

Registered no: 2518607

Thames Water Services Limited
Annual report
For the year ended 31 December 2002

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Thames Water Services Limited

Annual report for the year ended 31 December 2002

	Pages
Directors' report	1 - 2
Independent auditors' report	3
Profit and loss account	4
Balance sheet	5
Notes to the financial statements	6 - 19

Directors' report for the year ended 31 December 2002

The directors present their report and the audited financial statements of the company for the year ended 31 December 2002.

Principal Activity

The principal activity of the company in the year ended 31 December 2002 was the provision of engineering, utility network and asset management services. The company also provides operations and maintenance of water and waste water treatment plants and customer services activities.

Review of business and future developments

The company has had a successful year with continued investment in business development and stable underlying operational activities.

During the year, the company continued to lead the bidding process for Thames Water in respect of its interests in the Metronet Consortium. Since year end, Metronet was successfully awarded two Public Private Partnerships with London Underground and the company has received an appropriate contribution for this activity.

Engenica has traded well and won significant long term contracts in industrial outsourcing and infrastructure projects. Since year end, Engenica has been successful in securing a 7½ year contract with Trans4m, delivering work for London Underground.

Subterra had a successful year, but in line with RWE/Thames Water strategy, Subterra was sold on 31st August at a price that fairly reflected its value.

The company has continued to develop its business across the UK and Ireland. In particular there has been significant activity in Scotland. The company has continued to manage Waste Water assets in Edinburgh on behalf of Scottish Water, and in addition have been involved in bidding for outsourcing contracts with the MOD, and for Capital Programme Management with Scottish Water. Since year end, the company has been successful in being selected to work with Scottish Water with other partners to manage the delivery of their capital investment programme, for at least the next three years.

The company has also invested in a joint venture with Ondeo to establish an e procurement portal for the water industry.

Results and Dividends

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

The directors report a profit before interest and taxation for the year ended December 2002 of £2,294,000 (nine months ended December 2001: £16,755,000 loss).

No interim dividend was paid in the year (December 2001:£Nil) and the directors do not recommend payment of a final dividend (December 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 2002 was 40 days (December 2001: 35 days)

Donations

Charitable donations of £2,000 (December 2001: £Nil) were made during the period.

Directors

The directors of the company who served during the year, all of whom were directors for the whole year ended 31 December 2002, except as noted below, were:

G Chant (Appointed 5 March 2002, Resigned 5 May 2002)	T J V Jones (Resigned 5 May 2002)
D Bonnar (Resigned 25 October 2002)	A J Whiteside
J Earle	S Skelton
G Edwards (Appointed 13 May 2002)	C Millington (Appointed 5 March 2002)
G Mallett (Resigned 5 May 2002, reappointed 1 st April 2003)	

Directors' interests

No director held any interest in the shares of the company during the period. In accordance with Statutory Instrument 1985/802 the Directors' interests in the shares of the ultimate parent company, RWE AG, have not been disclosed.

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

On 26 February 2003, following the conversion of the Company's auditors, PricewaterhouseCoopers, to a Limited Liability Partnership (LLP) from 1 January 2003, PricewaterhouseCoopers gave notice under section 392 of the Companies Act 1985 of their intention to resign as auditors. On 21 March 2003, the Board resolved to appoint PricewaterhouseCoopers LLP to fill the casual vacancy as the Company's auditors, to take over the audit appointment on the same terms and conditions as before for PricewaterhouseCoopers and to hold office until the Annual General Meeting. A resolution to reappoint PricewaterhouseCoopers LLP as the Company's auditors will be proposed at the Annual General Meeting.

On behalf of the board

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

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act 1985. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding 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 judgments 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 2002 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.


PricewaterhouseCoopers LLP

Chartered Accountants and Registered Auditors
Reading

12 September 2003

Profit and loss account for the year ended 31 December 2002

		Year ended December 2002 Total £'000	Nine month period ended December 2001 Total £'000
	Note		
Turnover	2	164,448	151,917
Cost of sales		(138,506)	(107,597)
Gross profit		25,942	44,320
Net operating expenses	2	(23,648)	(50,158)
Operating profit/(loss)		2,294	(5,838)
Loss on disposal of discontinued businesses	3	-	(12,917)
Income from fixed asset investment	11	-	2,000
Profit/(loss) on ordinary activities before interest and taxation		2,294	(16,755)
Net interest payable	6	(1,202)	(860)
Profit/(loss) on ordinary activities before taxation	7	1,092	(17,615)
Tax on profit/(loss) on ordinary activities	8	(491)	1,266
Retained profit/(loss) for the year/period	21	601	(16,349)

The results for 2002 relate wholly to continuing activities. The analysis of the results for the period ended December 2001 between continuing and discontinued activities is given in note 2.

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

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

Balance sheet at 31 December 2002

	Note	December 2002 £'000	December 2001 £'000
Fixed assets			
Intangible assets	9	5,858	7,080
Tangible assets	10	3,938	3,609
Investments	11	1,875	1,069
		<u>11,671</u>	<u>11,758</u>
Current assets			
Stocks	12	5,858	4,661
Debtors	13	56,012	44,190
Cash at bank and in hand		1,537	2,342
		<u>63,407</u>	<u>51,193</u>
Creditors: amounts falling due within one year	14	<u>(39,937)</u>	<u>(41,861)</u>
Net current assets		<u>23,470</u>	<u>9,332</u>
Total assets less current liabilities		<u>35,141</u>	<u>21,090</u>
Creditors: amounts falling due after more than one year	15	<u>(30,854)</u>	<u>(13,336)</u>
Provisions for liabilities and charges	16	<u>(3,523)</u>	<u>(7,591)</u>
		<u>(34,377)</u>	<u>20,927</u>
Net assets		<u>764</u>	<u>163</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	<u>(13,236)</u>	<u>(13,837)</u>
Equity shareholders' funds	22	<u>764</u>	<u>163</u>

The financial statements on pages 4 to 19 were approved by the board of directors on 12th September 2003 and were signed on its behalf by:



S Skelton
Director

Notes to the financial statements

For the year ended 31 December 2002

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.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

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
Plant and equipment	2-7 years
Fixtures and fittings	3-7 years
Freehold land is not depreciated.	

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.

	Year ended 31 December 2002			Nine month period ended 31 December 2001
	Total £'000	Continuing £'000	Discontinued £'000	Total £'000
Turnover	164,448	106,410	45,507	151,917
Cost of sales	(138,506)	(88,034)	(19,563)	(107,597)
Gross profit	25,942	18,376	25,944	44,320
Net operating expenses				
Administrative expenses	(23,657)	(24,439)	(25,748)	(50,187)
Operating income	9	-	29	29
	(23,648)	(24,439)	(25,719)	(50,158)
Operating profit/(loss)	2,294	(6,063)	225	(5,838)

3 Exceptional items

	Year ended 31 December 2002 £'000	Nine month period ended 31 December 2001 £'000
Loss on disposal of businesses	-	12,917

The loss on disposal of businesses arose 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 was £1,142,000.

4 Directors' emoluments

	Year ended 31 December 2002	Nine month period ended 31 December 2001
	£'000	£'000
Aggregate emoluments	819	1,039
Aggregate compensation paid for loss of office	157	-

Retirement benefits are accruing to 5 directors (31 December 2001: six directors) under the company's defined benefit schemes.

During the period no directors (31 December 2001: one director) exercised share options.

	Year ended 31 December 2002	Nine month period ended 31 December 2001
	£'000	£'000
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive schemes	104	239
Accrued pensions benefit	8	2

5 Employee information

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

	Year ended 31 December 2002	Nine month period ended 31 December 2001
	Number	Number
By function		
Administration	203	512
Engineering and services	1,528	2,539
	1,731	3,051

	Year ended 31 December 2002	Nine month period ended 31 December 2001
	£'000	£'000
Staff costs (for the above persons)		
Wages and salaries	45,231	48,685
Social security costs	3,576	3,840
Other pension costs (see note 19)	1,181	1,660
	49,988	54,185

6 Net interest payable

	Year ended 31 December 2002 £'000	Nine month period ended 31 December 2001 £'000
Interest payable to group undertakings	783	652
Interest payable on bank overdrafts	468	288
Interest receivable on bank deposits	(72)	(374)
Finance charges on finance leases	23	204
	<u>1,202</u>	<u>770</u>
Interest payable on aftercare provision	-	90
	<u>1,202</u>	<u>860</u>

7 Profit/(Loss) on ordinary activities before taxation

	Year ended 31 December 2002 £'000	Year ended 31 December 2001 £'000
Profit/(loss) on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned fixed assets	1,495	3,717
- under finance leases	176	1,000
Auditors' remuneration		
- audit services	160	114
- non-audit services	-	12
Operating lease charges		
- plant & machinery	792	2,314
- other	309	935
Amortisation of intangible fixed assets	1,222	1,245
Profit on sale of fixed assets	(9)	(221)

8 Taxation

	Year ended 31 December 2002	Nine month period to 31 December 2001
Current tax:		
Consideration receivable in respect of losses surrendered by way of group relief	(1,024)	(1,040)
Under provision in respect of prior years' group relief payable	1,120	200
	<u>96</u>	<u>(840)</u>
Current year deferred tax	395	(426)
Tax on profit/(loss) for the year/period	<u>491</u>	<u>(1,266)</u>

Factors affecting the tax charge/(credit) for the year/period

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

	Year ended 31 December 2002 £'000	Nine month period to 31 December 2001 £'000
Profit/(loss) on ordinary activities before taxation	1,092	(17,615)
Tax on profit/(loss) on ordinary activities at the standard rate of 30%	328	(5,285)
Effect of:		
Amortisation of intangible assets	333	374
Goodwill written-off on disposal of business	-	1,541
Deferred tax movement not recognised	(1,931)	99
Permanent differences- Fixed assets on business disposals	-	1,808
Other permanent differences	246	423
Adjustments to tax charge in respect of previous periods	1,120	200
Current tax charge/ (credit) for the year/period	96	(840)

9 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 January 2002	11,112	998	12,110
Additions	-	-	-
At 31 December 2002	11,112	998	12,110
Amortisation			
At 1 January 2002	4,167	863	5,030
Charge for period	1,111	111	1,222
At 31 December 2002	5,278	974	6,252
Net book value at 31 December 2002	5,834	24	5,858
Net book value at 31 December 2001	6,945	135	7,080

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	Fixtures & Fittings, plant & equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2002	189	13,780	13,969
Additions	-	2,132	2,132
Disposals	-	(955)	(955)
At 31 December 2002	189	14,957	15,146
Depreciation			
At 1 January 2002	35	10,325	10,360
Charge for period	2	1,669	1,671
Disposals	-	(823)	(823)
At 31 December 2002	37	11,171	11,208
Net book value At 31 December 2002	152	3,786	3,938
Net book value At 31 December 2001	154	3,455	3,609

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

	31 December 2002	31 December 2001
	£'000	£'000
Cost	463	592
Aggregate depreciation	(357)	(237)
Net book value	106	355

11 Fixed asset investments

	Interests in group undertakings £'000
Cost and net book value	
At 1 January 2002	1,069
Addition of Aquadia	806
At 31 December 2002	1,875

In the opinion of the directors, the value of the investments in all subsidiary and joint venture companies is not less than the amounts included in the balance sheet.

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.

Interests in group undertakings

The principal subsidiary undertakings of the company at 31 December 2002 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%
A J Whiteside & Co Ltd	Great Britain	Ordinary £1 shares	100%

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.

Investments in Joint Ventures

Name of undertaking	Country of incorporation	Description of shares held	Proportions of Nominal value of issued shares held
Aquadia	Holland	Registered €10 shares	50%

12 Stocks

	31 December 2002 £'000	31 December 2001 £'000
Raw materials and consumables	1,619	1,693
Work in progress	4,239	2,968
	<u>5,858</u>	<u>4,661</u>

13 Debtors

	31 December 2002 £'000	31 December 2001 £'000
Amounts falling due within one year		
Trade debtors	11,788	11,808
Amounts owed by group undertakings	25,994	25,943
Group relief receivable	-	759
Deferred Tax (note 18)	31	426
Other debtors	5,206	1,556
Prepayments and accrued income	12,993	3,698
	<u>56,012</u>	<u>44,190</u>

14 Creditors: amounts falling due within one year

	31 December 2002 £'000	31 December 2001 £'000
Bank overdraft	5,406	9,097
Trade creditors	13,183	10,812
Amounts due to group undertakings	9,569	8,994
Finance leases (see note 17)	134	168
Other taxation and social security payable	834	1,235
Group Relief payable	353	-
Other creditors	959	1,026
Accruals and deferred income	9,499	10,529
	<u>39,937</u>	<u>41,861</u>

15 Creditors: amounts falling due after more than one year

	31 December 2002 £'000	31 December 2001 £'000
Subordinated amounts due to immediate parent company*	29,603	11,909
Amounts due to group undertakings**	1,236	1,236
Finance leases (see note 17)	15	191
	<u>30,854</u>	<u>13,336</u>

*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 2004. Thames Water Plc has also confirmed that the loan has been subordinated in favour of all other creditors until 31 December 2004.

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

16 Provisions for liabilities and charges

	Disposal Provisions £'000	Contract Obligations £'000	Total £'000
As at 1 January 2002	6,704	887	7,591
Utilised and released during the year	(4,121)	(692)	(4,813)
Additional provisions made in the year	-	745	745
As at 31 December 2002	<u>2,583</u>	<u>940</u>	<u>3,523</u>

The provisions relating to the disposal of three business units in prior years 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 2002 £'000	31 December 2001 £'000
Within one year	134	168
In more than one year, but not more than five years	15	191
	<u>149</u>	<u>359</u>

18 Deferred taxation

The potential unprovided deferred tax asset is as follows:-

	Unrecognised Amount 31 December 2002 £'000	Unrecognised Amount 31 December 2001 £'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	1,006	1,152
Other	2,162	2,330
	<u>3,168</u>	<u>3,482</u>

A deferred tax asset of £31,000 (2001: £426,000) 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 £1,181,000 (December 2001: £1,660,000).

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 Hewitt Bacon & Woodrow, the consulting actuaries for the schemes. Total market value of the assets of these three schemes as at the last valuation date, 31 December 2001, was £947m and represented 123% of the value of benefits that had accrued to members after allowing for expected future salary increases. As at 31 December 2002, the UK schemes were in deficit position where the present value of the schemes' obligations exceeded the market value of the assets. In light of the current situation of the financial markets, and its impact upon the valuation of the pension schemes' assets, employer's contributions into these schemes were increased from 1 January 2003. Furthermore, the levels of contributions will be subject to annual review as long as the current situation continues. No immediate remedial action was considered necessary. The total cost for the schemes was £848,000 (December 2001: £287,000).

When FRS 17 'Retirement Benefits' is adopted in full, 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 Thames Water Group schemes, including full FRS 17 disclosures, is contained in the Thames Water Plc Group accounts, prepared for the year ended 31 December 2002.

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. The total pension cost for the scheme was £289,000 (December 2001:£360,000).

FRS 17

The FRS 17 liability in respect of Subterra Limited staff bonus plan can be separately identified. The major assumptions used by the actuary were:

	31 December 2002	31 December 2001
Rate of increase in salaries	3.5% pa	4% pa
Rate of increase in pensions in payment		
- old section benefits (accrued after 1 July 2001)	5% pa	5% pa
- new section benefits	2% pa	2.5% pa
Discount rate	5.5% pa	6% pa
Inflation assumption	2% pa	2.5% pa

The assets in the plan and the expected rate of return were:

	Long term rate of return expected at 31 December 2002	Value at 31 December 2002	Long term rate of return expected at 31 December 2001	Value at 31 December 2001
		£'000		£'000
Friends Provident Managed Fund plus cash and Net Current Assets	5.5%	<u>2,621</u>	6%	<u>2,595</u>
Present value of scheme liabilities		<u>(7,470)</u>		<u>(3,335)</u>
Deficit in scheme		<u>(4,849)</u>		<u>(740)</u>
Related deferred tax asset		-		-
Net pension liability		<u>(4,849)</u>		<u>(740)</u>

If the above amounts had been recognised in the financial statements, the company's net assets and profit and loss reserve at 31 December 2002 would be as follows:-

	31 December 2002	31 December 2001
	£'000	£'000
Net assets excluding pension liability	955	163
Pension liability	<u>(4,849)</u>	<u>(518)</u>
Net liabilities including pension liability	<u>(3,894)</u>	<u>(355)</u>
Profit and loss reserve excluding pension liability	<u>(13,045)</u>	<u>(13,837)</u>
Pension reserve	<u>(518)</u>	<u>(518)</u>
Profit and loss reserve	<u>(13,563)</u>	<u>(14,355)</u>

Analysis of the amount charged to operating profit

	Year ended 31 December 2002 £'000
Current service cost	389
Life assurance premium	58
Past service cost	-
Total operating charge	<u>447</u>

Analysis of the amount credited to other finance income

	Year ended 31 December 2002 £'000
Expected return on pension scheme assets	177
Interest on pension scheme liabilities	(179)
Net return	<u>(2)</u>

Analysis of the amount recognised in statement of total recognised gains and losses (STRGL)

	Year ended 31 December 2002 £'000
Actual return less expected return on pension scheme assets	(830)
Experience gains and losses arising on the scheme liabilities	(166)
Changes in assumptions underlying the present value of the scheme liabilities	(2,909)
Actuarial gain (loss) recognised in STRGL	<u>(3,905)</u>

Movement in deficit during the year

	Year ended 31 December 2002 £'000
Deficit in scheme in beginning of the year	(740)
Movement in year:	
Current service cost including Life Assurance	(447)
Contributions	245
Other finance income	(2)
Actuarial gain	(3,905)
Deficit in scheme at end of the year	<u>(4,849)</u>

History of experience gains and losses

	Year ended 31 December 2002 £'000
Difference between the expected and actual return on scheme assets	
Amount (£'000)	(830)
Percentage of scheme assets	32%
Experience gains and losses on scheme liabilities	
Amount (£'000)	(166)
Percentage of the present value of the scheme liabilities	2%
Total amount recognised in statement of total recognised gains and losses	
Amount (£'000)	(2,909)
Percentage of the present value of the scheme liabilities	39%

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 £44,000 (December 2001: £320,000).

20 Called up share capital

	31 December 2002 £'000	31 December 2001 £'000
Authorised		
13,000,000 (December 2001: 13,000,000) ordinary shares of £1 each	13,000	13,000
Allotted, called up and fully paid		
13,000,000 (December 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 January 2002	1,000	(13,837)
Profit for the year	-	601
At 31 December 2002	1,000	(13,236)

22 Reconciliation of movements in shareholders' funds

	31 December 2002 £'000	31 December 2001 £'000
Profit/(Loss) for the year/period	601	(16,349)
Net Increase/(reduction) to shareholders' funds	601	(16,349)
Shareholders' funds as at 1 January/1 April	163	16,512
Shareholders' funds as at 31 December	764	163

23 Financial commitments

At 31 December 2002 the company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings	Other	Land and Buildings	Other
	31 December 2002	31 December 2002	31 December 2001	31 December 2001
	£'000	£'000	£'000	£'000
Expiring within one year	97	-	253	663
Expiring between two and five years inclusive	134	470	748	679
	<u>231</u>	<u>470</u>	<u>1,001</u>	<u>1,342</u>

24 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.