

Registered no: 2518607

Thames Water Services Limited

Annual report

For the nine months ended 31 December 2001

Registered Office:
Thames Water Services Ltd
Clearwater Court
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Reading
Berkshire
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Annual report for the nine months ended 31 December 2001

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Directors' report for the nine months ended 31 December 2001

The directors present their report and the audited financial statements of the company for the nine month period ended 31 December 2001.

Principal activity

The principal activity of the company in the nine months ended 31 December 2001 was the provision of waste management, engineering, grounds maintenance, utility network and facilities management services.

Review of business and future developments

The company changed its year end from 31 March to 31 December to move the company's year end in line with the RWE AG Group.

The company has undergone a significant strategic change during the last year and trading period with the disposal of Brophy Grounds Maintenance and Metro Rod and the transfer of Thames Waste Management.

As a result of the balance sheet restructuring following the above events, Thames Water Plc has agreed to subordinate its £11.9m long-term loan outstanding at the year end until 31 December 2003.

As part of the Metronet Consortium (in which the company is leading the Thames Water involvement) preferred bidder status was achieved for two out of the three of the proposed PPP schemes for London Underground. This has taken a great deal of management time and a considerable financial investment. These schemes are due to start in the next period, and as such will make a significant step change in establishing Thames Water Services in the long term managed service market leveraging off capabilities in asset management and large scale infrastructure programmes. This will be assisted by the existing presence in the utility network services market place.

Results and Dividends

The profit and loss account for the period is set out on page 4.

The directors report a loss before interest and taxation for the nine month period to December 2001 of £16,755,000 (year ended March 2001: £2,832,000 profit).

No interim dividend was paid in the period (March 2001:£Nil) and the directors do not recommend payment of a final dividend (March 2001:£Nil).

Disabled persons

The company supports the employment of disabled people whenever possible through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion.

Employees

The company places considerable value on the involvement of its employees and has continued its practice of keeping employees informed on matters affecting them as employees and on various factors affecting the performance of the company. This is achieved through formal and informal meetings, local newsletters and in-house magazines.

Creditor payment policy

The company's current payment policy is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with its contractual and other legal obligations

The company's average creditor payment period at 31 December 2001 was 35 days (March 2001: 43 days)

Donations

Charitable donations of £Nil (March 2001: £98,000) were made during the period.

Directors

The directors of the company who served during the period, all of whom were directors for the whole period ended 31 December 2001, except as noted below, were:

C Anderson (Resigned 19/09/01)
D Bonnar
C A Spratt (Resigned 30/10/01)
J Earle
A J Whiteside

T J V Jones
G N Mallett
C I Johnson (Resigned 07/11/01)
B H A Howard (Resigned 28/09/01)
S Skelton (Appointed 21/09/01)

Directors' interests

No director held any interest in the shares of the company during the period.

No director held any interest in shares of the new ultimate parent company, RWE AG.

Statement of directors' responsibilities

Company law requires the directors to prepare financial statements for each financial period that give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. The directors are required to prepare 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 with the exception of the changes arising from the adoption of new accounting standards as explained in Note 1 'Principal accounting policies'. They also confirm that reasonable and prudent estimates have been made in preparing the financial statements 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.

Auditors

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their appointment will be proposed at the Annual General Meeting.

On behalf of the board



S Skelton
Director

Independent auditors' report to the members of Thames Water Services Limited

We have audited the financial statements which comprise the profit and loss account, the balance sheet and the related notes.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the annual report and the financial statements in accordance with applicable United Kingdom law and accounting standards are set out in the statement of directors' responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and United Kingdom auditing standards issued by the Auditing Practices Board.

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

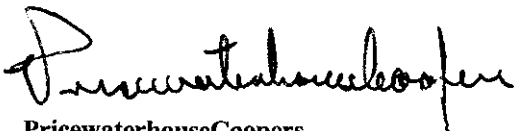
Basis of audit opinion

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 company's affairs at 31 December 2001 and of its loss for the nine month period then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Reading

25 October 2002

Profit and loss account for the nine months ended 31 December 2001

		Continuing operations	Discontinued operations	Nine month period ended December 2001 Total	Year ended March 2001
	Note	£'000	£'000	£'000	£'000
Turnover	2	106,410	45,507	151,917	197,493
Cost of sales		(88,034)	(19,563)	(107,597)	(133,299)
Gross profit		18,376	25,944	44,320	64,194
Net operating expenses	2	(24,439)	(25,719)	(50,158)	(61,362)
Operating (loss)/profit		(6,063)	225	(5,838)	2,832
Loss on disposal of discontinued businesses	3			(12,917)	-
Income from fixed asset investment	11			2,000	-
(Loss)/profit on ordinary activities before interest and taxation				(16,755)	2,832
Net interest payable	6			(860)	(753)
(Loss)/profit on ordinary activities before taxation	7			(17,615)	2,079
Tax on (loss)/profit on ordinary activities	8			1,266	(1,129)
(Loss)/retained profit for the period/year	21			(16,349)	950

The company has no recognised gains and losses other than the (loss)/profit above, and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet at 31 December 2001

	Note	December 2001 £'000	March 2001 £'000
Fixed assets			
Intangible fixed assets	9	7,080	13,534
Tangible assets	10	3,609	21,073
Investments	11	1,069	8,219
		<u>11,758</u>	<u>42,826</u>
Current assets			
Stocks	12	4,661	11,397
Debtors	13	44,190	51,942
Cash at bank and in hand		2,342	4,416
		<u>51,193</u>	<u>67,755</u>
Creditors: amounts falling due within one year	14	<u>(41,861)</u>	<u>(53,487)</u>
Net current assets		<u>9,332</u>	<u>14,268</u>
Total assets less current liabilities		<u>21,090</u>	<u>57,094</u>
Creditors: amounts falling due after more than one year	15	<u>(13,336)</u>	<u>(32,402)</u>
Provisions for liabilities and charges	16	<u>(7,591)</u>	<u>(8,180)</u>
		<u>20,927</u>	<u>40,582</u>
Net assets		<u>163</u>	<u>16,512</u>
Capital and reserves			
Called up share capital	20	13,000	13,000
Share premium account	21	1,000	1,000
Profit and loss account	21	(13,837)	2,512
Equity shareholders' funds	22	<u>163</u>	<u>16,512</u>

The financial statements on pages 4 to 20 were approved by the board of directors on 23 October 2002 and were signed on its behalf by:



S Skelton
Director

Notes to the financial statements**For the nine months ended 31 December 2001****1 Principal accounting policies**

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies which have been applied consistently is set out below together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

Basis of accounting and changes in accounting policies

The financial statements are prepared in accordance with the historical cost convention. FRS 18 'Accounting Policies' has been adopted in the current year but this did not require any change in accounting policy. FRS 19 'Deferred Tax' has also been adopted during the year. This has had no effect on the prior year taxation comparatives.

Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation is carried forward so long as there is reasonable certainty that the project will proceed, and that the income that it will generate will be sufficient to cover the amortisation of such costs. Such expenditure is amortised over the period expected to benefit. Where there is a degree of uncertainty as to whether the project will proceed, costs incurred are charged to the profit and loss account in the period.

Finance and operating leases

Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets. Costs in respect of operating leases are charged on a straight line basis over the lease term.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned, which are principally as follows:

Freehold buildings	10-100 years
Short leasehold improvements	10 years
Plant and equipment	2-7 years
Fixtures and fittings	3-7 years
Freehold land is not depreciated.	

Short leasehold improvements are depreciated over the lease period if shorter than 10 years.

Landfill sites and aftercare provision

Landfill sites are included at cost less accumulated depreciation. The provision for depreciation is based upon the average cost per cubic metre of void space consumed by the deposit of waste. Provision is made for aftercare where it is anticipated that expenditure will be required at the end of the life of the site. Specifically the full liability for aftercare costs is recognised as soon as the liability to incur such costs arises. The corresponding asset is included within fixed assets under landfill sites and is being amortised in accordance with the accounting policy for other landfill site expenditure.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the considerations given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Intangible assets – other

Other intangible assets (patents and licences) are capitalised at cost value and amortised over their respective useful lives.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off to reflect any impairment in value.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Long term contracts

Long term contracts are stated at cost, plus attributable profit, less foreseeable losses and progress payments received and receivable. The principal accounting basis used for determining profit on long term contracts is the percentage of completion method based on management's estimate of work completed to date and after providing for all known and anticipated future losses. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts.

Turnover

Turnover, which excludes value added tax, represents the value of services supplied.

Taxation

The charge or credit for taxation is based on the results for the period as adjusted for disallowable and non taxable items.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the profit and loss account.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date, where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred tax is measured at the average tax rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension costs

The company operates a mixture of both defined benefit and defined contribution schemes for certain of its employees. The assets of each of these schemes are held separately from those of the company in independently administered funds. Details of the various schemes are given in note 19.

The transitional disclosure requirements of Financial Reporting Standard 17 (Retirement Benefits) have been adopted. There is no impact on the reported figures.

Cash flows

The company is a wholly owned subsidiary of Thames Water Plc and the cash flows of the company are included in the consolidated group cash flow statement of Thames Water Plc. Consequently, the company is exempt under the terms of Financial Reporting Standard 1, "Cash Flow Statements", from publishing a cash flow statement.

Related party disclosure

FRS 8, "Related Party Disclosures", requires the disclosure of the details of material transactions between the reporting entity and any related parties. Transactions between the company and other group companies including associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3 (c).

2 Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are derived from the principal activity of the company which is conducted in the UK.

	Nine month period ended 31 December 2001			Year ended March 2001		
	Continuing £'000	Discontinued £'000	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	106,410	45,507	151,917	121,191	76,302	197,493
Cost of sales	(88,034)	(19,563)	(107,597)	(96,854)	(36,445)	(133,299)
Gross profit	18,376	25,944	44,320	24,337	39,857	64,194
Net operating expenses						
Administrative expenses	(24,439)	(25,748)	(50,187)	(26,385)	(35,184)	(61,569)
Operating income	-	29	29	36	171	207
	(24,439)	(25,719)	(50,158)	(26,349)	(35,013)	(61,362)
Operating (loss)/profit	(6,063)	225	(5,838)	(2,012)	4,844	2,832

3 Exceptional items

	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
Loss on disposal of businesses	12,917	-

The loss on disposal of businesses has arisen as a result of the disposal of Brophy Grounds Maintenance and Metro Rod divisions and the transfer of the Thames Waste Management division within the RWE Group.

The tax credit attributable to the exceptional loss on disposal is £1,142,000.

£'000	Brophy	Metro Rod	Waste	Total
Net Assets	2,938	1,443	9,569	13,950
Consideration	(3,538)	(1,643)	(8,896)	(14,077)
Goodwill write off	1,391	3,404	424	5,219
New provisions	5,745	960	-	6,705
Other disposal costs				1,120
Loss on disposal	6,536	4,164	1,097	12,917

4 Directors' emoluments

	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
Aggregate emoluments	1,039	1,069
Aggregate compensation paid for loss of office	-	45

Retirement benefits are accruing to six directors (March 2001: nine directors) under the company's defined benefit schemes.

During the period one director (March 2001: nine directors) exercised share options.

	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive schemes	239	187
Accrued pensions benefit	2	22

5 Employee information

The average monthly number of persons (including executive directors) employed by the company during the period was:

	Nine month period ended 31 December 2001 Number	Year ended 31 March 2001 Number
By function		
Administration	512	450
Engineering and services	2,539	2,640
	<u>3,051</u>	<u>3,090</u>
	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
Staff costs (for the above persons)		
Wages and salaries	48,685	62,207
Social security costs	3,840	5,148
Other pension costs (see note 19)	1,660	1,141
	<u>54,185</u>	<u>68,496</u>

6 Net interest payable

	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
Interest payable to group undertakings	652	868
Interest payable on bank overdrafts	288	14
Interest receivable on bank deposits	(374)	(687)
Finance charges on finance leases	204	324
	<u>770</u>	<u>519</u>
Interest payable on aftercare provision	90	234
	<u>860</u>	<u>753</u>

7 (Loss)/Profit on ordinary activities before taxation

	Nine month period ended 31 December 2001 £'000	Year ended 31 March 2001 £'000
(Loss)/Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned fixed assets	3,717	4,946
- under finance leases	1,000	1,573
Auditors' remuneration		
- audit services	114	126
- non-audit services	12	-
Operating lease charges		
- plant & machinery	2,314	3,733
- other	935	1,557
Amortisation of intangible fixed assets	1,245	2,013
Development costs	473	4,392
Profit on sale of fixed assets	(221)	(149)

8 Taxation

	Nine month period to 31 December 2001	Year to 31 March 2001 £'000
Current tax:		
Consideration (receivable)/payable in respect of losses surrendered/claimed by way of group relief	(1,040)	1,129
Current year deferred tax	(426)	-
Under provision in respect of prior years' group relief payable	200	-
Tax on (loss)/profit for the period/year	(1,266)	1,129

Factors effecting the tax charge for the period

The tax credit assessed for the period is lower than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	Nine month period to 31 December 2001 £'000	Year to 31 March 2001 £'000
(Loss)/profit on ordinary activities before taxation	(17,615)	2,079
Tax on (loss)/profit on ordinary activities at the standard rate of 30%	5,285	(624)
Effect of:		
Amortisation of intangible assets	(374)	(571)
Goodwill written-off on disposal of business	(1,541)	-
Deferred tax movement not recognised	(99)	694
Permanent differences- Fixed assets on business disposals	(1,808)	-
Other permanent differences	(423)	(179)
Adjustments to tax credit/(charge) in respect of previous periods	(200)	(449)
Tax credit/(charge) for the period	840	(1,129)

9 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 April 2001	19,039	988	20,027
Additions	-	10	10
Business disposals	(7,927)	-	(7,927)
At 31 December 2001	11,112	998	12,110
Amortisation			
At 1 April 2001	5,712	781	6,493
Charge for period	1,163	82	1,245
Business disposals	(2,708)	-	(2,708)
At 31 December 2001	4,167	863	5,030
Net book value at 31 December 2001	6,945	135	7,080
Net book value at 31 March 2001	13,327	207	13,534

The directors consider that the useful economic life of the goodwill generated on acquisitions at 1 April 1998 to be a period of 10 years. Other intangible fixed assets represent patents and licences. The directors consider the useful economic life of these assets to be four years.

10 Tangible fixed assets

	Freehold land and buildings	Landfill sites	Short leasehold improvements	Fixtures & fittings, plant & equipment	Total
	£'000	£'000	£'000	£'000	£'000
Cost					
At 1 April 2001	876	17,046	1,028	31,084	50,034
Reclassification	-	8	-	(12)	(4)
Additions	-	1,039	-	1,608	2,647
Disposals	(256)	-	-	(1,487)	(1,743)
Business disposals	(431)	(18,093)	(1,028)	(17,413)	(36,965)
At 31 December 2001	189	-	-	13,780	13,969
Depreciation					
At 1 April 2001	278	8,966	635	19,082	28,961
Reclassification	-	-	-	(4)	(4)
Charge for period	3	1,853	44	2,817	4,717
Disposals	(77)	-	-	(1,286)	(1,363)
Business disposals	(169)	(10,819)	(679)	(10,284)	(21,951)
At 31 December 2001	35	-	-	10,325	10,360
Net book value At 31 December 2001	154	-	-	3,455	3,609
Net book value At 31 March 2001	598	8,080	393	12,002	21,073

Included in the cost of freehold land and buildings is the cost of land amounting to £Nil (March 2001: £145,000). Within landfill sites is £Nil (March 2001: £836,000) relating to assets in the course of construction.

Assets held under finance leases, capitalised and included in fixtures & fittings and plant & equipment amount to:-

	31 December 2001	31 March 2001
	£'000	£'000
Cost	592	9,359
Aggregate depreciation	(237)	(6,727)
Net book value	355	2,632

11 Fixed asset investments

	Interests in group undertakings £'000
Cost and net book value	
At 1 April 2001	8,219
Disposal of Brophy Enterprise Limited	(7,150)
At 31 December 2001	<u>1,069</u>
Provisions	
At 1 April 2001	-
Impairment	(2,000)
Disposal of Brophy Enterprise Limited	2,000
At 31 December 2001	<u>-</u>
Net book value at 31 December 2001	<u>1,069</u>
Net book value at 31 March 2001	<u>8,219</u>

On 7 November 2001 Brophy Enterprise Limited (formerly Thames Water Contracting PLC) declared a dividend of £2,000,000. As a result Thames Water Services wrote down its investment in BEL by £2,000,000. The company was then sold to Brophy Grounds Maintenance Limited for consideration of £5,150,000. In the opinion of the directors, the value of the investments in all subsidiary companies is not less than the amounts included in the balance sheet.

Interests in group undertakings

The principal subsidiary undertakings of the company at 31 December 2001 which comprise the above balance were:

Name of undertaking	Country of incorporation	Description of shares held	Proportions of Nominal value of issued shares held
Thames Water Services MR PLC*	Great Britain	Ordinary £1 shares	100%
Morgan Collis Group Ltd	Great Britain	Ordinary £1 shares	100%
Subterra Ltd	Great Britain	Ordinary £1 shares	100%
Thames Incineration and Recycling Ltd	Great Britain	Ordinary £1 shares	100%
A J Whiteside & Co Ltd	Great Britain	Ordinary £1 shares	100%
*Formerly Metro Rod PLC			

During the period none of the above companies performed trading activities.

The company is exempt from the requirement to prepare consolidated financial statements since its subsidiaries are wholly owned and consolidated in the financial statements of the ultimate parent company.

12 Stocks

	31 December	31 March
	2001	2001
	£'000	£'000
Raw materials and consumables	1,693	2,028
Work in progress:		
Net cost less foreseeable losses	-	73,941
Less applicable payments on account	-	(67,429)
Total long term work in progress	-	6,512
Short term work in progress	2,968	2,857
Work in progress	2,968	9,369
	4,661	11,397

13 Debtors

	31 December	31 March
	2001	2001
	£'000	£'000
Amounts falling due within one year		
Trade debtors	11,808	11,090
Amounts recoverable on contracts	-	3,724
Amounts owed by group undertakings	25,943	30,044
Group relief receivable	759	-
Deferred Tax (note 18)	426	-
Other debtors	1,556	3,143
Prepayments and accrued income	3,698	3,796
Pension scheme prepayment	-	145
	44,190	51,942

14 Creditors: amounts falling due within one year

	31 December	31 March
	2001	2001
	£'000	£'000
Bank overdraft	9,097	1,367
Trade creditors	10,812	17,969
Amounts due to group undertakings	8,994	12,609
Finance leases (see note 17)	168	1,366
Group relief payable	-	81
Other taxation and social security payable	1,235	2,706
Other creditors	1,026	1,205
Accruals and deferred income	10,529	16,184
	41,861	53,487

15 Creditors: amounts falling due after more than one year

	31 December	31 March
	2001	2001
	£'000	£'000
Subordinated amounts due to immediate parent company*	11,909	22,262
Amounts due to group undertakings**	1,236	8,386
Finance leases (see note 17)	191	1,754
	13,336	32,402

* This is in respect of a loan from Thames Water Plc that bears an interest rate linked to bank base rates and has no fixed repayment date. Thames Water Plc has confirmed that it will not demand repayment of this loan before 31 December 2003. As a result of this year's results, Thames Water Plc has also confirmed that the loan has been subordinated in favour of all other creditors until 31 December 2003.

** These loans with subsidiary undertakings are interest free and have no fixed repayment dates.

16 Provisions for liabilities and charges

	Landfill sites	Other	Total
	£'000	£'000	£'000
At 1 April 2001	7,588	592	8,180
Utilised and released during the period	-	(542)	(542)
Additional provisions made in the period	-	7,541	7,541
Disposal of business (note 3)	(7,588)	-	(7,588)
At 31 December 2001	-	7,591	7,591

Other provisions relate mainly to the costs associated with the disposal of three business units during the period. The other provisions are expected to reverse within a year of the balance sheet date.

17 Finance leases

Future minimum payments under finance leases are as follows:-

	31 December 2001 £'000	31 March 2001 £'000
Within one year	168	1,366
In more than one year, but not more than five years	191	1,754
	<u>359</u>	<u>3,120</u>

18 Deferred taxation

The potential unprovided deferred tax asset is as follows:-

	Unrecognised Amount 31 December 2001 £'000	Unrecognised amount 31 March 2001 £'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	1,152	2,376
Other	2,330	1,281
	<u>3,482</u>	<u>3,657</u>

A deferred tax asset of £426k relating to pension contributions has been recognised. (note 13)

19 Pension obligations

The company operates a mixture of both defined benefit and defined contribution schemes for certain of its employees. The total pension cost for the company was £1,660,000 (March 2001: £1,141,000).

When FRS 17 'Retirement Benefits' is adopted in full for the year ending 31 December 2003 contributions to the Thames Water Group defined benefit pension schemes will be accounted for as if they were defined contribution schemes, due to the fact that the employer is unable to identify its share of the underlying assets and liabilities.

Information on the Group schemes is disclosed in accordance with FRS 17 in the Thames Water Plc Group accounts, prepared for the nine months to 31 December 2001. At this date, the Group schemes were in surplus to the extent of £143.3m. FRS 17 restricts the recognition of this surplus in the balance sheet to the amount that can be recovered by way of reduced contributions. At 31 December 2001, the actuarial estimate, of the amount that can be recovered by way of reduced contributions, is £78.2m across all Group schemes.

Defined benefit schemes

Three of these schemes are funded through Thames Water Group pension schemes whose assets are held separately from those of the company in independently administered funds. The schemes are funded by contributions from the company and the employees. The pension costs relating to the schemes are assessed in accordance with advice from Bacon & Woodrow, the consulting actuaries for the schemes. Full descriptions of these schemes are set out in the financial statements of the holding company, Thames Water Plc. The total cost for the schemes was £287,000 (March 2001: £409,000).

A fourth scheme is administered externally by Corporate Financial Solutions Ltd. The scheme is funded by contributions from the company and the employees. The latest actuarial valuation was at 5 April 2000 and was based on the Attained Age Valuation method. Whilst this method differs from the Prospective Benefit method, it is not expected to produce a significantly different result from that recommended by the Statement of Standard Accounting Practice 24.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries. It was assumed that the investment return would be 8.5% per annum and that salary increases would average 6.5% per annum. At the valuation date the market value of the assets was £2,578,385. The actuarial value of the assets was sufficient to cover 119% of the value of the accrued benefits, assuming that all benefits are eventually taken at age 65. The total pension cost for the scheme was £360,000 (March 2001: £257,000).

Certain employees belong to the Subterra Limited Staff Benefits plan which is an approved, defined benefit scheme, administered by Friends Provident Life, in which the company has its own separate section. A full actuarial valuation was carried out at 5 April 2000 by a qualified independent actuary and was based on the projected unit method. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries. It was assumed that the investment return would be 8.5% per annum and that salary increases would average 6.5% per annum. At the valuation date the market value of the assets for the whole scheme was £2,578,385. The actuarial value of the assets relating to the company's section was sufficient to cover 119% of the value of the accrued benefits, assuming that all benefits are eventually taken at age 65.

In addition pension costs of £693,000 (March 2001:£455,000) were paid to the British Association of Landscape Industries (BALI) pension scheme in respect of employees who worked for Brophy Grounds Maintenance. As this business was disposed of before the year end it was not considered necessary to include the FRS 17 disclosures for this scheme.

FRS 17

The FRS 17 liability in respect of the Subterra Limited Staff Bonus plan can be separately identified, and as at 31 December 2001 the unprovided liability was £518,000. The major assumptions used by the actuary were:

Rate of increase in salaries	4% pa
Rate of increase in pensions in payment	5% pa (Pensions accrued after 1 July 2001–New categories 2.5% pa)
Discount rate	6% pa
Inflation assumption	2.5% pa

The long term expected return on the scheme's assets as at 31 December 2001 is 6% per annum compound and the value of the assets at that date was £2,595,423.

	31 December 2001
	£'000
Total market value of assets	2,595
Present value of scheme liabilities	(3,335)
Deficit in the scheme	(740)
Related deferred tax asset	222
Net pension liability	(518)

If the above amounts had been recognised in the financial statements, the company's net assets and profit and loss reserve at 31 December 2001 would be as follows:-

	31 December 2001
	£'000
Net assets excluding pension liability	163
Pension liability	(518)
Net liabilities including pension liability	(355)
Profit and loss reserve excluding pension liability	(13,837)
Pension reserve	(518)
Profit and loss reserve	(14,355)

Defined contribution schemes

Certain employees belong to defined contribution schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The total pension cost for these schemes for the period was £320,000 (March 2001: £20,000).

20 Called up share capital

	31 December 2001 £'000	31 March 2001 £'000
Authorised		
13,000,000 (March 2001: 13,000,000) ordinary shares of £1 each	13,000	13,000
Allotted, called up and fully paid		
13,000,000 (March 2001: 13,000,000) ordinary shares of £1 each	13,000	13,000

21 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 2001	1,000	2,512
Loss for the period	-	(16,349)
At 31 December 2001	1,000	(13,837)

22 Reconciliation of movements in shareholders' funds

	31 December 2001 £'000	31 March 2001 £'000
(Loss)/profit for the period/year	(16,349)	950
Net (reduction)/addition to shareholders' (deficit)/funds	(16,349)	950
Shareholders' funds as at 1 April	16,512	15,562
Shareholders' funds as at 31 December/31 March	163	16,512

23 Capital commitments

	31 December 2001 £'000	31 March 2001 £'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	-	264

24 Financial commitments

At 31 December 2001 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	253	663	188	2,138
Expiring between two and five years inclusive	748	679	707	1,411
Expiring in over five years	-	-	358	-
	1,001	1,342	1,253	3,549

25 Immediate and ultimate parent company

Thames Water Plc, a company incorporated in Great Britain, is the immediate parent company. Copies of its consolidated financial statements may be obtained by writing to: The Company Secretary, Thames Water Plc, 14 Cavendish Place, London W1G 9NU.

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