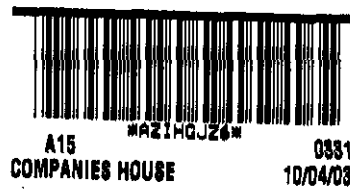


Registered no: 2366661

Thames Water Utilities Limited

Annual Report and Financial Statements

For the period 1 April 2002 to 31 December 2002



Thames Water Utilities Limited

Annual report for the period 1 April 2002 to 31 December 2002

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Thames Water Utilities Limited

Directors and secretary at 31 December 2002

Directors

W J Alexander	Non-executive Chairman, Thames Water Group Chief Executive
J R Sexton	Managing Director
T J V Jones	Managing Director Thames Water UK & Ireland
C Anderson	Finance Director
S C Walker	Non-executive director, Thames Water Group Investment Director

Independent non-executive directors

C Bowe	Deputy Chairman
P T Warry	
S Slipman	

(See page 11 for changes in directors since 31 March 2002).

Company Secretary and registered office

K G Johnson
Clearwater Court
Vastern Road
Reading
RG1 8DB

Thames Water Utilities Limited

Chairman's review

As the largest water and waste water company in the United Kingdom, Thames Water Utilities Limited is committed to the service of its customers and to the environment.

During 2002 we continued to deliver high standards of service to our customers, and we attained our highest ever quality standard for drinking water. Our compliance and performance with wastewater discharge consents again improved, making a major contribution to the ecology and to the sustainability of rivers and streams in the Thames Valley.

Utility Operations and Customer Service

We know that a reliable and high quality water supply is one of the highest priorities for our customers. Our drinking water quality for the calendar year 2002 was the highest we have ever achieved: 99.92% compliance with all water quality standards, our tenth consecutive year of improvement.

Our wastewater discharges are required to meet the highest standards in the United Kingdom. Our investment programme and operating practice have ensured that we comply with current standards and in the calendar year 2002 we achieved a best-ever 99.98% compliance with the discharge consents at our treatment works, many of which make a significant contribution to river flows and to improving the quality of the environment. The river Thames is widely acknowledged as one of the cleanest metropolitan rivers in the world, supporting 120 species of fish.

This performance, coupled with the fact that we continue to have one of the lowest average combined water and wastewater charges in England and Wales, demonstrates that we provide good value to our customers.

In the last few years we have had some of the most severe wet weather in recent history. This has led to flooding of rivers and of some sewers affecting customers' premises. We very much regret that some of our customers have had to suffer this appalling experience. Although relatively few homes are now affected, we are determined to keep reducing this most distressing problem. We have allocated more investment to bring forward effective ways of reducing the risks of sewer flooding, with support from our Regulator, and we will be seeking further significant investment in our strategic business plan for the 2005-2010 Periodic Review period.

It is important that we are responsive to service requests at all times, particularly in emergencies. Our customer service centre and operational teams in the field have worked hard to improve communications and back-up arrangements to ensure that we can respond with speed to operational emergencies and customer enquiries.

Within the UK, enforcement of the 1991 Water Resources Act is applied under the terms of 'strict liability'. We take our duties very seriously and all failures are carefully scrutinized. Some of these resulted in the company being prosecuted on five occasions in the period under report, which we very much regret. We seek to establish where areas of procedure and performance can be further improved. We are determined to show industry leadership in this field and will continue to work in conjunction with the Regulator and the Environment Agency.

Thames Water Utilities Limited

Chairman's review (Continued)

Environment, Conservation and Social Responsibility

Good environmental management and social responsibility are at the heart of our business. This means working in partnership with the communities that we serve and protecting the natural environment that we rely upon for our core business.

We are committed to continual environmental improvement through the effective management of our operations. Ahead of timescales set by the Government, we have brought in additional protection to the food chain from the beneficial recycling of sewage sludge as a soil fertiliser and improver. This calendar year we achieved certification for our Engineering Division and 'Target Alliance' construction team who are building the £80m new Reading Sewage Treatment Works. We have maintained certification to the internationally recognised environmental management standard ISO14001 at a number of our key operational sites. We are making good progress towards a phased roll out of ISO14001 across the rest of our Operational Units over the next three years.

As a large landowner we take our responsibilities for protecting biodiversity across our sites seriously. We have surveyed our 970 sites as part of our continued implementation of our Biodiversity Action Plan. Protection measures are being introduced for sites that have been identified to be of prime biodiversity importance.

We were awarded the Green Apple award for our work to improve the upper River Kennet in Wiltshire. The award recognises best environmental practice across the UK. The project was carried out in partnership with the Environment Agency, English Nature and with the support of the local organisation Action for the River Kennet and local landowners.

We have continued to develop our commitment to sustainable development and to build this into the guiding framework for our business. This period we have further developed our sustainability indicators, to cover the social, environmental and economic dimensions of sustainability. These were published in the Thames Water Utilities Environment and Conservation Review 2002 and we continue to progress work in this area. The 2002 Review, which is available from our customer service centre, has been shortlisted for an award in the UK ACCA environmental reporting awards. We are part of the communities we serve and actively encourage voluntary participation among our employees. The company is an active supporter of WaterAid, the principal UK charity delivering water and sanitation solutions across the globe, which celebrated its 21st anniversary last year.

Thames Water Utilities Ltd is proud to be part of RWE's Thames Water Division, the third largest water company in the world. Our employees have continued to play a key role in the success of the Company, demonstrating a flexible approach and a willingness to embrace change. I would like to extend my personal thanks to all our employees for their enthusiastic hard work and commitment.

Looking to the future

London is a uniquely challenging operating environment. The nation's capital, a 24 hour world city, has some of the oldest infrastructure serving the largest and densest population in the country. Deterioration of the network has accelerated in recent years. Since 1989 the focus of investment has been on water and wastewater quality improvements that were essential to meet both public expectations and legal obligations.

Thames Water Utilities Limited

Chairman's review (Continued)

We are determined to reduce leakage from our pipes so that over all we deliver a more sustainable supply. Despite unprecedented levels of activity and investment in finding and repairing leaks in our network of mains under busy streets, leakage levels have risen, particularly in the older parts of north central London. Together with leakage control, our water efficiency strategy and the development of new resources, the replacement of ageing infrastructure will be a key element in managing supply and demand at least cost. The number one priority now is to invest in the maintenance and renewal of ageing water mains and sewers.

We are discussing these issues with our regulator, with whom our investment priorities are set, whilst continuing to develop innovative ways of maximising the resources we have available. We are achieving our best ever quality standards, benefitting customers and the environment, but we will need to keep investing to improve the sustainability of the capital's infrastructure.

In the 2004 Periodic Review, as outlined above, our major concern will be maintaining and improving the security and sustainability of our water and wastewater infrastructure to meet the growing needs of our customers. We are in a long-term business. Our asset management programmes must ensure reliability of services for current and future generations, and prices will have to reflect this need.

Achieving an appropriate balance between the interests and concerns of our customers, the community and the environment will be key to determining investment priorities for the delivery of service and value for money in the years ahead.



Bill Alexander

Chairman

Thames Water Utilities Limited

Corporate governance

We are committed to high standards of corporate governance. The Company's shares are not listed on the Stock Exchange but in conducting the appointed water and waste water business the Directors have particular regard to the principles of good governance in the Combined Code as approved for the purposes of the Listings Rules of the Financial Services Authority. In determining the scope and content of this report it has been our aim to maintain a proper level of disclosure in keeping with those Combined Code provisions which are considered to be applicable to the Company's particular circumstances.

The Board

The primary responsibility of the Board is to determine the strategic direction of the Company and to promote good corporate governance. It meets bi-monthly, or as required, to monitor executive management and review operating and financial performance. The Board has adopted a formal schedule of matters reserved to the Board, which is reviewed annually and can only be amended by the Board. In reaching its decisions the Board takes account of the interests of the owners, customers and employees, as well as the Company's responsibilities to the environment.

Executive directors are appointed on one year rolling contracts. Independent non-executive directors are appointed to the Board on the basis of their achievements in other companies and organisations and the experience and broader vision, which they can contribute. The aim is that they should be persons of standing, with experience, local knowledge and understanding of the interests of the Company's customers. All independent non-executive directors are required to stand for re-election at least every three years, generally serving for a period of up to six years.

The Deputy Chairman of the Board, Miss C Bowe is regarded as the senior independent non-executive director.

Roles of the Chairman and Managing Director

There is a clear division of responsibility between the Chairman and the Managing Director of the Company. Although a director of the immediate parent company, Thames Water Plc, the Chairman is a non-executive director of the Company. The Chairman (or in his absence, the Deputy Chairman) is responsible for the effective running of the Board and ensuring that all directors, executive and non-executive, are consulted to enable them to play their full part in the Company's affairs. The Managing Director is responsible for the day-to-day management of the Company and the implementation of the policies and strategies adopted by the Board.

Board Committees

Four formal committees have been established, each of which has written terms of reference, which define the roles and responsibilities of the committee, and which are reviewed annually. A formal Nomination Committee was considered, but is not felt to be necessary in the particular circumstances of the Company as a non-listed private subsidiary company. Board level appointments, are dealt with by the Chairman in consultation with fellow directors. In addition, the Board can form committees, as and when required, with delegated authority in relation to specific issues. The minutes of all committees are reported to the Board.

Thames Water Utilities Limited

Corporate governance (continued)

Executive Committee

The main role of the Executive Committee is the executive management of the business, formulation of strategy and the approval of matters which are not specifically reserved for the Board and which have not been specifically delegated to another board committee. Within the Committee's role is primary responsibility for approval of capital investment, and this is discharged through the TWUL Investment Committee, a formal sub-committee of the Board.

Members: The members of the Executive Committee consist of at least two executive directors of the Board and such other senior executives of the Company whom the Chairman and Managing Director agree shall be members of the Executive Committee.

Audit Committee

The primary objective of the Audit Committee is to assist the Board of directors in fulfilling its responsibilities relating to the adequacy and effectiveness of the Company's systems of internal control. This includes reviewing the Company's interim and annual financial statements, its accounting policies, and the management of its financial and business risks; the effectiveness of the Company's internal audit function; and the independence, objectivity and effectiveness of the Company's external auditors. It makes recommendations to the Board in relation to the external auditor's appointment and remuneration. The terms of reference of the committee include all matters indicated by the Combined Code, and the committee considers any other corporate governance issues referred to it by the Board.

Members: C Bowe (Chairman), P T Warry, S Slipman

The Audit Committee, which meets at least three times a year is composed exclusively of independent non-executive directors. It meets with executive directors and management as well as privately with the external and internal auditors.

Environmental and Social Responsibility Review Committee

The principal activities of the Environmental and Social Responsibility Review Committee are reviewing the Company's environmental strategy, performance, reporting, and the sustainability and the social impact of the Company's activities. The Environmental and Social Responsibility Review Committee reviews the Company's discharge of its responsibilities for Conservation, Access and Recreation and approves the publication of the annual statutory Conservation Access and Recreation Report.

Members: P T Warry (Chairman), S Slipman, J R Sexton

The Remuneration Committee

The role of the Remuneration Committee is to determine the salaries and other remuneration of the executive directors. The Remuneration Committee is exclusively comprised of the independent non-executive directors of the Board and meets during the year as necessary. The Remuneration Committee is authorised by the Board to obtain external professional services, or consultants' advice, as necessary. The Chairman of the Board or his delegate attends meetings of the Remuneration Committee, but is not a member and does not vote on recommendations.

Thames Water Utilities Limited

Corporate governance (continued)

Members of the Remuneration Committee do not participate in decisions concerning their own remuneration. The Remuneration Committee approves an appropriate report for inclusion in the Company's annual report.

Members: S Slipman (Chairman), C Bowe, P T Warry

Internal Control

The Board has overall responsibility for maintaining a sound system of internal control, including financial, operational and compliance controls and risk management, and for reviewing its effectiveness. The internal control systems are designed to manage, rather than eliminate, the risk of failure to meet business objectives and can only provide reasonable, and not absolute, assurance against material misstatement or loss. Key features of the overall system of internal control include:

- Regular board meetings with a formal schedule of matters reserved to the Board for decision.
- Clearly defined organisation structures, appropriate delegated authorities, and established policies and procedures, reviewed annually, for conducting all significant aspects of the company's business.
- A clear business process for the identification, evaluation and mitigation of risks, including regular reporting to the Audit Committee and the Board.
- A detailed five year business plan, comprehensive annual budget, and a clear process of monitoring business performance against that budget on a monthly basis. Revised financial forecasts are prepared quarterly.
- Established policies and procedures for the approval and control of major items of capital expenditure, and for the acquisition and disposal of material assets or entering into of any arrangement which could give rise to a material liability for the Company.
- Formal arrangements for an independent internal audit department to carry out reviews of information systems, and adherence to business and financial control procedures, under a broadly based programme of work approved by the Audit Committee.

The directors routinely review the effectiveness of the system of internal control and risk management, principally by means of:

- Regular presentations to the Board and to the Executive Committee by directors of individual business units and functional heads, describing their risk management strategies and detailing the status of significant business risks.
- Quarterly reports to the Risk Management Committee, which although not a formal committee of the Board, is chaired by the Managing Director. This committee receives regular advice and reports from a professional support group comprising senior managers from all parts of the Company's business whose role is to review and challenge the robustness of risk management procedures applied within the business. Any significant changes to the Company's overall risk profile arising from the work of the Risk Management Committee are reported to the Audit Committee and the Board.
- Regular reports to the Audit Committee from the internal audit department on their independent audits of financial and other controls across the Company.

In addition, the directors have conducted an annual review of the effectiveness of the Company's system of internal control, which covers the period up to the date of this annual report. This included a process of self-certification by all business units, supervised by the internal audit department, through which executive directors and heads of business units, were required to confirm compliance with prevailing internal control policies and procedures.

Thames Water Utilities Limited

Report on remuneration policy and remuneration

The Company's remuneration policy has particular regard to the principles set out in the current edition of the Combined Code on corporate governance. In relation to executive directors the policy is:

- To establish a firm link between an executive's performance and his/her total remuneration
- To establish a firm link between the organisation's performance and the executive's total remuneration
- To position base pay so that it takes account of individual contribution and experience, and has regard to the market so that the Company will attract and retain the required calibre of business leader

Roles are evaluated using external advice and the Hay Guide Chart Profile Method of Evaluation. This is the most widely used job evaluation method being used by approximately 8,000 organisations worldwide. The remuneration package includes salary, performance-related bonus, a long-term incentive plan, and pension provision. To date the Company's executive salaries have been typically positioned between median and upper quartile. Base pay is reviewed annually in April (but may be reviewed at any time in exceptional circumstances), and the Remuneration Committee approves all elements of the Company's remuneration of its executive directors.

The Company's bonus scheme aims to reward significant improvement in the Company's performance and recognises the executive's personal contribution to that performance. Performance measures are a combination of Thames Water Division and the Company's financial targets, which are set at the beginning of the financial year combined with the Company's operational and customer service targets (notably Ofwat's DG measures), together with personal performance measures. The Company has taken a lead in the water industry by ensuring that these DG measures translate directly into bonus plans. Top-up pension schemes are provided by way of an Inland Revenue approved pension scheme and a funded unapproved retirement benefit scheme.

As an element of retention strategy, the Company's executive directors participate in a Thames Water Division-wide Long-Term Incentive Plan (LTIP) scheme that aims to encourage, reward, recognise and retain key people. Under the LTIP, executives are awarded conditional rights over a number of RWE shares based on targets for the performance of the Thames Water Division against Economic Value Added. The Divisional Board determine annually whether the underlying financial performance of the Division justifies an award. There is no automatic right to participate in the LTIP and each year executives are selected at the discretion of the Divisional Board.

Details of the remuneration of the three executive directors and the three independent non-executive directors who served during the period under report are contained in the financial statements on pages 20 to 41. An element of the responsibilities of the Managing Director of Thames Water & Ireland and the Finance Director relate to their wider management roles within the Thames Water Division beyond Thames Water Utilities Limited. Details of their aggregate remuneration are set out in note 5 on page 26. The non-executive Chairman is not remunerated by the Company, but is instead remunerated by Thames Water Plc, and his remuneration is disclosed in the Thames Water Plc Annual Report and Accounts. The Group Investment Director receives remuneration in his role as an employee of Thames Water Plc, and is not remunerated by the Company, in respect of his role as a non-executive director of the Company.

Thames Water Utilities Limited

Directors' report for the 9 month period ended 31 December 2002

The directors present their report and the audited financial statements for the 9 month period ended 31 December 2002.

Principal activities and review of the period

The principal activities of the Company are the supply of water to over 3.6 million premises and the collection and treatment of sewage from over 5.5 million premises, serving around 13 million customers in London and the Thames Valley.

Details of the progress made and information relating to the various activities of the Company during the period and plans for the future are given in the Chairman's Review on pages 3 to 5.

On 6 September 2002, the accounting reference date was changed from 31 March to 31 December, to align with the parent company.

Financial review

The results for the period are set out in the profit and loss account on page 18.

Turnover of £831.8m for the 9 month period ended 31 December 2002 (year ended March 2002: £1,086.3m) was up 2.7% on the same period in 2001. Profit on ordinary activities before taxation was £212.6m for the 9 month period (year ended March 2002: £251.4m) with the year ended March 2002 results including an operating exceptional accelerated depreciation charge of £22.0m to realign asset lives, with that of our ultimate parent company, on certain non-infrastructure assets. Operating profit was adversely impacted by increased charges for infrastructure renewals as the Company continues to focus on the reduction in leakage and the security of supplies to customers, but continuing programmes of activity to identify and realise operational efficiencies are beginning to have a positive impact.

Capital investment in the period has been particularly targeted towards security of drinking water supplies to our customers, leakage reduction, water and wastewater quality programmes and the alleviation of sewer flooding. Gross capital investment of £391.4m (year ended March 2002: £432.1), including net infrastructure renewal expenditure of £50.8m (year ended March 2002: £65.4m), was made during the 9 month period and this substantial investment programme is reflected in the depreciation charge of £202.0m (year ended March 2002: £266.6m), with £22.0m of the year ended March 2002 figure relating to the operating exceptional accelerated depreciation charge noted above.

Dividends

In respect of the 9 month period, the Company paid an ordinary interim dividend of £42.8m and proposed a final dividend of £88.1m. The total dividend for the 9 month period December 2002 of £130.9m compares to a total dividend for the year ended March 2002 of £126.6m.

Thames Water Utilities Limited

Directors' report for the 9 month period ended 31 December 2002 (continued)

Board of Directors

The directors of the Company who served during the period are:

W J Alexander	Non-Executive Chairman
G W Maxwell	Managing Director (resigned 17 May 2002)
J R Sexton	Managing Director (appointed 17 May 2002) formerly Deputy Chairman
T J V Jones	Managing Director, Thames Water UK & Ireland (appointed 17 May 2002)
C Anderson	Finance Director
S C Walker	Non-Executive Director

Independent non-executive directors who served during the period are:

C Bowe	Deputy Chairman (appointed 17 May 2002)
P T Warry	
S Slipman	

C Bowe has been a non-executive director of the Company since 3 July 2001. On 17 May 2002 C Bowe was appointed Deputy Chairman.

Directors' Interests

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

Significant Contracts

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.

Policy on Payment of Suppliers

The Company supports a number of initiatives to promote a prompt payment culture, including those proposed by the Construction Round Table and the CBI. The implementation of these principles in the Company's arrangements with its suppliers is managed by its procurement subsidiary Thames Water Procurement Limited, whilst arrangements with its main works contractors are managed through the Engineering Department. 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. During the period the average amount due to trade creditors represented 53 days (year ended March 2002: 53 days) purchases received from these creditors.

Thames Water Utilities Limited

Directors' report for the 9 month period ended 31 December 2002 (continued)

Employees

We continue to value the contribution our employees make to the success of the Company, and aim to provide employees with the opportunity to fulfill their potential and contribute fully to our success. We have strengthened support for employees in gaining core skills. We have a broad range of high quality and cost effective training solutions to suit all needs and our focus is on developing excellence in people management. Our graduate recruitment programme continues to attract a high quality of recruit, who receive development in general business and specialist skills. For directors and managers, we offer 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, our senior people develop their strategic planning and other business related skills. Our 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.

We are committed to sharing information with employees on key business issues and our communications framework is subject to continual review and development. We have 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 Company, ranging from team briefings to formal consultation, and a partnership agreement exists between the Company, 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 which the business faces.

A work life balance policy has been developed jointly by managers and 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 Company recognises the importance of diversity. We have outlined our commitment to the recruitment, development and retention of employees with disabilities through our Disability Policy. The Company endeavours to continue to employ any person who has become disabled during the course of their employment. We are committed to ensuring that we treat people fairly and that we combat discrimination, through our Equal Opportunities Policy.

Research and Development

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.

Thames Water Utilities Limited

Directors' report for the 9 month period ended 31 December 2002 (continued)

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.

Health and Safety

We are proud of our proactive commitment to effective health and safety risk management and have in place the necessary policies and arrangements that establish our values and standards and monitor their application. Competence in managing health and safety is an essential part of professional management, relying upon co-operative effort and effective communication at all levels in the Company.

Our overall Health and Safety (H&S) objectives are to:

- Prevent injury to employees and others affected by our work
- Prevent damage to plant, equipment and buildings
- Control accident and ill health hazards through attention to our well established H&S Standards and Procedures
- Ensure co-operation and effective communication

The primary H&S risk activities that the business manages on a day-to-day basis are:

- Work on or near deep water
- Construction and tunnelling
- Machinery
- Streetworks
- Confined space work
- High voltage electricity
- Occupational health hazards
- Chemicals and gases

The necessary risk assessments, company codes and training materials are in place to effectively control such risks.

During the past nine months, a number of major initiatives have been implemented to progress our H&S goals. The Company has enhanced its H&S capability following a full review of its functions, principally in the areas of process safety, engineering construction, document control and audit.

An action group has been set up to advance the understanding of major accident hazards at the Company's upper and lower tier sites. The company continues to work closely with the Health and Safety Executive to improve its capability in prevention of major accidents.

Prior to the school summer holidays a review of accessibility to operational sites was carried out with special reference to water safety. The company continues to work with our alliance contractors to develop the construction skills health and safety passport scheme aimed at co-ordinating competency and training standards on our construction sites.

Thames Water Utilities Limited

Directors' report for the 9 month period ended 31 December 2002 (continued)

To further develop our established occupational health programme a new arrangement has been entered into to provide employee health through an external provider, Adastral Ltd. As in previous years, we supported the European Week for Safety and Health at Work, implementing a range of accident prevention initiatives and sponsoring the National Awards. This has included the implementation of a back care scheme for employees and a new competition for individuals and teams who advance health and safety awareness. Arrangements for employee participation and consultation are mature with joint H&S Committees operating at several levels and arrangements for Employee Safety Representatives in place and working effectively.

Health and Safety Performance

There have been no fatal accidents, enforcement notices, or prosecutions during the period due to health and safety although an Improvement Notice has been served in order to provide more environmental information for one of our water treatment works associated with major accident hazard regulations. This is being complied with. There has been one reportable dangerous occurrence, which did not result in any injury. There have been two reportable ill health cases, both repetitive strain injuries.

The reportable accident incidence rate, expressed as the number per 1000 employees, is 6.2 (year ended March 2002: 10.3). Time lost due to accidents was 1075 days (year ended March 859 days).

Looking forward, we are committed to a range of development initiatives covering technical, procedural and human factor issues, to build on our acknowledged H&S achievements in the water industry.

Directors' Responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the company will continue in business.

The directors confirm that suitable accounting policies have been used and applied consistently. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the period ended 31 December 2002 and that applicable accounting standards have been followed.

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

Thames Water Utilities Limited

**Directors' report for the 9 month period ended 31 December 2002
(continued)**

Auditors

Following the conversion of our auditors PricewaterhouseCoopers to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers resigned on 3 March 2003 and the directors appointed its successor, PricewaterhouseCoopers LLP, as auditors. A resolution to reappoint PricewaterhouseCoopers LLP as auditors to the company will be proposed at the annual general meeting.

Approved by the Board

A handwritten signature in black ink, appearing to read 'K G Johnson', with a long, sweeping flourish extending to the right.

K G Johnson
Company Secretary

Thames Water Utilities Limited

Report of the independent auditors to the members of Thames Water Utilities Limited

We have audited the financial statements, which comprise the profit and loss account, the balance sheet, 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 opinion has been prepared for and only for the company's members 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 United Kingdom Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding the directors' remuneration and transactions is not disclosed.

We read the other information contained in the annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. The other information comprises only the chairman's review, corporate governance statement, report on remuneration policy and remuneration and 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.

Thames Water Utilities Limited

Report of the independent auditors to the members of Thames Water Utilities Limited (Continued)

Opinion

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



PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Reading
31 March 2003

Thames Water Utilities Limited

Profit and loss account for the 9 month period ended 31 December 2002

	Note	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Turnover	2	831.8	1,086.3
Operating costs	2 & 3	<u>(553.0)</u>	<u>(728.3)</u>
Operating profit		278.8	358.0
Profit on sale of fixed assets	4	21.3	19.3
Net interest	6	<u>(87.5)</u>	<u>(125.9)</u>
Profit on ordinary activities before taxation	2	212.6	251.4
Taxation on profit on ordinary activities	7	<u>(58.0)</u>	<u>(69.1)</u>
Profit for the period/year		154.6	182.3
Dividends	8	<u>(130.9)</u>	<u>(126.6)</u>
Retained profit for the period/year	19 & 20	<u>23.7</u>	<u>55.7</u>

All amounts above relate to continuing operations.

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

Statement of total recognised gains and losses

	Note	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Profit for the period/year		<u>154.6</u>	<u>182.3</u>
Total recognised gains		<u>154.6</u>	<u>182.3</u>
Change in accounting policy - FRS 19 deferred tax	1 & 20	<u>-</u>	<u>(620.5)</u>
Total gains/(losses) recognised since last report		<u>154.6</u>	<u>(438.2)</u>

Thames Water Utilities Limited

Balance sheet at 31 December 2002

	Note	Dec 2002 £m	Mar 2002 £m
Fixed assets			
Tangible assets	9	4,626.6	4,451.7
Investments	10	<u>0.1</u>	<u>0.1</u>
		4,626.7	4,451.8
Current assets			
Stocks and work in progress	11	8.3	8.5
Debtors	12	463.3	362.0
Cash at bank and in hand		<u>0.8</u>	<u>9.9</u>
		472.4	380.4
Creditors: amounts falling due within one year	13	<u>(1,054.8)</u>	<u>(734.5)</u>
Net current liabilities		<u>(582.4)</u>	<u>(354.1)</u>
Total assets less current liabilities		<u>4,044.3</u>	<u>4,097.7</u>
Creditors: amounts falling due after more than one year	14	<u>(1,824.2)</u>	<u>(1,953.8)</u>
Provision for liabilities and charges	16	<u>(744.9)</u>	<u>(692.4)</u>
Net assets		<u>1,475.2</u>	<u>1,451.5</u>
Capital and reserves			
Called up share capital	17	1,029.0	1,029.0
Share premium	18	100.0	100.0
Profit and loss account	19	<u>346.2</u>	<u>322.5</u>
Equity shareholders' funds	20	<u>1,475.2</u>	<u>1,451.5</u>

The notes on pages 20 to 41 form part of these financial statements.

The financial statements were approved by the Board of Directors on 31 March 2003 and were signed on its behalf by:



C Anderson
Director

Thames Water Utilities Limited

Notes to the financial statements for the 9 month period ended 31 December 2002

1 Principal accounting policies

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

(a) Change in accounting policies and presentation of financial information

During the period 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.

(b) Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention and with applicable Accounting Standards in the United Kingdom and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of the departure from the requirements of the Act is given in note 1(e) below.

The Company has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated accounts of its parent company Thames Water plc, a company registered in the UK.

(c) Turnover

Turnover, which excludes value added tax, represents the income receivable in the ordinary course of business, for goods and services provided.

Thames Water Utilities Limited

Notes to the financial statements

(d) **Tangible fixed assets**

Tangible fixed assets comprise:

(i) **Infrastructure assets:**

Infrastructure assets include mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines.

Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets is treated as additions. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost and is classified as depreciation.

(ii) **Other assets:**

Other assets include properties, overground plant and equipment.

Other assets are included at cost less accumulated depreciation.

Freehold and long leasehold land are 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:

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

(e) **Capital contributions**

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 which 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 the departure on the value of tangible fixed assets is disclosed in note 9.

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.

Thames Water Utilities Limited

Notes to the financial statements

(f) Leased assets

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

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

(g) Investments

Investments held as fixed assets are stated at cost less provisions for impairment in value. Investments held as current assets are stated at the lower of cost and net realisable value.

(h) Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes labour, material, transport and an element of overheads.

(i) Pension costs

The majority of the Company's employees belong to pension schemes which are funded by both employer's and employees' contributions and which are of the defined benefit type.

The pension cost is assessed in accordance with the advice of an independent, qualified actuary to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any difference between the cost charged and the amounts paid by the Company is treated as a prepayment or accrual.

In accordance with the permitted transitional arrangements under FRS 17, 'Retirement Benefits', the costs, accruals and prepayments recorded in the financial statements continue to be reported under the requirements of SSAP 24 'Accounting for Pension Costs'.

Information on the Company's pension arrangements can be found in note 23 to these financial statements, and in the financial statements of the immediate parent company Thames Water Plc.

(j) Foreign currencies

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies 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.

Thames Water Utilities Limited

Notes to the financial statements

(k) Research and development

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

(l) Taxation

The charge for taxation is based on the profit for the period 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. 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.

(m) Cash flow statement and related party disclosures

The company is a wholly-owned subsidiary of Thames Water plc and is included in the consolidated financial statements of Thames Water plc, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of FRS 1 (revised). The company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the Thames Water plc group.

(n) 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.

Thames Water Utilities Limited

Notes to the financial statements

2 Segmental analysis by class of business

Turnover, operating profit and net assets derive wholly from activities within the United Kingdom.

Operating results

	Water supply	Sewerage services	Other trading activities	9 month period ended Dec 2002	Year ended Mar 2002
	£m	£m	£m	£m	£m
Turnover					
Measured charges	128.4	142.4	-	270.8	360.1
Unmeasured charges	210.3	285.3	-	495.6	660.9
Trade effluent charges	-	10.3	-	10.3	15.0
Other income	9.9	12.2	33.0	55.1	50.3
Total turnover December 2002	348.6	450.2	33.0	831.8	
Total turnover March 2002	456.7	597.9	31.7		1,086.3
Operating Costs					
Operating costs before depreciation	(167.5)	(158.8)	(24.7)	(351.0)	(461.7)
Depreciation - other	(66.8)	(79.7)	(0.6)	(147.1)	(202.6)
Depreciation - infrastructure	(41.5)	(13.4)	-	(54.9)	(64.0)
Total operating costs December 2002	(275.8)	(251.9)	(25.3)	(553.0)	
Total operating costs March 2002	(358.8)	(342.4)	(27.1)		(728.3)
Operating profit December 2002	72.8	198.3	7.7	278.8	
Operating profit March 2002	97.9	255.5	4.6		358.0
Profit on sale of fixed assets	0.6	20.7	-	21.3	19.3
Net interest	(43.2)	(44.6)	0.3	(87.5)	(125.9)
Profit on ordinary activities before taxation December 2002	30.2	174.4	8.0	212.6	
Profit on ordinary activities before taxation March 2002	40.8	205.7	4.9		251.4

Net Assets

	9 month period ended Dec 2002	Year ended Mar 2002
	£m	£m
Water supply	1,778.1	1,712.4
Sewerage services	1,836.0	1,816.3
Net operating assets	3,614.1	3,528.7
Net interest bearing liabilities	(2,138.9)	(2,077.2)
	1,475.2	1,451.5

Thames Water Utilities Limited

Notes to the financial statements

3 Operating costs

Analysis of operating costs by type of expense:

	Note	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Manpower costs	5	111.3	138.8
Other external charges		225.5	308.6
Materials and consumables		16.5	22.8
Other operating charges		20.2	15.7
Depreciation:			
- owned assets (non-infrastructure)		139.4	169.6
- owned assets (non-infrastructure) - exceptional		-	22.0
- infrastructure assets		54.8	64.0
- assets held under finance leases		7.8	11.0
Rentals under operating leases:			
- hire of plant and machinery		3.1	2.9
- other		6.1	6.6
Auditors' remuneration:			
- for statutory audit work		0.2	0.2
- for regulatory audit work		-	0.1
Research and development		4.6	6.8
		<u>589.5</u>	<u>769.1</u>
Own work capitalised		<u>(36.5)</u>	<u>(40.8)</u>
		<u>553.0</u>	<u>728.3</u>

The auditors received remuneration of £25,500 in respect of non-audit work (March 2002: £25,000).

4 Profit on sale of fixed assets

	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Profit on disposal of fixed assets	<u>21.3</u>	<u>19.3</u>
Taxation attributable, included in the charge for the year	<u>1.1</u>	<u>0.1</u>

Thames Water Utilities Limited

Notes to the financial statements

5 Information regarding directors and employees

Aggregate directors remuneration:

	9 month period ended Dec 2002 £000	Year ended Mar 2002 £000
Salary	410	591
Bonus	48	575
Other benefits	28	61
Total aggregate emoluments	<u>486</u>	<u>1,227</u>

During the year ended 31 March 2002 one-off retention bonuses of £488,000 were paid to 8 directors who served during the year. No such bonuses were paid during the period ended 31 December 2002.

Retirement benefits are accruing to 3 (March 2002: 3) directors under a defined benefit scheme.

Aggregate remuneration of each of the executive directors:

	9 month period ended Dec 2002 £000	Year ended Mar 2002 £000
T J V Jones	147	-
C Anderson	110	114
J R Sexton	141	221
G W Maxwell	25	301
Total aggregate emoluments	<u>423</u>	<u>636</u>

Aggregate remuneration of each of the independent non-executive directors:

	9 month period ended Dec 2002 £000	Year ended Mar 2002 £000
C Bowe	25	19
P T Warry	19	19
S Slipman	19	6
Total aggregate emoluments	<u>63</u>	<u>44</u>

Highest paid director

The highest paid director was T J V Jones (March 2002: G W Maxwell). In addition to the aggregate emoluments disclosed above, T J V Jones had accrued pension benefits of £9,717 at 31 December 2002. At 31 March 2002 G W Maxwell had accrued pension benefits of £39,000.

Thames Water Utilities Limited

Notes to the financial statements

Non-executive Chairman

The above details of directors' remuneration do not include W J Alexander, who was remunerated by Thames Water Plc in respect of his services to the Group as a whole. Details of his remuneration are disclosed in the financial statements of Thames Water Plc.

Other non-executive directors

S C Walker is not remunerated in respect of his role as a non-executive director of the Company, accordingly, his remuneration is not disclosed in the aggregate disclosures above.

Transactions with directors and officers

There are no transactions or arrangements, which are required to be disclosed under the provisions of the Companies Act 1985.

Employee information

The average number of persons employed by the Company, including executive directors, analysed by class of business was:

	9 month period ended Dec 2002 Number	Year ended Mar 2002 Number
Water supply	2,663	2,693
Sewerage services	2,473	2,500
Total	5,136	5,193

Employment costs including executive directors' remuneration were:

	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Salaries and wages	104.7	131.0
Social security costs	8.8	10.8
Pension costs (note 23)	-	-
Total	113.5	141.8

Total manpower costs per note 3, excludes £2.2m (March 2002: £3.0m), which is included in research and development.

Thames Water Utilities Limited

Notes to the financial statements

6 Interest

	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Bank loans, overdrafts and other loans:		
- group loans	(51.9)	(72.6)
- bank loans	(24.7)	(35.5)
- other interest	(5.0)	(13.8)
Finance charges in respect of finance leases	<u>(8.2)</u>	<u>(11.3)</u>
Interest payable and similar charges	(89.8)	(133.2)
Interest receivable	<u>2.3</u>	<u>7.3</u>
Net interest	<u>(87.5)</u>	<u>(125.9)</u>

7 Taxation

(a) Analysis of charge in period

		9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Current year:			
Amounts payable in respect of group relief for the period		2.7	1.2
Adjustments in respect of previous periods		<u>2.8</u>	<u>(4.0)</u>
Total current tax	7(b)	<u>5.5</u>	<u>(2.8)</u>
Deferred tax:			
Origination and reversal of timing differences	16	55.2	67.9
Adjustments in respect of previous periods	16	<u>(2.7)</u>	<u>4.0</u>
Total deferred tax		<u>52.5</u>	<u>71.9</u>
Taxation on profit on ordinary activities		<u>58.0</u>	<u>69.1</u>

Thames Water Utilities Limited

Notes to the financial statements

(b) Factors affecting tax charge for period

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

	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Profit on ordinary activities before tax	<u>212.6</u>	<u>251.4</u>
Profit on ordinary activities multiplied by standard rate of corporation tax in the UK of 30% (March 2002: 30%)	63.8	75.4
Effects of:		
Income not taxable (primarily intra-group disposals of property)	(5.8)	(7.8)
Capital allowances for period in excess of depreciation	(38.1)	(53.0)
Utilisation of tax losses	(17.2)	(13.4)
Adjustments to tax charge in respect of previous periods	<u>2.8</u>	<u>(4.0)</u>
Current tax charge/(credit) for period	<u>5.5</u>	<u>(2.8)</u>

8 Dividends

	9 month period ended Dec 2002 £m	Year ended Mar 2002 £m
Interim paid: 4.2p (March 2002: 4.0p) per ordinary share	42.8	41.0
Second interim proposed: Nil (March 2002: 8.3p) per ordinary share	-	85.6
Final proposed: 8.6p (March 2002: Nil) per ordinary share	<u>88.1</u>	<u>-</u>
	<u>130.9</u>	<u>126.6</u>

Thames Water Utilities Limited

Notes to the financial statements

9 Tangible fixed assets

	Land & buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
Cost				
At 1 April 2002	1,696.2	2,267.5	2,473.5	6,437.2
Additions	101.1	162.4	127.9	391.4
Disposals	(1.2)	(15.7)	-	(16.9)
At 31 December 2002	1,796.1	2,414.2	2,601.4	6,811.7
Capital contributions				
At 1 April 2002	-	-	326.0	326.0
Reclassification	-	-	(8.3)	(8.3)
Additions	-	-	22.8	22.8
At 31 December 2002	-	-	340.5	340.5
Depreciation				
At 1 April 2002	395.5	805.3	458.7	1,659.5
Provided during the year	31.2	116.0	54.8	202.0
Disposals	(1.1)	(15.8)	-	(16.9)
At 31 December 2002	425.6	905.5	513.5	1,844.6
Net Book Value				
At 31 December 2002	1,370.5	1,508.7	1,747.4	4,626.6
At 31 March 2002	1,300.7	1,462.2	1,688.8	4,451.7

£8.3m of requisition income previously within capital contributions was reclassified as deferred income during the period.

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

	Dec 2002 £m	Mar 2002 £m
Freehold land and buildings	1,345.6	1,276.2
Leasehold - over 50 years	18.1	17.9
- under 50 years	6.8	6.6
	1,370.5	1,300.7

Depreciation has not been charged on freehold and leasehold land stated in the accounts at cost of £8.7m (March 2002: £6.1m).

Tangible fixed assets at 31 December 2002 include assets in the course of construction of £638.8m (March 2002: £504.8m).

Thames Water Utilities Limited

Notes to the financial statements

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

	Cost		Net book value	
	Dec 2002 £m	Mar 2002 £m	Dec 2002 £m	Mar 2002 £m
Plant and equipment	<u>272.5</u>	<u>272.5</u>	<u>205.2</u>	<u>213.6</u>

10 Fixed asset investments

	Dec 2002 £m	Mar 2002 £m
Cost of shares in subsidiaries	<u>0.1</u>	<u>0.1</u>

At 31 December 2002 the Company held more than 10% of the allotted share capital of the following undertakings:

Name of undertaking	Nominal value and class of shares held	Proportion of nominal value of issued shares held	Activity
Gemwel Limited	£1 Ordinary	50%	Water and Sewerage Services
Thames Water Drainage Services Limited	£1 Ordinary	100%	Sewerage Management
Thames Water Procurement Limited	£1 Ordinary	100%	Procurement
Thames Water Utilities Finance Plc	£1 Ordinary	100%	Finance Company
New Power Company Limited	£1 Ordinary	50%	Wholesale of Green Electricity

All of the above companies were incorporated and are registered in Great Britain.

At 31 December 2002 and 31 March 2002 the net asset values of Thames Water Drainage Services Limited and Thames Water Utilities Finance Plc were £2 and £50,000 respectively. No profits or losses have been made in either of the periods concerned.

Thames Water Procurement Limited had a deficit on reserves of £1,526,000 at 31 December 2002 (March 2002: £1,527,000).

Gemwel Limited had a deficit on reserves of £181,000 at 31 December 2002 (March 2002: £231,000).

New Power Company Limited had an unaudited deficit on reserves of £282,000 at 31 December 2002 (March 2002: £282,000). The net liabilities and results of New Power Company Limited are not material to Thames Water Utilities Limited, in either period.

Thames Water Utilities Limited

Notes to the financial statements

11 Stocks and work in progress

	Dec 2002 £m	Mar 2002 £m
Raw materials and consumables	<u>8.3</u>	<u>8.5</u>
	<u>8.3</u>	<u>8.5</u>

12 Debtors

	Dec 2002 £m	Mar 2002 £m
Amounts falling due within one year		
Trade debtors	192.5	150.2
Amounts owed by group undertakings	57.6	36.6
Other debtors	18.7	15.3
Insurance claims receivable	41.8	40.6
Prepayments and accrued income	<u>152.7</u>	<u>119.3</u>
	<u>463.3</u>	<u>362.0</u>

13 Creditors: amounts falling due within one year

	Dec 2002 £m	Mar 2002 £m
Bank loans	44.2	15.0
Other loans	32.5	28.3
Obligations under finance leases	5.4	5.1
Trade creditors:		
- Operating	43.6	69.1
- Capital	114.5	88.7
Amounts owed to group undertakings	379.6	203.9
Insurance claims payable	41.8	40.6
Amounts payable in respect of group relief	6.5	1.1
Other taxation and social security payable	4.3	4.3
Accruals and deferred income	294.3	192.8
Proposed dividend	<u>88.1</u>	<u>85.6</u>
Total	<u>1,054.8</u>	<u>734.5</u>

Amounts owed to group undertakings includes interest bearing loans, which are described in more detail in note 14.

Thames Water Utilities Limited

Notes to the financial statements

14 Creditors: amounts falling due after more than one year

	Dec 2002 £m	Mar 2002 £m
Bank loans	466.3	507.6
Other loans	-	3.3
Obligations under finance leases	240.1	245.5
Amounts owed to group undertakings (see below)	1,030.2	1,123.9
Accruals and deferred income	<u>87.6</u>	<u>73.5</u>
Total	<u>1,824.2</u>	<u>1,953.8</u>

Amounts owed to group undertakings are:

	Dec 2002 £m	Mar 2002 £m
Inter company loans:		
- Within one year	320.2	148.5
- After more than one year	<u>1,030.2</u>	<u>1,123.9</u>
	1,350.4	1,272.4
Non-loan amounts due within one year	<u>59.4</u>	<u>55.4</u>
	<u>1,409.8</u>	<u>1,327.8</u>

Loan amounts owed to group undertakings, are comprised of:

- £225m (March 2002: £225m) owed to RWE AG, the ultimate parent undertaking, in respect of a fixed rate loan, due for repayment in 2021.
- £223.9m (March 2002: £107m) due to Thames Water Plc, the immediate parent undertaking, in respect of a floating rate loan wholly repayable within one year.
- £901.5m (March 2002: £940.4m) owed to Thames Water Utilities Finance Plc, a subsidiary undertaking, of which £96.3m (March 2002: £41.5m) is included within creditors due within one year and £805.2m (March 2002: £898.9m) within creditors due after more than one year.

The loan from Thames Water Utilities Finance Plc relates to Guaranteed Bonds that it has in issue, the net proceeds of which have been loaned to Thames Water Utilities Ltd under the same commercial terms. Thames Water Utilities Ltd has guaranteed the principal and interest payments of the subsidiary undertaking due under the terms of the bonds.

Other loans and finance leases, as disclosed in more detail in note 15, are:

	Dec 2002 £m	Mar 2002 £m
Inter company loans (as above)	1,350.4	1,272.4
Other loans:		
- Within one year	32.5	28.3
- After more than one year	-	3.3
Finance leases:		
- Within one year	5.4	5.1
- After more than one year	<u>240.1</u>	<u>245.5</u>
	<u>1,628.4</u>	<u>1,554.6</u>

Thames Water Utilities Limited

Notes to the financial statements

15 Financial instruments

Financial Reporting Standard 13 requires the disclosure of the Company's funding and treasury policy together with further details on its financial assets and liabilities.

Funding and treasury policy

The Company's funding policy is to maintain a broad portfolio of debt. The debt arranged via Thames Water Utilities Finance plc is diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

Derivative financial instruments, including cross currency swaps and interest rate swaps, are employed to manage the interest rate and currency risks arising from the primary financial instruments used to finance the Company's activities.

The Company's treasury operations are managed centrally by a small specialist team within the Thames Water Group and are managed as a cost, not a profit centre; no material open or speculative positions are taken.

Short term debtors and creditors have been excluded from the financial instruments' disclosures.

Financial assets

	Total at floating rates		Total at fixed rates		Total at book value	
	Dec	Mar	Dec	Mar	Dec	Mar
	2002	2002	2002	2002	2002	2002
	£m	£m	£m	£m	£m	£m
Interest rate risk profile						
Cash at bank/hand	0.8	9.9	-	-	0.8	9.9
Total	0.8	9.9	-	-	0.8	9.9

Base rate is the benchmark rate for all cash at bank.

Financial liabilities

	Total at floating rates		Total at fixed rates		Total at book value		Fixed rate liabilities			
	Dec	Mar	Dec	Mar	Dec	Mar	Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
	2002	2002	2002	2002	2002	2002	Dec 2002	Mar 2002	Dec 2002	Mar 2002
Interest rate risk profile	£m	£m	£m	£m	£m	£m	%	%	Years	Years
Bank loans & overdraft	130.0	130.0	380.5	382.6	510.5	522.6	7.1	7.1	5.5	6.2
Other loans & finance leases	742.5	638.5	885.9	916.1	1,628.4	1,554.6	6.1	6.4	21.5	22.7
Total	872.5	768.5	1,266.4	1,298.7	2,138.9	2,077.2	6.4	6.6	16.7	17.8

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The Company's interest rate and cross currency swaps convert £69.7m (March 2002 : £71.4m) of floating rate borrowing to fixed rate and £25.9m (March 2002: £35.1m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £106.4m (March 2002: £145.4m) of foreign currency borrowing.

Short term lending bears interest at rates linked to LIBOR.

Currency risk

The Company is not exposed to any significant currency risk after taking the effects of its cross currency swaps into consideration.

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 Company's financial instruments.

	Book value Dec 2002 £m	Book value Mar 2002 £m	Fair value Dec 2002 £m	Fair value Mar 2002 £m
Primary financial instruments				
Financial assets				
- Cash at bank/hand	0.8	9.9	0.8	9.9
Financial liabilities				
- Bank loans & overdrafts	(510.5)	(522.6)	(539.9)	(547.5)
- Other loans & finance leases	(1,628.4)	(1,554.6)	(1,828.4)	(1,666.6)
Derivative financial instruments				
- Interest rate swaps	-	-	-	(6.9)
- Cross currency swaps	-	-	13.0	(4.4)
Total	<u>(2,138.1)</u>	<u>(2,067.3)</u>	<u>(2,354.5)</u>	<u>(2,215.5)</u>

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 December 2002 quoted prices. Mark to market techniques (discounting expected cashflows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowing 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 effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

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Notes to the financial statements

Maturities

	Dec 2002 £m	Mar 2002 £m
Bank loans and overdrafts		
- Within one year	44.2	15.0
- Between one and two years	45.2	40.0
- Between two and five years	91.1	122.6
- After more than five years	<u>330.0</u>	<u>345.0</u>
	<u>510.5</u>	<u>522.6</u>
Other loans and finance leases		
- Within one year	358.1	181.9
- Between one and two years	11.9	101.4
- Between two and five years	42.8	43.8
- After more than five years	<u>1,215.6</u>	<u>1,227.5</u>
	<u>1,628.4</u>	<u>1,554.6</u>
Total borrowing	<u>2,138.9</u>	<u>2,077.2</u>

- Loans are repayable between 2003 and 2032.
- Loans wholly repayable after more than five years are:

	Dec 2002 £m	Mar 2002 £m
- Bank Loans	325.0	340.0
- Other Loans	<u>1,011.9</u>	<u>1,011.9</u>
	<u>1,336.9</u>	<u>1,351.9</u>

- Other loans include:
 - £330m 6.75% MTN Eurobonds due 2028.
 - £200m 6.50% MTN Eurobonds due 2032.
 - £175m 3.375% index-linked bond due 2021.
 - £225m 6.60% inter company loan from parent undertaking due 2021.
- Loans repayable by instalments after more than five years hence are:

	Dec 2002 £m	Mar 2002 £m
- Bank loans	5.0	5.0
- Finance leases	<u>203.7</u>	<u>215.6</u>
	<u>208.7</u>	<u>220.6</u>

- The ranges of interest rates on outstanding bank loans are 5.4% to 11.5% (March 2002: 5.4% to 11.5%) and other loans and finance leases, are 1.7% to 6.8% (March 2002: 1.7% to 6.8%). These interest rates are those contracted on the underlying borrowing before taking account of interest rate protection. There are no interest free loans.

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Notes to the financial statements

Borrowing facilities

The Company has committed borrowing facilities with a range of financial institutions totalling £220m (March 2002: £85m), expiring as below. At 31 December 2002 and 31 March 2002, no funds have been borrowed.

	Dec 2002 £m	Mar 2002 £m
Expiring:		
Within one year	<u>220.0</u>	<u>85.0</u>

Thames Water Utilities Finance Plc also has a US\$ 4 billion (March 2002: US\$ 4 billion) uncommitted Euro-Medium Term Note programme, which provides the Company with access to the capital markets in a range of currencies and maturities. At 31 December 2002, outstanding debt obligations of Thames Water Utilities Finance Plc were £907.6m (March 2002: £940.4m), with a weighted average term of 20.2 years (March 2002: 20.2 years) at a weighted averaged rate of 5.68% (March 2002: 5.71%).

16 Provision for liabilities and charges

Provision for liabilities and charges consist entirely of a provision for deferred taxation, there are no amounts of deferred tax unprovided (March 2002: £nil).

The movement in the provision was as follows:

	Note	Dec 2002 £m
Provision brought forward at 1st April 2002		692.4
Deferred tax charge:		
- Current year	7(a)	55.2
- Prior year	7(a)	<u>(2.7)</u>
Provision carried forward at 31 December 2002		<u>744.9</u>

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

	Dec 2002 £m	Mar 2002 £m
Accelerated capital allowances	754.6	698.8
Tax losses carried forward	(5.6)	(2.2)
Other timing differences	<u>(4.1)</u>	<u>(4.2)</u>
	<u>744.9</u>	<u>692.4</u>

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Notes to the financial statements

17 Share capital

	Dec 2002 £m	Mar 2002 £m
Authorised		
1,029,050,000 (March 2002: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>
Allotted, called up and fully paid		
1,029,050,000 (March 2002: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>

18 Share premium reserve

	Dec 2002 £m	Mar 2002 £m
Premium of 25p on issue of 400 million £1 ordinary shares	<u>100.0</u>	<u>100.0</u>

19 Profit and loss account

	£m
At 1 April 2002	322.5
Profit for the period	<u>23.7</u>
At 31 December 2002	<u>346.2</u>

20 Reconciliation of movements in shareholders' funds

	Dec 2002 £m	Mar 2002 £m
Profit for the financial period/year	154.6	182.3
Dividends	<u>(130.9)</u>	<u>(126.6)</u>
Net movement in shareholders' funds	23.7	55.7
Shareholders' funds at the beginning of the period/year as previously reported	1,451.5	2,016.3
Change in accounting policy – FRS 19 deferred tax	<u>-</u>	<u>(620.5)</u>
Shareholders' funds at the beginning of the period/year as restated	<u>1,451.5</u>	<u>1,395.8</u>
Shareholders' funds at the end of the period/year	<u>1,475.2</u>	<u>1,451.5</u>

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21 Capital commitments and contingencies

	Dec 2002 £m	Mar 2002 £m
Contracted for but not provided	<u>271.2</u>	<u>256.0</u>

In addition to these commitments, the Company has long-term capital investment plans to provide for future growth.

On 7 February 2002 the Court of Appeal found the Company liable, in the case of a property owner, who brought an action against the Company for damage caused by sewer flooding. This is a significant issue for the industry as a whole, as it potentially extends the Company's current responsibilities under its Instrument of Appointment. The Company has been granted leave to appeal to the House of Lords, and at this time the directors do not consider it practicable to quantify the costs that the Company may or may not ultimately incur. The directors believe that any net cost to the Company should not be material to the state of affairs of the Company and, in these circumstances, do not consider it appropriate to make any provision in respect of this.

The directors have received legal advice to the effect that, if the appeal process is ultimately unsuccessful, the legal precedent set would impose on the Company additional obligations towards its customers. The advice confirms that, in these circumstances, any additional expenditure should meet the criteria under the terms of the Company's Instrument of Appointment, to be funded through the price review mechanism regulated by Ofwat.

22 Operating leases

At 31 December 2002 the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	Dec 2002		Mar 2002	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	-	0.5	-	0.9
Between one and two years	0.4	0.2	-	0.8
Between two and five years	0.2	-	0.2	0.1
After more than five years	5.7	-	3.6	-
	<u>6.3</u>	<u>0.7</u>	<u>3.8</u>	<u>1.8</u>

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23 Pension schemes

Pension arrangements for the majority of the Company's employees are of the defined benefit type, funded through pension schemes covering employees within the Thames Water Group, whose assets are held separately from those of the Group in independently administered funds. In addition, there are unfunded defined benefits provided for directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension schemes assets and liabilities cannot be separately identified on a reasonable and consistent basis, from those of the Thames Water Group. Accordingly, the Company has made the appropriate FRS 17 transitional disclosures, required of a company with group multi-employer pension schemes. It is not anticipated that full adoption of FRS 17 will become mandatory for accounting periods ending before 1st January 2005, until then the transitional arrangements will apply.

SSAP 24

Details of the actuarial position of the Group pension schemes are given in the financial statements of Thames Water Plc, for the year ended 31 December 2002. The key assumptions for the UK schemes are set out below:

Method	Projected unit method for schemes open to new Attained age method for closed scheme.
Interest rate	5.9% pa
Earnings increases	3.5% pa
Pension increases	2.5% pa
Asset valuation	Market value
Regular cost	£17.7m
Variation cost	(£17.2m)

During the period the Company made company contributions of £4.0m (Year ended March 2002: £4.9m) into the Company's pension schemes for the benefit of members.

The total ongoing pension cost for the Company during the period ended 31 December 2002 was £nil (year ended March 2002: £nil). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the independent and professionally qualified consulting actuaries to the schemes.

The regular cost of benefits amounted to £15.7m (March 2002: £18.9m) and the actuarial surplus resulted in a variation amounting to a reduction in the pension cost of £15.7m (March 2002: £18.9m).

At 31 December 2002 a prepayment in respect of the funded schemes amounting to £11.5m was included in debtors. At 31 March 2002, £7.5m was included in debtors.

In addition to the ongoing cost of the UK Pension arrangements, the Company operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the period ended 31 December 2002 payments amounted to £0.6m (year ended March 2002: £0.4m).

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FRS 17

Information on the Group schemes is disclosed in accordance with FRS 17 in the Thames Water Plc Group accounts, prepared for year ended 31 December 2002.

The latest full actuarial valuation was undertaken as at December 2001. At this date, the Group schemes were in surplus to the extent of £143.3m.

The next full actuarial valuation will be as at 31 December 2004.

The December 2001 valuation has been updated at 31 December 2002 by Bacon and Woodrow (the independent and professionally qualified consulting actuaries to the schemes), using revised assumptions that are consistent with the requirements of FRS 17 and shown in the table below. At this date, the Group schemes were in deficit to the extent of £63.1m.

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

Price inflation	2.4%
Salary increases	3.4%
Pension increases	2.4%
Discount rate for scheme liabilities	5.55%

Thames Water Group has taken advice from Bacon and Woodrow in respect of the deficit in the group pension schemes, and where necessary has increased the company contribution rate for those schemes with a deficit, in accordance with Bacon and Woodrow recommendations.

24 Ultimate parent company and controlling party

The ultimate parent company and controlling party is RWE AG, a company incorporated in Germany.

Copies of the consolidated financial statements of the immediate parent company, Thames Water Plc may be obtained from The Company Secretary, Thames Water Plc, 14 Cavendish Place, London W1M 0NU.

Copies of the ultimate parent company's accounts may be obtained from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen, Germany.