Management businesses.

Funding and treasury policy

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

The current gross debt of £3,078.1m (31 December 2001: £3,712.4m) 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 £71.9m (31 December 2001: £73.6m), 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 64% (31 December 2001: 56%).

Directors' report for the year ended 31 December 2002 (continued)

Dividends

In respect of the year, the Company paid an ordinary interim dividend of £60.2m and has proposed a final dividend of £122.3m. The total dividend for the year ended 31 December 2002 of £182.5m compares with a total dividend for the 9 month period ended 31 December 2001 of £132.9m.

Directors during the year and their interests

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

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

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

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

Research and 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.

Enhanced methods of treating sewage sludge have been developed to meet more stringent environmental standards for reuse on agricultural land and to increase production of renewable energy (biogas) in the form of methane. New anaerobic sludge digestion, pre-treatment technologies including ultrasound, enzyme digestion and acid phase digestion have been evaluated at pilot scale. A full-scale acid phase digestion plant was successfully commissioned at Swindon sewage treatment works, a UK first.

A major programme of research with university partners has focused on developing a better understanding of the performance of London's extensive, but ageing water pipes network. Materials experts at the University of Surrey are looking at the effect that corrosion has on the strength of buried pipes and are conducting statistical analyses of the distribution of pipe strengths within the network in order to try to assess the risk of pipe bursts and leakage. Geotechnical experts at the Universities of Southampton and Cranfield are developing models of how traffic, ground conditions and extremes of weather impact on the older pipes that have been buried under London for 50 – 150 years. The aim is to produce improved investment plans for London's water network during the first decades of the 21st century.

Donations for charitable and political purposes

Thames Water continues to take a leadership role in the community. During the period donations of £0.2m (9 months ended 31 December 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 year ended 31 December 2002 (continued)**Employees**

Thames Water continues to value the contribution that its employees make to the success of the Group, and aim to provide employees with the opportunity to fulfill their potential and contribute fully to the Group's success. The Group has strengthened its support for employees in gaining core skills. Thames Water has a broad range of high quality and cost effective training solutions to suit all needs and its focus is on developing excellence in people management. The graduate recruitment programme continues to attract high quality recruits, who receive development in general business and specialist skills. For directors and managers, Thames Water offers development, which reinforces the importance of leadership and strong people management skills. Through Templeton College, Oxford and through links with UK and international business schools, and by using opportunities for both informal and formal networking with other parts of the RWE Group, senior people have developed their strategic planning and other business related skills. The commitment to employee development is demonstrated by further progress made towards Investors In People through accreditation and successful reaccreditation throughout the business.

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

Thames Water is committed to sharing information with employees on key business issues and our communications framework is subject to continual review and development. Thames Water have established 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. Employee involvement takes many forms in the Group, ranging from team briefings to formal consultation, and a partnership agreement exists between the Group, trade unions and employees. Workshops with a cross section of employees of all levels have been held to engage them in understanding and addressing the challenges that the business faces.

A work life balance policy has been developed jointly by managers and UK Trade Union representatives, and managers have been trained in its application. The policy helps to ensure that employees are able to meet the demands of their job while at the same time being offered support with their wider home responsibilities.

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

Policy on payment of suppliers

Thames Water's policy is to ensure that all payments to suppliers, service providers and contractors are made on the basis of mutually agreed terms and conditions that are established in advance of purchases. The Group supports a number of initiatives to promote a prompt payment culture, including those proposed in the UK by the Construction Round Table and the CBI. The amount due to trade creditors at 31 December 2002 represents 45 days (31 December 2001: 43 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 results of the Group for that period. In preparing those financial statements, the Directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

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

Directors' report for the year ended 31 December 2002 (continued)

Directors' responsibilities (continued)

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.

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

On 26 February 2003, following the conversion of the Company's auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers gave notice under section 392 of the Companies Act 1985 of their intention to resign as auditors. In accordance with section 394 of the Companies Act 1985, PricewaterhouseCoopers have confirmed that there are no circumstances connected with their resignation which they consider should be brought to the attention of the Company's shareholders or creditors. On 21 March 2003, the Board resolved to appoint PricewaterhouseCoopers LLP to fill the casual vacancy as the Company's auditors, to take over the audit appointment on the same terms and conditions as before for PricewaterhouseCoopers and to hold office until the Annual General Meeting. A resolution to reappoint PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the Annual General Meeting.

Approved by the Board on 25 April 2003



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

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

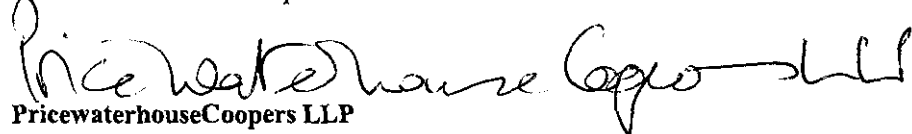
Basis of audit opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the affairs of the Company and the Group at 31 December 2002 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors

London

25 April 2003

Consolidated profit and loss account for the year ended 31 December 2002

	Note	Year ended 31 December		9 month period ended 31 December (restated)	
		2002 £m	2002 £m	2001 £m	2001 £m
Turnover (including share of joint ventures)					
- continuing operations		1,572.7		1,077.0	
- discontinued operations		199.3		198.7	
			1,772.0		1,275.7
Less: share of turnover of joint ventures					
- continuing operations			(92.4)		(70.3)
Group turnover	2		1,679.6		1,205.4
Operating costs	3		(1,185.4)		(874.0)
Other operating income – continuing operations	6		6.6		17.7
- continuing operations		456.1		326.2	
- discontinued operations		44.7		22.9	
Group operating profit			500.8		349.1
Share of operating profit/(loss) in:					
- Joint ventures			10.0		13.7
- Associates			0.4		(0.2)
Total operating profit: group and share of joint venture and associates	2		511.2		362.6
Profit on sale of fixed assets			20.8		15.9
Profit/(loss) on disposal of businesses					
- discontinued operations	7		14.7		(37.3)
Net interest payable					
- Group		(195.8)		(158.1)	
- share in joint ventures		(8.4)		(7.0)	
- share in associates		(2.1)		(1.7)	
	8		(206.3)		(166.8)
Profit on ordinary activities before taxation			340.4		174.4
Taxation on profit on ordinary activities	9		(109.3)		(72.5)
Profit on ordinary activities after taxation			231.1		101.9
Equity minority interest			(23.2)		(13.5)
Profit for the financial period			207.9		88.4
Dividends	11		(182.5)		(132.9)
Retained profit/(deficit) for the financial period	23		25.4		(44.5)

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

Consolidated and company balance sheets

As at 31 December 2002

	Note	Group		Company	
		2002 £m	2002 £m	2001 £m	2001 £m
Fixed assets					
Intangible assets	12		272.1	592.9	-
Tangible assets	13		5,321.3	5,660.8	0.4
Investments in joint ventures:					
- share of gross assets		290.4		289.9	-
- share of gross liabilities		(243.2)		(235.0)	-
		47.2		54.9	-
Investments in associates		(4.1)		(2.5)	-
Investments in subsidiary undertakings		-		-	1,906.1
Fixed asset investments	14		43.1	52.4	1,906.1
			5,636.5	6,306.1	1,906.5
Current assets					
Stocks and work in progress	15		44.1	45.9	-
Debtors	16		759.2	654.0	165.6
Investments	17		71.9	73.6	-
Cash at bank and in hand			108.8	130.1	-
			984.0	903.6	165.6
Creditors: amounts falling due within one year	18		(1,365.4)	(2,138.1)	(629.6)
Net current liabilities			(381.4)	(1,234.5)	(464.0)
Total assets less current liabilities			5,255.1	5,071.6	1,442.5
Creditors: amounts falling due after more than one year	19		(2,642.4)	(2,497.9)	(102.1)
Provisions for liabilities and charges	21		(816.6)	(836.2)	(1.5)
Net assets			1,796.1	1,737.5	1,338.9
Capital and reserves					
Called up share capital	22/23		81.8	81.8	81.8
Share premium	23		104.5	104.5	104.5
Capital redemption reserve	23		320.8	320.8	320.8
Profit and loss account	23		1,119.9	1,054.3	831.8
Equity shareholder's funds			1,627.0	1,561.4	1,338.9
Equity minority interest			169.1	176.1	-
Capital employed			1,796.1	1,737.5	1,401.7

The notes on pages 10 to 45 form part of these accounts.

The financial statements on pages 6 to 45 were approved by the Board of Directors on 25 April 2003 and signed on its behalf by



Christopher Bunker
Group Finance Director

Consolidated cash flow statement for the year ended 31 December 2002

	Note	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Net cash inflow from operating activities	27	858.1	638.5
Returns on investments and servicing of finance	28	(205.1)	(158.0)
Taxation		(20.9)	(16.9)
Capital expenditure and financial investment	29	(553.9)	(366.8)
Acquisitions and disposals			
Acquisitions	30	-	(157.8)
Disposals	14	419.5	28.6
Purchase of fixed asset investments	14	(10.3)	(17.1)
Equity dividends paid to shareholder		(193.1)	(237.7)
Net cash inflow/(outflow) before management of liquid resources and financing		294.3	(287.2)
Management of liquid resources	31	(0.9)	5.0
Financing			
Cash (outflow)/inflow from (decrease)/increase in debt and lease financing	31	(330.4)	248.1
Decrease in net cash		(37.0)	(34.1)

Reconciliation of net cash flow to movement in net debt for the year ended 31 December 2002

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Decrease in net cash	(37.0)	(34.1)
Cash (inflow)/outflow from (increase)/decrease in debt and lease financing:		
- loans due within one year	742.8	(210.9)
- loans due after more than one year	(417.2)	(50.2)
- borrowings disposed with subsidiaries	182.9	0.1
- capital repayment of finance leases	4.8	12.9
Cash (inflow)/outflow from decrease /(increase) in liquid resources	0.9	(5.0)
Decrease/(increase) in net debt resulting from cash flows	477.2	(287.2)
Other non-cash movements:		
- foreign exchange translation differences	120.9	6.5
Decrease/(increase) in net debt	598.1	(280.7)
Net debt at start of period	(3,474.1)	(3,193.4)
Net debt at end of period	(2,876.0)	(3,474.1)

Statement of consolidated total recognised gains and losses for the year ended 31 December 2002

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Group profit for the financial period	207.9	88.4
Foreign exchange adjustments	0.8	(10.2)
	208.7	78.2
Change in accounting policy – deferred taxation	-	(711.8)
Total gains/(losses) recognised for the period	208.7	(633.6)

The adoption of FRS 19 in the prior year resulted in the recognition of a deferred tax liability of £711.8m in the prior period accounts.

Reconciliation of movements in consolidated shareholder's funds for the year ended 31 December 2002

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Group profit for the financial period	207.9	88.4
Dividends	(182.5)	(132.9)
	25.4	(44.5)
Other recognised gains and losses relating to the period	0.8	(10.2)
Goodwill written back on disposal of businesses	39.4	18.4
Net change in shareholder's funds for period	65.6	(36.3)
Shareholder's funds at the start of the period	1,561.4	2,309.5
Restatement to opening balances at 1 April 2001 due to change in accounting policy – deferred taxation	-	(711.8)
Shareholder's funds at end of period	1,627.0	1,561.4

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, with the Companies Act 1985. An explanation of this departure from the requirements of the Act is given below. A summary of the more important Group accounting policies is set out below.

Changes in accounting policies and presentation of financial information

During the year ended 31 December 2002 there have been no changes in accounting policies.

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

Basis of consolidation

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

The Group's relationships are defined as follows:

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

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

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

Tangible fixed assets comprise infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines); 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.

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

Buildings:

- | | |
|--|-------------|
| • Operational structures | 40-80 years |
| • Other | 20-60 years |
| Fixed and mobile plant | 20-40 years |
| Vehicles, computers, fixtures and fittings | 3-10 years |

Notes to the financial statements

1 Accounting policies (continued)

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

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

Leased assets

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

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

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.

Notes to the financial statements**1 Accounting policies (continued)****Foreign currencies**

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

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

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

Taxation

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, not exceeding 20 years. Impairment tests on the carrying value are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

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

For accounting periods to 31 March 1997 the accounting policy for goodwill arising on acquisition was to write off against reserves in the year in which it arose. The Group has not reinstated goodwill written off in prior periods.

Derivative financial instruments

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

Related party disclosures

The company 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 32.

Notes to the financial statements

2 Segmental analysis

The segments by class of business are:

Water and wastewater: Water and wastewater operations

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

Property: Land and property development

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

Turnover

By class of business

	Year ended 31 December 2002			9 month period ended 31 December 2001		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
Water and wastewater	1,515.0	(6.2)	1,508.8	1,069.7	(26.9)	1,042.8
Products and services	220.9	(78.0)	142.9	224.9	(71.3)	153.6
Property	129.4	(9.1)	120.3	85.3	(6.0)	79.3
Other activities	18.9	(18.9)	-	11.3	(11.3)	-
Group (including share of joint ventures)	1,884.2	(112.2)	1,772.0	1,391.2	(115.5)	1,275.7
Share of joint ventures (included above)			(92.4)			(70.3)
Group			1,679.6			1,205.4

Geographical segment by
origin

	Year ended 31 December 2002			9 month period ended 31 December 2001		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
UK	1,410.7	(94.8)	1,315.9	1,061.6	(109.2)	952.4
Europe	121.2	(3.1)	118.1	91.2	(1.5)	89.7
Americas	255.5	(0.7)	254.8	174.6	(0.3)	174.3
Asia Pacific	84.8	(1.6)	83.2	59.3	-	59.3
Group (including share of joint ventures)	1,872.2	(100.2)	1,772.0	1,386.7	(111.0)	1,275.7
Share of joint ventures (included above)			(92.4)			(70.3)
Group			1,679.6			1,205.4

Notes to the financial statements

2 Segmental analysis (continued)

Geographical segment by destination	Year ended 31 December 2002			9 month period ended 31 December 2001		
	Total £m	Inter- segment £m	External £m	Total £m	Inter- segment £m	External £m
UK	1,392.3	(84.9)	1,307.4	1,051.5	(110.7)	940.8
Europe	132.4	(8.9)	123.5	95.7	-	95.7
Americas	254.2	(1.3)	252.9	175.5	(0.2)	175.3
Africa	1.4	(1.2)	0.2	0.1	-	0.1
Asia Pacific	91.9	(3.9)	88.0	63.9	(0.1)	63.8
Group (including share of joint ventures)	1,872.2	(100.2)	1,772.0	1,386.7	(111.0)	1,275.7
Share of joint ventures (included above)			(92.4)			(70.3)
Group			1,679.6			1,205.4

Operating profit

By class of business

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Water and wastewater	463.4	339.4
Products and services	8.9	4.0
Property	38.9	20.0
Other activities	2.2	0.9
Inter-segment trading	(2.2)	(1.7)
Group, joint ventures and associates	511.2	362.6

By geographical segment

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
UK	360.5	269.3
Europe	75.4	51.0
Americas	58.0	26.1
Asia Pacific	17.3	16.2
Group, joint ventures and associates	511.2	362.6

Notes to the financial statements

2 Segmental analysis (continued)

Net Assets

By class of business

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Water and wastewater	4,612.2	5,193.5
Products and services	39.5	50.9
Property	96.7	136.2
Other activities	(76.3)	(172.0)
	4,672.1	5,208.6
Net debt	(2,876.0)	(3,471.1)
Net assets	1,796.1	1,737.5

By geographical segment

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
UK	3,775.0	3,590.1
Europe	387.0	455.4
Americas	395.2	1,055.7
Asia Pacific	114.9	107.4
	4,672.1	5,208.6
Net debt	(2,876.0)	(3,471.1)
Net assets	1,796.1	1,737.5

Disposals

The above analysis of turnover and operating profit in 2002 by class of business and geographical segment includes contributions from the disposals arising during the year as follows. Net assets disposed of are also analysed by segment below. These are not included in the net assets note above. Further information on the disposals is provided in notes 7 and 14.

	Year ended 31 December 2002			9 month period ended 31 December 2001		
	Turnover £m	Operating profit £m	Net assets £m	Turnover £m	Operating profit £m	Net assets £m
By class of business						
Water and wastewater	132.5	42.8	364.2	96.1	25.4	376.7
Products and services	66.8	1.9	10.6	102.6	(2.5)	29.6
	199.3	44.7	374.8	198.7	22.9	406.3
By geographical segment – origin and destination						
UK	15.6	(1.6)	3.6	56.1	(2.9)	27.3
Europe	-	-	(40.0)	-	-	(43.0)
Americas	183.7	46.3	411.2	142.6	25.8	422.0
	199.3	44.7	374.8	198.7	22.9	406.3

Notes to the financial statements

3 Operating costs

	Year ended 31 December 2002			9 month period ended 31 December 2001 (restated)		
	Continuing operations £m	Discon- tinuing operations £m	Total £m	Continuing operations £m	Discon- tinuing operations £m	Total £m
Manpower	236.7	41.0	277.7	166.5	52.2	218.7
Materials and consumables	175.4	57.5	232.9	72.6	54.2	126.8
Other operating charges	299.8	37.9	337.7	203.2	45.4	248.6
Amortisation of goodwill and intangibles	22.7	13.8	36.5	16.8	6.6	23.4
Write-down of fixed asset investments	7.8	-	7.8	-	-	-
Depreciation:						
- owned assets	190.8	0.6	191.4	160.8	4.3	165.1
- infrastructure assets	112.2	12.3	124.5	78.1	8.6	86.7
- assets held under finance leases	11.3	-	11.3	8.4	0.9	9.3
Rentals under operating leases:						
- hire of plant and machinery	5.0	0.1	5.1	4.1	0.1	4.2
- other	10.1	1.8	11.9	5.4	1.7	7.1
Research and development	7.4	1.8	9.2	6.4	1.0	7.4
Auditors' remuneration in respect of:						
- audit work and other statutory and regulatory requirements	0.6	0.4	1.0	0.3	0.3	0.6
- non-audit work : UK	-	-	-	-	0.1	0.1
Foreign currency (losses)/gains	(1.3)	0.4	(0.9)	(0.1)	0.4	0.3
	1,078.5	167.6	1,246.1	722.5	175.8	898.3
Own work capitalised	(47.7)	(13.0)	(60.7)	(24.3)	-	(24.3)
	1,030.8	154.6	1,185.4	698.2	175.8	874.0

Included in auditors' remuneration is £50,000 (9 months ended 31 December 2001: £90,000) in respect of audit fees incurred by the Company for the year ended 31 December 2002.

Notes to the financial statements

4 Information regarding Directors

Directors' emoluments

	Year ended 31 December 2002 £000	9 month period ended 31 December 2001 £000
Aggregate emoluments	1,554	2,674
Contributions paid into money purchase schemes	81	55
	1,635	2,729

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

Highest paid Director

	Year ended 31 December 2002 £000	9 month period ended 31 December 2001 £000
Aggregate emoluments and benefits	788	1,405
Accrued pension at end of year	21	19

The above details of Directors' emoluments do not include the emoluments of W Böttcher, Dr R Klein and Dr K Sturany in respect of their services to the Group. The emoluments of W Böttcher are recharged to the Group, however, as it is not possible to separate the emoluments for his services to the Group directly from those for his services to the Water Business Area of the RWE group as a whole they are not included above. The emoluments of the other Directors are dealt within the accounts of RWE AG.

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.

5 Employees

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Group employment costs including Executive Directors' remuneration:		
- Salaries and wages	252.3	205.7
- Social security costs	21.0	15.2
- Other pension costs (note 26)	6.6	3.1
	279.9	224.0

Notes to the financial statements

5 Employees (continued)

Total employment costs contain £nil (9 months ended 31 December 2001: £5.3m) and £2.2m (9 months ended 31 December 2001: £2.3m), which are included in infrastructure assets depreciation and research and development costs respectively in note 3.

	Year ended 31 December 2002 No.	9 month period ended 31 December 2001 No.
Average monthly number of persons employed by the Group including Executive Directors:		
Water and wastewater	9,502	8,848
Products and services	1,987	3,994
Property	84	83
	11,573	12,925

6 Other operating income

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Other investment income	0.4	0.2
Miscellaneous	6.2	17.5
	6.6	17.7

7 Profit/(loss) on disposal of businesses

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Profit/(loss) on disposal of businesses during the period	14.7	(37.3)

On 16 December 2002, the Group disposed of its industrial membrane filtration business through a trade disposal of the PCI Membranes business of Thames Water Products Limited.

On 17 December 2002, the Group transferred its shareholding in Thames Water Deutschland GmbH, the holding company of the majority of the Group's North American business, including E'Town Corporation, to a fellow subsidiary of the RWE group.

Further details are given in note 14.

Notes to the financial statements

8 Net interest payable

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	81.4	73.3
- Repayable within five years by instalments	58.2	35.6
- Not wholly repayable within five years	68.6	75.3
Finance charges in respect of finance leases	14.5	8.4
Other finance charges	2.5	1.3
Interest payable and similar charges	225.2	193.9
Interest receivable	(18.9)	(27.1)
	206.3	166.8

Included within bank loans, overdrafts and other loans repayable within five years otherwise than by instalments is £32.4m (9 months ended 31 December 2001: £8.1m) of interest paid to RWE group companies.

9 Taxation on profit on ordinary activities

Analysis of charge in period

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
UK corporation tax at 30% (2001: 30%)	4.0	-
Overseas corporation taxes	27.0	14.2
Share of associates and joint venture tax	2.1	2.1
Total current tax	33.1	16.3
Deferred tax - origination and reversal of timing differences	76.2	56.2
	109.3	72.5

Notes to the financial statements

9 Taxation on profit on ordinary activities (continued)

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% (9 months ended 31 December 2001: 30%). The differences are explained below:

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 (restated) £m
Profit on ordinary activities before taxation	340.4	174.4
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30%	102.1	52.3
Effects of:		
Amortisation of goodwill	7.0	5.9
Non taxable items	(7.4)	11.2
Capital allowances in excess of depreciation	(60.5)	(51.4)
Utilisation of Group tax losses	(13.3)	-
Other timing differences	(2.2)	(4.8)
International corporate tax rate differentials and other items	7.4	3.1
Tax charge for the period	33.1	16.3

10 Profits of holding company

Of the profit, before dividends, of the Group for the financial period, a profit of £119.7 (9 months ended 31 December 2001: £85.7m) 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

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Equity		
Interim – paid 16.9p (2001: nil) per 23p share	60.2	-
Final proposed – 34.4p (2001: 37.4p) per 23p share	122.3	132.9
	182.5	132.9

All shares in issue are equity shares.

Notes to the financial statements

12 Intangible assets

	Group		
	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At 1 January 2002	525.0	101.5	626.5
Additions	-	15.6	15.6
Reclassifications	-	37.9	37.9
Disposal of businesses	(235.7)	(59.4)	(295.1)
Foreign exchange adjustments	(59.6)	(13.3)	(72.9)
At 31 December 2002	229.7	82.3	312.0
Aggregate amortisation			
At 1 January 2002	25.2	8.4	33.6
Charge for the year	23.4	13.1	36.5
Disposal of businesses	(25.0)	(2.2)	(27.2)
Foreign exchange adjustments	(1.9)	(1.1)	(3.0)
At 31 December 2002	21.7	18.2	39.9
Net book value			
At 31 December 2002	208.0	64.1	272.1
At 31 December 2001	499.8	93.1	592.9

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

The Company had no intangible assets (31 December 2001: £nil).

Notes to the financial statements

13 Tangible fixed assets

				Group	Company
	Land and buildings £m	Infra- structure assets £m	Plant and equipment £m	Total £m	Plant and equipment £m
Cost					
At 1 January 2002	1,773.8	3,724.8	2,536.6	8,035.2	1.1
Additions	128.4	273.6	290.5	692.5	0.4
Reclassifications	6.9	(17.0)	(33.5)	(43.6)	-
Disposal of businesses	(10.8)	(553.0)	(40.7)	(604.5)	-
Disposals	(11.5)	(31.9)	(67.1)	(110.5)	-
Foreign exchange adjustments	(2.1)	(127.0)	(25.5)	(154.6)	-
At 31 December 2002	1,884.7	3,269.5	2,660.3	7,814.5	1.5
Capital contributions					
At 1 January 2002	-	383.1	-	383.1	-
Additions	-	37.4	-	37.4	-
Disposals of businesses	-	(2.2)	-	(2.2)	-
At 31 December 2002	-	418.3	-	418.3	-
Accumulated depreciation					
At 1 January 2002	402.7	700.2	888.4	1,991.3	1.0
Provided during the year	39.7	124.5	163.0	327.2	0.1
Reclassifications	2.4	2.1	(1.9)	2.6	-
Disposal of businesses	(4.2)	(114.3)	(15.4)	(133.9)	-
Disposals	(11.5)	(1.4)	(63.2)	(76.1)	-
Foreign exchange adjustments	(0.8)	(28.5)	(6.9)	(36.2)	-
At 31 December 2002	428.3	682.6	964.0	2,074.9	1.1
Net book value					
At 31 December 2002	1,456.4	2,168.6	1,696.3	5,321.3	0.4
At 31 December 2001	1,371.1	2,641.5	1,648.2	5,660.8	0.1

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

	2002 £m	2001 £m
Group		
Freehold land and buildings	1,418.6	1,333.1
Leaseholds : over 50 years	30.9	31.8
: under 50 years	6.9	6.2
	1,456.4	1,371.1

No depreciation has been charged on freehold land included at a cost of £8.7m (31 December 2001: £14.7m).

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	
	2002 £m	2001 £m	2002 £m	2001 £m
Plant and equipment	273.0	273.2	205.4	216.7

Tangible fixed assets at 31 December 2002 include £723.6m (31 December 2001: £592.3m) of assets in the course of construction.

14 Fixed asset investments

Group

	Interests in joint ventures and associated under- takings £m
Share of net assets	
At 1 January 2002	52.4
Additions	10.3
Write-down of investment	(7.8)
Share of loss after tax for year	(2.2)
Disposal of businesses	(9.3)
Foreign exchange adjustments	(0.3)
At 31 December 2002	43.1

The cost of the Group's interests in associated undertakings and joint ventures at 31 December 2002 amounted to £28.1m (31 December 2001: £34.9m). The Group's share of post-acquisition accumulated profits at 31 December 2002 was £15.0 (31 December 2001: £17.5m). The associated undertakings and joint ventures are all unlisted.

Notes to the financial statements

14 Fixed asset investments (continued)

Acquisitions and disposals

Group acquisitions arising during the year

On 11 April 2002, the Group acquired an effective holding of 30% in Unified Waste Services Inc., a bio-solids management company, for a total cash consideration of £8.2m (US\$13.1m). This amount is included in the £10.3m purchase of fixed asset investments in the consolidated cashflow statement on page 8. The investment was carried at cost until 17 December 2002, on which date the company was transferred to a fellow RWE group subsidiary, as part of the transfer of Thames Water Deutschland GmbH. Further details of this transfer are set out below.

Group disposals arising during the year

On 16 December 2002, the Group disposed of its industrial membrane filtration business through an asset disposal of the PCI Membranes business of Thames Water Products Limited to a company unrelated to either the Thames Water plc group or the RWE group. The consideration received was £13.7m.

On 17 December 2002, the Group transferred its holding of the entire issued share capital of Thames Water Deutschland GmbH to a fellow RWE group subsidiary, Thames Water Aqua International GmbH. The consideration received was £418.8m (US\$670m).

Further details of the disposals are given below:

Book and fair value	Thames Water		2002 Total £m	2001 Total £m
	PCI Membranes £m	Deutschland GmbH £m		
Intangible assets	-	57.2	57.2	-
Tangible assets	1.2	467.2	468.4	20.2
Investments	-	9.3	9.3	-
Stocks and work in progress	3.4	6.2	9.6	-
Debtors	4.4	308.7	313.1	29.3
Cash	0.2	12.8	13.0	0.2
Creditors due within one year	(4.8)	(441.2)	(446.0)	(13.4)
Creditors due after one year	-	(182.5)	(182.5)	-
Provisions	(0.8)	(77.2)	(78.0)	(14.5)
Net assets disposed	3.6	160.5	164.1	21.8
Goodwill previously written off to reserves	-	39.4	39.4	18.4
Goodwill capitalised	-	210.7	210.7	13.2
Disposal related provisions	3.6	-	3.6	12.7
Profit on disposal	6.5	8.2	14.7	(37.3)
Consideration – satisfied wholly by cash	13.7	418.8	432.5	28.8
Cash disposed	(0.2)	(12.8)	(13.0)	(0.2)
Net cash inflow on disposal of businesses	13.5	406.0	419.5	28.6

Notes to the financial statements

14 Fixed asset investments (continued)

Company

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

	Investment in subsidiary under- takings £m
At 1 January 2002	2,624.7
Additions	11.3
Repayment of loans	(540.8)
Write-down of investment	(34.8)
Reclassification to debtors – amounts owed by RWE group companies	(100.9)
Foreign exchange adjustments	(53.4)
At 31 December 2002	1,906.1

15 Stocks and work in progress

	2002 £m	2001 £m
Group		
Raw materials and consumables	12.7	20.1
Work in progress	13.2	6.6
Finished goods and goods for resale	18.2	19.2
	44.1	45.9
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	0.7	0.9
Applicable payments on account	-	(0.2)
	0.7	0.7

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

Notes to the financial statements

16 Debtors

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Due within one year:				
Trade debtors	240.9	276.1	-	-
Amounts recoverable on contracts	2.8	0.2	-	-
Amounts owed by group companies	120.4	0.5	144.8	31.1
Other debtors	100.3	121.1	20.8	4.8
Prepayments and accrued income	220.6	221.6	-	5.3
	685.0	619.5	165.6	41.2
Due after more than one year:				
Trade debtors	22.8	15.4	-	-
Other debtors	46.3	19.1	-	-
Prepayments and accrued income	5.1	-	-	-
	759.2	654.0	165.6	41.2

17 Current asset investments

	Group	
	2002 £m	2001 £m
Fixed term deposits and certificates of deposit	26.7	10.9
Fixed and floating interest rate securities	37.1	62.7
Managed fund	8.1	-
	71.9	73.6

The company had no current asset investments as at 31 December 2002 (31 December 2001: £nil).

Notes to the financial statements

18 Creditors: amounts falling due within one year

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans and overdrafts	163.1	292.5	27.8	-
Other loans	130.3	337.4	-	278.6
Trade creditors – operating	75.4	75.2	-	-
Trade creditors – capital	125.8	64.2	-	-
Amounts owed to group companies	243.9	670.6	456.8	738.9
Obligations under finance leases	5.6	5.0	-	-
Progress claims and advance payments	3.0	5.0	-	-
Corporation tax	10.0	24.8	-	-
Other taxation and social security	12.3	7.6	-	-
Accruals and deferred income	419.6	411.8	21.9	17.1
Other creditors	54.1	111.1	0.8	4.9
Proposed dividend	122.3	132.9	122.3	132.9
	1,365.4	2,138.1	629.6	1,172.4

19 Creditors: amounts falling due after more than one year

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans	1,032.2	834.9	-	-
Other loans	931.9	1,056.4	-	-
Amounts owed to group companies	309.5	235.4	102.1	102.9
Obligations under finance leases	240.2	245.6	-	-
Progress claims and advance payments	3.6	-	-	-
Corporation tax	2.4	1.8	-	-
Deferred income	101.2	89.2	-	-
Other creditors	21.4	34.6	-	-
	2,642.4	2,497.9	102.1	102.9

Notes to the financial statements

20 Financial instruments

Short-term debtors and creditors

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

Financial assets

Interest rate risk profile

	Total at floating rates		Total at fixed rates		No interest		Total book value		For fixed rate assets only			
									Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 £m	2001 £m	2002 %	2001 %	2002 Years	2001 Years
Current asset investment												
- £ Sterling	48.1	-	-	3.9	8.1	11.0	56.2	14.9	-	2.2	-	7.4
- \$ US	-	-	-	13.5	-	-	-	13.5	-	4.7	-	9.3
- Other	15.7	1.7	-	43.5	-	-	15.7	45.2	-	5.0	-	7.4
	63.8	1.7	-	60.9	8.1	11.0	71.9	73.6	-	4.8	-	7.8
Cash at bank/hand												
- £ Sterling	40.9	30.2	-	-	-	0.5	40.9	30.7	-	-	-	-
- \$ US	34.8	66.8	-	-	-	6.6	34.8	73.4	-	-	-	-
- Other	28.6	24.0	-	-	4.5	2.0	33.1	26.0	-	-	-	-
	104.3	121.0	-	-	4.5	9.1	108.8	130.1	-	-	-	-
Debtors > 1 year	-	-	-	-	46.3	19.1	46.3	19.1	-	-	-	-
	168.1	122.7	-	60.9	58.9	39.2	227.0	222.8	-	4.8	-	7.8

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

Non interest bearing assets of £8.1m (31 December 2001: £11.0m) are held as units in investment and unit trusts and have no maturity period.

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

Notes to the financial statements

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 interest rate		Weighted average period until maturity for which rate is fixed	
	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001	2002	2001
	£m	£m	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Bank loans and overdraft												
- £ Sterling	168.1	149.0	380.5	398.8	0.1	-	548.7	547.8	7.1	7.0	5.5	6.2
- \$ US	118.9	167.8	191.0	248.0	-	-	309.9	415.8	7.5	7.5	6.0	5.9
- Other	121.8	-	214.9	163.8	-	-	336.7	163.8	3.9	5.8	4.2	0.4
	408.8	316.8	786.4	810.6	0.1	-	1,195.3	1,127.4	6.3	6.9	5.3	5.0
Other loans and finance leases												
- £ Sterling	668.2	472.3	844.2	912.3	-	-	1,512.4	1,384.6	6.4	6.3	22.2	21.9
- \$ US	2.2	952.9	167.9	207.5	-	3.7	170.1	1,164.1	5.9	6.8	2.6	12.3
- Other	144.7	0.8	34.0	0.7	0.2	0.2	178.9	1.7	6.1	5.2	10.0	1.0
	815.1	1,426.0	1,046.1	1,120.5	0.2	3.9	1,861.4	2,550.4	6.3	6.3	18.7	20.1
Creditors > 1 year												
- Other	-	-	-	-	21.4	34.6	21.4	34.6	-	-	-	-
	1,223.9	1,742.8	1,832.5	1,931.1	21.7	38.5	3,078.1	3,712.4	6.3	6.6	13.0	13.9

Other loans include amounts owed to RWE group companies.

The Group's interest rate and cross currency swaps convert £243m (31 December 2001: £245m) of floating rate borrowings to fixed rate and £43m (31 December 2001: £61m) of fixed rate borrowings to floating rate. Cross currency swaps hedge currency risk on £492m (31 December 2001: £691m) of foreign currency borrowings.

Included in these amounts are £nil (31 December 2001: £150m) of floating to fixed interest rate swaps, £16m (31 December 2001: £26m) of fixed to floating interest rate swaps, and £63m (31 December 2001: £213m) of cross currency swaps for the Company.

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

Fixed rate borrowings of £1,832.5 (31 December 2001: £1,931.1m) equate to 60% (31 December 2001: 52%) of gross borrowings and 64% (31 December 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.

	Year ended 31 December 2002			9 month period ended 31 December 2001		
	Gains £m	Losses £m	Net Total £m	Gains £m	Losses £m	Net Total £m
Unrecognised gains/(losses) on hedges at start of period	0.3	(4.6)	(4.3)	0.4	(3.8)	(3.4)
Recognised during the period	(0.3)	4.6	4.3	-	-	-
Gains/(losses) arising in the period that were not recognised	-	-	-	(0.1)	(0.8)	(0.9)
Unrecognised gains/(losses) on hedges at end of period	-	-	-	0.3	(4.6)	(4.3)
of which:						
Gains/(losses) expected to be recognised in the next financial period	-	-	-	0.3	(4.6)	(4.3)

Fair values

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

	Book value		Fair value	
	2002 £m	2001 £m	2002 £m	2001 (restated) £m
Primary financial instruments:				
Financial assets:				
Current asset investments	71.9	73.6	71.9	73.6
Cash at bank and in hand	108.8	130.1	108.8	130.1
Debtors > 1 year	46.3	19.1	46.3	19.1
Financial liabilities:				
Bank loans and overdrafts	(1,195.3)	(1,127.3)	(1,245.3)	(1,154.1)
Other loans and finance leases	(1,861.4)	(2,550.4)	(2,077.5)	(2,695.2)
Creditors > 1 year	(21.4)	(34.6)	(21.4)	(34.5)
Derivative financial instruments:				
Interest rate swaps, cross currency swaps and forward foreign currency contracts	-	-	40.5	(48.0)
	(2,851.1)	(3,489.5)	(3,076.7)	(3,709.0)

The fair values of forward foreign currency contracts have been included in the comparison of book and fair values for the first time this year. Accordingly for comparison purposes the 2001 figures have been restated to reflect the fair values of these items at that date.

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 2002 and 31 December 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

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors > 1 year, as disclosed on page 29, is as follows:

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans and overdrafts				
- Within one year	163.1	292.5	27.8	-
- Between one and two years	175.4	99.6	-	-
- Between two and five years	459.1	223.5	-	-
- After more than five years	397.7	511.8	-	-
	1,195.3	1,127.4	27.8	-
Other loans				
- Within one year	374.2	1,008.0	-	278.6
- Between one and two years	98.8	129.2	-	-
- Between two and five years	87.3	137.3	-	-
- after more than five years	1,055.3	1,025.3	-	-
	1,615.6	2,299.8	-	278.6
Finance leases				
- Within one year	5.6	5.0	-	-
- Between one and two years	6.6	5.5	-	-
- Between two and five years	29.8	24.5	-	-
- after more than five years	203.8	215.6	-	-
	245.8	250.6	-	-
Total borrowings	3,056.7	3,677.8	27.8	278.6

The analysis of maturities excludes creditors due after more than one year. Loans are repayable between 2003 and 2032.

Notes to the financial statements

20 Financial instruments (continued)

Loans wholly repayable after more than five years are:

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Bank loans	347.4	413.1	-	-
Other loans	1,055.3	1,025.1	-	-
	1,402.7	1,438.2	-	-

Other loans include:

\$115m 5.2% loan from RWE AG due 2007

€125m 3.1% loan from RWE AG due 2003

€73m 3% loan from RWE AG due 2003

€25m 3.3% loan from RWE AG due 2003

£97m loan from Innogy Plc due 2003

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

£175m loan due 2021

£330m 6¾% MTN Eurobond due 2028

£200m 6½% MTN Eurobond due 2032

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

Loans repayable by instalments after more than five years are:

	2002 £m	2001 £m
Group		
Bank loans	50.3	98.7
Other loans	-	0.2
Finance leases	203.8	215.6
	254.1	314.5

The range of interest rates on outstanding bank loans are 3.8% to 11.5% (31 December 2001: 4% to 11.5%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate derivatives.

Borrowing facilities

At 31 December 2002, the Group had unused committed borrowing facilities with a range of financial institutions totalling £220m (31 December 2001: £65m) expiring as follows:

	Group		Company	
	2002 £m	2001 £m	2002 £m	2001 £m
Within one year	220	65	-	-

The Group also has a US\$4 billion (31 December 2001: US\$4billion) uncommitted Euro Medium Term Note programme. The programme provides access for Thames Water Utilities Limited (via Thames Water Utilities Finance plc) to the capital markets in a range of currencies and maturities. At 31 December 2002 £907.6m of issuance (31 December 2001: £1,043.0m) had been borrowed with a weighted average term of 20.2 years (31 December 2001: 15.2 years) at a weighted average rate of 5.68% (31 December 2001: 5.2%). 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 £m	Insurance Liabilities £m	Other £m	Total £m
At 1 January 2002	766.2	36.5	33.5	836.2
Provided during the year	76.2	2.0	9.0	87.2
Utilised during the year	-	(0.3)	(12.8)	(13.1)
Released during the year	-	-	(4.1)	(4.1)
Disposal of businesses	(69.8)	-	(8.2)	(78.0)
Foreign exchange adjustments	(7.3)	-	(4.3)	(11.6)
At 31 December 2002	765.3	38.2	13.1	816.6

Deferred taxation

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

	2002 £m	2001 £m
Accelerated capital allowances	767.8	784.2
Tax losses carried forward	(5.6)	(18.9)
Other timing differences	3.1	0.9
	765.3	766.2

Insurance liabilities

Insurance liabilities comprise provisions for claims received but not yet settled and anticipated claims not yet reported. These provisions are held by the Group's captive insurance company.

Other provisions

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

Company

	Other £m
At 1 January 2002	0.7
Provided during the year	0.8
At 31 December 2002	1.5

22 Share capital

	2002 £m	2001 £m
Group and Company		
Authorised:		
976,128,916 (2001: 976,128,916) ordinary shares of 23p each and 380,367,532 (2001: 380,367,532) 'B' shares of 79p each	525.0	525.0
Allotted, called up and fully paid		
355,770,743 (2001: 355,770,743) ordinary shares of 23p each	81.8	81.8

Notes to the financial statements

23 Share capital and reserves

	Year ended 31 December 2002				9 month period ended 31 December 2001	
	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	Total £m	Total £m
Group						
At start of period	81.8	104.5	320.8	1,054.3	1,561.4	1,597.7
Retained profit/(deficit) for the period	-	-	-	25.4	25.4	(44.5)
Foreign exchange adjustments	-	-	-	0.8	0.8	(10.2)
Goodwill written back on disposal of businesses	-	-	-	39.4	39.4	18.4
At end of period	81.8	104.5	320.8	1,119.9	1,627.0	1,561.4
Company						
At start of period	81.8	104.5	320.8	894.6	1,401.7	1,448.9
Deficit for the period	-	-	-	(62.8)	(62.8)	(47.2)
At end of period	81.8	104.5	320.8	831.8	1,338.9	1,401.7

The cumulative goodwill of £13.5m (31 December 2001: £52.9m) relating to acquisitions made to 31 March 1997 is included in Group reserves.

24 Operating leases

At 31 December 2002, the Group was committed to making the following payments in respect of non-cancellable operating leases:

Group	2002 £m	2001 £m
Land and buildings		
Leases which expire:		
- Within one year	0.4	1.1
- Between one and two years	0.6	0.9
- Between two and five years	0.7	1.1
- After more than five years	5.8	6.0
	7.5	9.1
Other		
Leases which expire:		
- Within one year	1.1	1.8
- Between one and two years	0.6	1.7
- Between two and five years	0.3	0.5
	2.0	4.0

Notes to the financial statements

24 Operating leases (continued)

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

25 Capital commitments

	2002 £m	2001 £m
Group		
Contracted for but not provided in the financial statements	271.7	141.4

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.

26 Post retirement schemes

	Year ended 31 December 2002 £m	9 month ended 31 December 2001 £m
Pension costs	5.3	2.6
Post retirement (non-pension) benefit costs	1.3	0.5
	6.6	3.1

Pension Schemes

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

The total ongoing pension cost of the Group during the year ended 31 December 2002 was £5.3m (9 months ended 31 December 2001: £2.6m) of which £2.7m (9 months ended 31 December 2001: £0.6m) relates to the overseas schemes. The pension costs relating to the UK and E'Town Corporation schemes are assessed in accordance with advice received from the consulting actuaries to the schemes. The pension costs relating to the other overseas schemes are assessed in accordance with local practice, with liabilities provided to meet the pensions reporting requirements of SSAP 24 where material differences arise.

For accounting purposes, any surplus of pension fund assets in excess of pension liabilities is being recognised as a percentage of pensionable salaries spread over the average future working lifetime of the members. For funding purposes, in respect of the UK schemes, any surplus or deficit may be recognised more quickly. For funding purposes in respect of the US defined benefit plan for employees of E'Town Corporation, contributions are determined by independent actuaries in line with US statutory requirements.

Notes to the financial statements

26 Post retirement schemes (continued)

The principal assumptions used in determining the pension costs for the UK and E'Town Corporation schemes during 2002, and the components of the pension cost are set out in the table below:

	UK schemes	E'Town Corporation
Method	Projected unit method for schemes open to new members. Attained age method for closed scheme.	Projected unit credit method
Interest rate	5.90% pa	7.25% pa
Earnings increases	3.50% pa	4.50% pa
Pension increases	2.50% pa	0.00% pa
Asset valuation	Market value	Market value
Regular cost	£17.7m	£1.2m
Variation cost	£(17.2)m	£(0.9)m

Further information on UK schemes

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

Contributions to the UK schemes for the year ended 31 December 2002 are based on actuarial reviews of the individual schemes as at 31 December 2001.

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 £947m and represented 123% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

As at 31 December 2002, a prepayment of £14.3m (31 December 2001: £15.5m) was included in debtors (note 16) in relation to the funded schemes and accruals of £3.5m (31 December 2001: £2.8m) were included in creditors (note 18) in relation to the unfunded schemes.

Other post retirement schemes

The Group also operated a plan in the United States, which provides employees of E'Town Corporation 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.

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

	E'Town Corporation
Discount rate	7.25%
Healthcare inflation	10% pa in 2002 decreasing uniformly to 5% pa in 2007

At 31 December 2002 the Group no longer participated in the E'Town Corporation schemes following the disposal of the Group's interest in this Company on 17 December 2002, as a result of the disposal of Thames Water Deutschland GmbH (see note 14).

Notes to the financial statements

26 Post retirement schemes (continued)

Additional disclosures in respect of FRS 17

In accordance with the requirements of FRS 17, 'Retirement Benefits', this note discloses the main financial assumptions made in valuing the liabilities of the schemes, the fair value of assets held, the opening and closing balance sheet amounts, together with the profit and loss account amounts and statement of total recognised gains and losses amounts. In compliance with FRS 17, no comparatives are reported for the last two items.

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'.

At 31 December 2002 the Group no longer participated in the E'Town Corporation schemes following the disposal of the Group's interest in this Company on 17 December 2002, as a result of the disposal of Thames Water Deutschland GmbH (see note 14). Accordingly, the closing net deficit and balance sheet disclosures exclude these schemes.

As at 31 December 2002, the UK schemes were in deficit position where the present value of the schemes' obligations exceeded the market value of the assets. In light of the current situation of the financial markets, and its impact upon the valuation of the pension schemes' assets, employer's contributions into these schemes were increased from 1 January 2003. Furthermore, the levels of contributions will be subject to annual review as long as the current situation continues. No immediate remedial action was considered necessary.

The disclosures in this note are based on the calculations carried out in connection with the formal actuarial valuation of the main schemes as at 31 December 2001, updated to 31 December 2002, by the actuary.

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

	2002	2001
Price inflation	2.40%	2.50%
Salary increases	3.40%	3.70%
Pension increases	2.40%	2.40%
Discount rate for scheme liabilities	5.55%	6.10%

The assumptions for 2001 are a weighted average for UK and US schemes. The assumptions for 2002 are for UK schemes only.

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:

	Long term rate of return expected at 31 December 2002	Value at 31 December 2002 £m	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £m
Equities	8.0%	582	7.6%	695
Bonds	5.0%	135	5.6%	197
Property	8.0%	47	6.0%	45
Other assets	4.0%	20	3.5%	47
Total market value of assets		784		984
Present value of schemes liabilities		(847)		(842)
(Deficit)/surplus in the schemes		(63)		142
Irrecoverable surplus		-		(65)
(Deficit)/recoverable surplus		(63)		77
Related deferred tax asset/(liability)		19		(23)
Net pension (deficit)/asset		(44)		54

The Group's net assets and profit and loss reserve at 31 December 2002 would be as follows in accordance with the requirements of FRS 17:

	2002 £m	2001 £m
Net assets excluding SSAP 24 and FRS 17 asset	1,782	1,735
Net pension asset under FRS 17	-	58
Net pension deficit under FRS 17	(44)	(4)
Net assets including FRS 17 (deficit)/asset	1,738	1,789
Profit and loss reserve excluding SSAP 24 and FRS 17 asset	1,106	1,051
Net pension deficit under FRS 17	(44)	54
Profit and loss reserve including FRS 17 (deficit)/asset	1,062	1,105

Notes to the financial statements

26 Post retirement schemes (continued)

The amounts that would have been recognised in the Group's profit and loss account and statement of total recognised gains and losses for the year ended 31 December 2002, if FRS 17 had been adopted, are as follows:

	Year ended 31 December 2002 £m
Operating profit:	
Current service cost	(19.1)
Past service cost	(0.3)
Total operating charge included in operating profit	(19.4)
Curtailment/settlement income included in profit on disposal of subsidiary undertakings	19.5
Other finance income:	
Expected return on pension scheme assets	60.6
Interest on pension scheme liabilities	(50.6)
Net finance income included within net interest payable	10.0
Statement of total recognised gains and losses (STRGL):	
Actual return less expected return on pension scheme assets	(206.5)
Experience gains and losses arising on the scheme liabilities	35.6
Changes in assumptions underlying the present value of scheme liabilities	(53.4)
Gains and losses arising due to exchange rate fluctuation	1.4
Gains and losses in recognisable surplus	65.1
Actuarial loss recognised in STRGL	(157.8)

The movement in the surplus/(deficit) during the year to 31 December 2002 was as follows:

	Year ended 31 December 2002 £m
Surplus in scheme at start of year	142.0
Operating charge	(19.4)
Employer contributions	7.7
Other finance income	10.0
Actuarial loss	(222.9)
Curtailment/settlement income on transfer of scheme outside of Group	19.5
Deficit in scheme at end of year	(63.1)

Notes to the financial statements

26 Post retirement schemes (continued)

The details of experience gains and losses for the year to 31 December 2002 are as follows:

	Year ended 31 December 2002
Difference between the expected gains and losses on scheme assets:	
Amount (£m)	(206.5)
Percentage of scheme assets	-25.3%
Experience gains and losses on scheme liabilities:	
Amount (£m)	35.6
Percentage of the present value of the scheme liabilities	4.0%
Total amount recognised in statement of total recognised gains and losses:	
Amount (£m)	(157.8)
Percentage of the present value of the schemes liabilities	-17.5%

The amounts above have been expressed as percentages of scheme assets and liabilities including the assets and liabilities of E'Town Corporation immediately prior to disposal.

27 Net cash inflow from operating activities

	Discontinued operations £m	Continuing operations £m	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Group operating profit	44.7	456.1	500.8	349.1
Depreciation and amortisation	26.7	337.0	363.7	284.5
Increase in stocks	(1.1)	(6.7)	(7.8)	(2.8)
Decrease/(increase) in debtors	9.6	(450.2)	(440.6)	(144.7)
(Decrease)/increase in creditors	(162.1)	606.1	444.0	106.1
(Decrease)/increase in provisions	(11.3)	1.5	(9.8)	13.6
Other and foreign exchange	-	7.8	7.8	32.7
	(93.5)	951.6	858.1	638.5

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

Notes to the financial statements

28 Return on investments and servicing of finance

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Interest received	18.9	27.1
Interest paid	(200.2)	(176.7)
Interest element of finance lease rental payments	(14.5)	(8.4)
Minority interest dividends	(9.3)	-
	(205.1)	(158.0)

29 Capital expenditure and financial investment

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Purchase of tangible fixed assets	(559.1)	(374.0)
Purchase of intangible fixed assets	(15.6)	(5.8)
Infrastructure renewals expenditure	(71.8)	(46.7)
Capital contributions received	37.4	42.2
Proceeds on sale of tangible fixed assets	55.2	17.5
	(553.9)	(366.8)

Notes to the financial statements

30 Acquisitions

	Year ended 31 December 2002 £m	9 month period ended 31 December 2001 £m
Intangible assets	-	42.4
Tangible fixed assets	-	75.4
Debtors and stock	-	17.5
Current liabilities	-	(17.1)
Cash at bank and in hand	-	0.1
Long term liabilities	-	(4.8)
Provisions	-	-
Minority interests	-	(38.2)
Share of net assets previously held as investments in associated undertakings	-	(20.7)
Net assets acquired	-	54.6
Goodwill	-	103.3
	-	157.9
Consideration – satisfied wholly by cash	-	(157.9)
Cash acquired	-	0.1
	-	(157.8)

31 Analysis of net debt

	At 31 December 2001 £m	Cash flow £m	Disposals (excl. cash and overdrafts) £m	Exchange movements £m	At 31 December 2002 £m
Cash in hand	130.1	(16.5)	-	(4.8)	108.8
Bank overdraft	(28.7)	(20.5)	-	-	(49.2)
Net cash	101.4	(37.0)	-	(4.8)	59.6
Loans due within one year	(1,271.8)	742.8	0.4	40.5	(488.1)
Loans due after more than one year	(2,126.7)	(417.2)	182.5	87.8	(2,273.6)
Finance leases	(250.6)	4.8	-	-	(245.8)
Liquid resources	73.6	0.9	-	(2.6)	71.9
	(3,474.1)	294.3	182.9	120.9	(2,876.0)

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

Notes to the financial statements

32 Related parties

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

Related party	Status	Nature of transaction	Sale value	Amount due
			£m	£m
St James Homes Limited	Joint Venture	Property	38.6	-
Stirling Water Seafield Limited	Joint Venture	Products and services	8.3	0.5
United Water International Pty Limited	Joint Venture	Water and wastewater	0.5	-

Similarly, the Group made sales to the Izmit Municipality, a related party by virtue of its minority shareholding in Izmit Su As, of £120.3m. These transactions were water and wastewater sales. The amount due at 31 December 2002 was £22.6m (31 December 2001: £24.6m).

33 Guarantees

At 31 December 2002 the Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £1,056.7m (31 December 2001: £755.3m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £76.8m at 31 December 2002 (31 December 2001: £82.8m) and certain RWE group companies amounting to £32.1m (31 December 2001: £nil). 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.

34 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.

35 Group undertakings

At 31 December 2002, the Group held more than 10% of the allotted share capital of the following principal trading undertakings:

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
UK:						
Thames Water Utilities Limited	Great Britain	Ordinary	100%		Subsidiary	Water and wastewater services
Thames Water Procurement Limited (formerly CONNECT 2020 Limited)	Great Britain	Ordinary		100%	Subsidiary	Procurement logistics
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Subsidiary	Insurance
Kennet Properties Limited	Great Britain	Ordinary	100%		Subsidiary	Property
PWT Projects Limited	Great Britain	Ordinary	100%		Subsidiary	Process engineering
Thames Water Investments Limited	Great Britain	Ordinary	100%		Subsidiary	Property
Thames Water International Services Holdings Limited	Great Britain	Ordinary	100%		Subsidiary	Management Company
Thames Water International Services Limited	Great Britain	Ordinary	100%		Subsidiary	Marketing of technical managerial services

Notes to the financial statements

35 Group undertakings (continued)

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
Thames Water Overseas Limited	Great Britain	Ordinary		100%	Subsidiary	Management company
Thames Water Overseas Consultancy Limited	Great Britain	Ordinary	100%		Subsidiary	Marketing of technical managerial services
Thames Water Property Services Limited	Great Britain	Ordinary	100%		Subsidiary	Property
Thames Water Services Limited	Great Britain	Ordinary	100%		Subsidiary	Provision of utility network and facility management services
Water Projects International Limited	Great Britain	Ordinary	100%		Subsidiary	Process engineering
Binnie Thames Water Limited	Great Britain	Ordinary		50%	Joint venture	International Consultancy
Gemwel Limited	Great Britain	Ordinary		50%	Joint venture	Water and sewerage services
St James Group Limited	Great Britain	Ordinary	50%		Joint venture	Property
Asia Pacific:						
BJT Water Company Limited	Thailand	Ordinary		100%	Subsidiary	Industrial estate management
Thames Pam Jaya	Indonesia	Ordinary		100%	Subsidiary	Water operations and maintenance
Thames Water Projects (Australia) Pty Limited	Australia	Ordinary		100%	Subsidiary	Process engineering
Thames Water Projects (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Subsidiary	Process engineering
Thames Water Projects (Singapore) Pte Limited	Singapore	Ordinary		100%	Subsidiary	Process engineering
Thames Water HK Plc	Hong Kong	Ordinary		100%	Subsidiary	Process engineering
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		90%	Subsidiary	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Subsidiary	Water operations and maintenance
Shanghai Da Chang Waterworks Company Limited	China	Ordinary		50%	Joint venture	Water operations and maintenance
Thames Water Japan Limited	Japan	Ordinary		50%	Joint venture	Finance Company
Thames Water International (Thailand) & Ch. Karnchang Public Limited Company Limited (TWCK)	Thailand	Ordinary		50%	Joint venture	Project Management
Pathum Thani Operations Company Limited	Thailand	Ordinary		44.5%	Associate	Water operations and maintenance
Pathum Thani Water Company Limited	Thailand	Ordinary		38.6%	Associate	Water operations and maintenance
United Water International Pty Limited	Australia	Ordinary		47.5%	Joint venture	Water operations and maintenance
Thai Tap Water Supply Company Limited	Thailand	Ordinary		50%	Joint venture	Water operations and maintenance

Notes to the financial statements

35 Group undertakings (continued)

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
Europe:						
Izmit Su As	Turkey	Ordinary	55%		Subsidiary	Water operations and maintenance
Americas:						
Agua Nuevo Sur Maule SA (ANSM)	Chile	Ordinary		100%	Subsidiary	Water operations and maintenance
Empresa de Servicios Sanitarios del Bio SA (ESSBIO)	Chile	Ordinary		51%	Subsidiary	Water operations and maintenance
Thames Water Chile Limitada	Chile	Ordinary		100%	Subsidiary	Management Company
Thames Dick Superaqueduct Partners Inc	USA	Ordinary		50%	Joint venture	Water operations and maintenance

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