

Thames Water Services Limited

Annual report

For the year ended 31 December 2003

Registered Office:
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Thames Water Services Limited

Annual report for the year ended 31 December 2003

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Directors' report for the year ended 31 December 2003

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2003.

Principal Activity

The principal activity of the Company in the year ended 31 December 2003 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 enjoyed another successful year, which saw the commencement of both the major London Underground project and the Scottish Water asset management programme.

In line with RWE Thames Water divisional strategy, the Company continued to divest itself of non-core business, to enable it to focus on the building of a strong, stable core. To this end, the Company disposed of the trade and certain assets and liabilities of Subterra on 31st August 2003, which after the write down of goodwill has resulted in an overall loss on disposal of £80,000. Additionally, the decision was taken to cease all trading activities by the Aquadia JV with effect from 31st December 2003 and to voluntarily liquidate the company during 2004. The costs associated with this have been fully provided in these accounts.

This year has seen the start of four long-term contracts at Trans4m to deliver both stations and civil works to the Metronet companies, which are partly owned by RWE Thames Water Plc.

During the year, the Company received a sum of £10.05 million from each of the two Metronet companies in recognition of the resources it has employed to successfully secure contracts between the Metronet consortium companies and London Underground.

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 an interest in Scottish Water Solutions, which is managing the delivery of the Capital Management Programme on behalf of Scottish Water during the next four years. Additionally, it has achieved preferred bidder status to manage the outsourced infrastructure works for the MoD in Scotland.

Furthermore, the Company is currently bidding for customer services; operations and maintenance; capital programme management; new connections and sludge disposal contracts with Welsh Water, AWG and Southern Water.

During the year, Engenica has been awarded three long-term contracts with Guinness in both the UK and Eire. This, together with a long-term contract with Trans4m and other projects has enabled this division to increase its turnover by a third.

Results and Dividends

The results for the year are set out in the profit and loss account on page 5.

The Directors report a profit before interest and taxation for the year ended December 2003 of £5.5m (year ended December 2002: £2.3m profit).

No interim dividend was paid in the year (December 2002: £Nil) and the Directors do not recommend payment of a final dividend (December 2002: £Nil).

Directors' report for the year ended 31 December 2003 (continued)

Employees

We continue to recognise the essential role played by our employees in the successful operation of the Company and, in return, aim to provide employees with a safe and fulfilling environment in which to work and to develop their skills.

We have improved access for employees in gaining training and development, and we have further developed the range of training solutions available for a wide range of needs. In particular, we have continued our focus on developing excellence in people management.

Directors and managers have been offered development to enhance their leadership, people and general business management skills, through continuing to provide access to formal qualifications and through links with UK and international business schools. We continue to see the benefits of informal and formal networking with colleagues in other parts of the RWE Group, in offering our leaders the opportunity to learn about and apply varied business models and approaches.

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:thameswater," team briefings and regular e-mail updates, together with the holding of team building conferences and events.

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.

During the year, the Company has seconded over 100 staff into joint ventures, including Metronet, Trans4m and Scottish Water Solutions.

Policy on Payment of Suppliers

All payments to suppliers, service providers and contractors are made on the basis of mutually agreed terms and conditions. During the year the average amount due to trade creditors represented 28 days (December 2002: 40 days) purchases received from these creditors

Donations

Charitable donations of £ nil (December 2002: £2,000) were made during the year.

Directors' report for the year ended 31 December 2003 (continued)

Directors

The Directors of the Company who served during the year, all of whom were Directors for the whole year ended 31 December 2003, except as noted below, were:

G W Edwards (Resigned 1st October 2003. Re-appointed 15th April 2004)

P Harding (Appointed 5th January 2004)

J J Earle

C P Millington

G N Mallett (Appointed 1st April 2003)

S D Skelton

A J Whiteside (Resigned 1st March 2004)

Directors' interests

No Director held any interest in the shares of the Company during the year. 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

The auditors, PricewaterhouseCoopers LLP, 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



Graham Edwards

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 2003 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

22 September 2004

**Profit and loss account
for the year ended 31 December 2003**

				Year ended 31 December 2003 Total £'000	Year ended 31 December 2002 Total £'000
	Note	Continuing Operations £'000	Discontinued Operations £'000		
Turnover	2	77,698	67,087	144,785	164,448
Operating costs	3	<u>(71,775)</u>	<u>(64,774)</u>	<u>(136,549)</u>	<u>(162,154)</u>
Operating profit		5,923	2,313	8,236	2,294
Exceptional items	4	(4,968)	2,305	(2,663)	-
Loss on disposal of discontinued businesses	4	-	(80)	(80)	-
		<u>955</u>	<u>4,538</u>	<u>5,493</u>	<u>2,294</u>
Profit on ordinary activities before interest and taxation					
Net interest payable	7			<u>(262)</u>	<u>(1,202)</u>
Profit on ordinary activities before taxation				5,231	1,092
Taxation on profit on ordinary activities	8			<u>(2,468)</u>	<u>(491)</u>
Retained profit for the year	21			<u>2,763</u>	<u>601</u>

The analysis of the results for the year ended December 2002 between continuing and discontinued activities is given in note 2.

The Company has no recognised gains and losses other than the profit shown above, and therefore no separate statement of total recognised gains and losses has been presented.

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

Balance sheet at 31 December 2003

	Note	31 December 2003 £'000	31 December 2002 £'000
Fixed assets			
Intangible assets	9	1,266	5,858
Tangible assets	10	2,070	3,938
Investments	11	1,075	1,875
		<u>4,411</u>	<u>11,671</u>
Current assets			
Stocks	12	2,900	5,858
Debtors	13	23,704	56,012
Cash at bank and in hand		<u>15,400</u>	<u>1,537</u>
		<u>42,004</u>	<u>63,407</u>
Creditors: amounts falling due within one year	14	(30,183)	(39,937)
Net current assets		<u>11,821</u>	<u>23,470</u>
Total assets less current liabilities		<u>16,232</u>	<u>35,141</u>
Creditors: amounts falling due after more than one year	15	(1,716)	(30,854)
Provisions for liabilities and charges	16	(10,989)	(3,523)
		<u>(12,705)</u>	<u>(34,377)</u>
Net assets		<u>3,527</u>	<u>764</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	(10,473)	(13,236)
Equity shareholders' funds	22	<u>3,527</u>	<u>764</u>

The financial statements on pages 5 to 24 were approved by the board of Directors on 15th September 2004 and were signed on its behalf by:



Peter Harding
Director

Notes to the financial statements for the year ended 31 December 2003

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 preparation

The financial statements have been prepared in accordance with the historical cost convention and with applicable Accounting Standards in the United Kingdom and the Companies Act 1985.

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 RWE Thames Water plc, a company registered in the UK.

Turnover

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

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.

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.

Investments

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

Stocks and work in progress

Stock and work in progress has been consistently valued at the lower of cost and estimated net realisable value. Cost includes labour, material, transport and an element of overheads.

Notes to the financial statements (continued)

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.

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 term 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.

Taxation

The charge or credit for taxation is based on the results for the year 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 RWE Thames Water Plc and the cash flows of the Company are included in the consolidated group cash flow statement of RWE 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.

Notes to the financial statements (continued)**Related party disclosure**

The Company is exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the RWE AG group.

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.

	Continuing Operations	Discontinued	Year ended 31 December 2003 Total £'000
	£'000	£'000	£'000
Turnover	77,698	67,087	144,785
Cost of sales	<u>(62,654)</u>	<u>(62,991)</u>	<u>(125,645)</u>
Gross profit	15,044	4,096	19,140
Administrative expenses	(29,221)	(1,783)	(31,004)
Other operating income	<u>20,100</u>	<u>-</u>	<u>20,100</u>
Net operating expenses	(9,121)	(1,783)	(10,904)
Operating profit	<u>5,923</u>	<u>2,313</u>	<u>8,236</u>

	Continuing Operations	Discontinued	Year ended 31 December 2002 Total £'000
	£'000	£'000	£'000
Turnover	65,461	98,987	164,448
Cost of sales	<u>(47,455)</u>	<u>(91,051)</u>	<u>(138,506)</u>
Gross profit	18,006	7,936	25,942
Administrative expenses	(22,064)	(1,593)	(23,657)
Other operating income	<u>9</u>	<u>-</u>	<u>9</u>
Net operating expenses	(22,055)	(1,593)	(23,648)
Operating profit	<u>(4,049)</u>	<u>6,343</u>	<u>2,294</u>

Discontinued operations for the year ending December 2003 comprise of the Subterra business units 8 months of trading up until the 31st August 2003. This is compared to the 12 months of trading for the year ending 31st December 2002.

Notes to the financial statements (continued)

3 Operating costs

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Manpower costs	41,114	49,988
Materials & consumables	84,531	88,518
Other external charges	16,449	19,503
Restructuring provision	2,000	-
Other operating income	(20,100)	-
Bid costs written off	9,440	-
Loss/ (profit) on sale of fixed assets	6	(9)
Depreciation of tangible fixed assets		
- owned fixed assets	1,161	1,495
- under finance leases	70	176
Amortisation of intangible fixed assets	874	1,222
Auditors' remuneration for audit services	160	160
Operating lease charges		
- plant & machinery	542	792
- other	302	309
	<u>136,549</u>	<u>162,154</u>

The operating income in the year consists of bid work carried out on behalf of RWE Thames Water Plc in relation to winning the Metronet contract.

4 Exceptional items

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Discontinued activities:-		
Consideration received	(18,919)	-
Tangible net assets	8,919	-
Goodwill written off	3,831	-
Provision for disposal	5,867	-
Other disposal costs	382	-
	<u>80</u>	<u>-</u>
Loss on disposal of discontinued businesses		

Notes to the financial statements (continued)

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Continuing activities:-		
Losses on closure of Aquadia		
Write down of investment	791	-
Write down of loans	3,136	-
Provision for closure costs	1,041	-
	<u>4,968</u>	<u>-</u>
Discontinued activities:-		
Release of provision made on disposal of business in prior year no longer required	(2,305)	-
	<u>2,663</u>	<u>-</u>

The loss on disposal of businesses arose as a result of the disposal of the Subterra division.
The tax charge attributable to the disposal was £2,856,000.

In relation to the decision to cease all trading activities of the Aquadia JV, the original investment and subsequent loans were written down to nil in the current year. A provision was also created for future closure costs. The tax credit attributable to these amounts was £940,800 in relation to the write down of loans.

During the period the Company released £2,305,000 of provisions held in connection with the disposal of Brophy. The tax charge attributable to this was nil.

5 Directors' emoluments

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Aggregate emoluments	758	819
Aggregate compensation paid for loss of office	-	157
	<u>758</u>	<u>976</u>

Retirement benefits are accruing to 5 Directors (31 December 2002: 5 Directors) under the Company's defined benefit schemes.

During the year no Directors (31 December 2002: no Directors) exercised share options.

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Highest paid Director		
Total amount of emoluments and amounts receivable under long-term incentive schemes	<u>135</u>	<u>104</u>
Accrued pensions benefit	<u>3</u>	<u>8</u>

Notes to the financial statements (continued)

6 Employee information

The average monthly number of persons (including executive Directors) employed by the Company during the year was:

	Year ended 31 December 2003 Number	Year ended 31 December 2002 Number
By function		
Administration	172	203
Engineering and services	<u>1,247</u>	<u>1,528</u>
	<u>1,419</u>	<u>1,731</u>
	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Staff costs (for the above persons)		
Wages and salaries	36,928	45,231
Social security costs	2,749	3,576
Pension costs (see note 19)	<u>1,437</u>	<u>1,181</u>
	<u>41,114</u>	<u>49,988</u>

7 Net interest payable

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Interest payable to group undertakings	416	783
Interest payable on bank overdrafts	63	468
Interest receivable on bank deposits	(221)	(72)
Finance charges on finance leases	<u>4</u>	<u>23</u>
	<u>262</u>	<u>1,202</u>

Notes to the financial statements (continued)

8 Taxation

(a) Analysis of charge in year

		Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Current year:			
Amounts payable in respect of corporation tax for the period		-	-
Amounts (payable)/receivable in respect of group relief		(4,040)	1,024
Adjustments in respect of previous periods		<u>118</u>	<u>(1,120)</u>
Total current tax	8(b)	(3,922)	(96)
Deferred tax :			
Origination and reversal of timing differences	18	<u>1,454</u>	<u>(395)</u>
Taxation on profit on ordinary activities		<u>(2,468)</u>	<u>(491)</u>

(b) Factors affecting the tax charge for the year

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

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Profit on ordinary activities before taxation	<u>5,231</u>	<u>1,092</u>
Tax on profit on ordinary activities at the standard rate of 30% (2002: 30%)	<u>1,569</u>	<u>328</u>
Effect of:		
Disposal of Subterra business unit	2,856	-
Deferred tax movement not recognised	(894)	(1,931)
Amortisation of goodwill	250	333
Other permanent differences	259	246
Adjustments to tax charge in respect of previous periods	<u>(118)</u>	<u>1,120</u>
Current tax charge for the year	<u>3,922</u>	<u>96</u>

Notes to the financial statements (continued)

9 Intangible fixed assets

	Goodwill	Patents & licences	Total
	£'000	£'000	£'000
Cost			
At 1 January 2003	11,112	998	12,110
Additions	-	124	124
Disposals	(8,357)	-	(8,357)
At 31 December 2003	2,755	1,122	3,877
Amortisation			
At 1 January 2003	5,278	974	6,252
Disposals	(4,526)	11	(4,515)
Charge for year	833	41	874
At 31 December 2003	1,585	1,026	2,611
Net book value at 31 December 2003	1,170	96	1,266
Net book value at 31 December 2002	5,834	24	5,858

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 to be four years.

10 Tangible fixed assets

	Freehold land & buildings	Fixtures & Fittings, plant & equipment	Total
	£'000	£'000	£'000
Cost			
At 1 January 2003	189	14,957	15,146
Additions	-	1,121	1,121
Disposals	-	(12,485)	(12,485)
At 31 December 2003	189	3,593	3,782
Depreciation			
At 1 January 2003	37	11,171	11,208
Charge for year	10	1,221	1,231
Disposals	-	(10,727)	(10,727)
At 31 December 2003	47	1,665	1,712
Net book value at 31 December 2003	142	1,928	2,070
Net book value at 31 December 2002	152	3,786	3,938

Notes to the financial statements (continued)

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

	31 December 2003 £'000	31 December 2002 £'000
Cost	-	463
Aggregate depreciation	-	(357)
Net book value	-	106

11 Fixed asset investments

	Interests in group undertakings £'000
Cost	
At 1 January 2003	1,875
Additions	6
At 31 December 2003	1,881
Impairment	
At 1 January 2003	-
Provided during the year	806
At 31 December 2003	806
Net book value at 31 December 2003	1,075
Net book value at 31 December 2002	1,875

Of the provision provided during the year, £791k relates to the write down of the investment in Aquadia.

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.

Interests in group undertakings

The principal subsidiary undertakings of the Company at 31 December 2003 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	100%
Morgan Collis Group Ltd	Great Britain	Ordinary £1	100%
Surta Limited (formerly Subterra Ltd)	Great Britain	Ordinary £1	100%
A J Whiteside & Co Ltd	Great Britain	Ordinary £1	100%

During the year 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.

Notes to the financial statements (continued)

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	50%

12 Stocks

	31 December 2003 £'000	31 December 2002 £'000
Raw materials and consumables	806	1,619
Work in progress	2,094	4,239
	<u>2,900</u>	<u>5,858</u>

13 Debtors

	31 December 2003 £'000	31 December 2002 £'000
Amounts falling due within one year:		
Trade debtors	7,516	11,788
Amounts owed by group undertakings	11,110	25,994
Deferred tax (note 18)	1,485	31
Other debtors	102	5,206
Prepayments and accrued income	3,491	12,993
	<u>23,704</u>	<u>56,012</u>

14 Creditors: amounts falling due within one year

	31 December 2003 £'000	31 December 2002 £'000
Bank overdraft	-	5,406
Trade creditors	2,083	13,183
Amounts due to group undertakings	18,448	9,569
Finance leases (see note 17)	-	134
Other taxation and social security payable	552	834
Group relief payable	2,514	353
Other creditors	965	959
Accruals and deferred income	5,621	9,499
	<u>30,183</u>	<u>39,937</u>

Notes to the financial statements (continued)**15 Creditors: amounts falling due after more than one year**

	31 December 2003 £'000	31 December 2002 £'000
Subordinated amounts due to immediate parent company	-	29,603
Amounts due to group undertakings*	1,716	1,236
Finance leases (see note 17)	-	15
	<u>1,716</u>	<u>30,854</u>

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

16 Provisions for liabilities and charges

	Restructuring Provision £'000	Disposal Provisions £'000	Contract Obligations £'000	Total £'000
At 1 January 2003	-	2,583	940	3,523
Released during the year	-	(2,305)	(181)	(2,486)
Utilised during the year	-	-	(672)	(672)
Additional provisions made in the year	<u>2,000</u>	<u>6,908</u>	<u>1,716</u>	<u>10,624</u>
At 31 December 2003	<u>2,000</u>	<u>7,186</u>	<u>1,803</u>	<u>10,989</u>

The restructuring provisions are in respect of costs to be incurred for restructuring of the business. These are expected to be utilised within the year

Disposal provisions consist of :

Subterra	
Pension Costs	3,800
Contracts and warranties	1,380
Legal costs	60
Other disposal costs	627
Aquadia closure	1,041
Other	<u>278</u>
	<u>7,186</u>

These disposal provision relates mainly to the disposal of the Subterra business unit, (these are expected to be utilised within one to two years), and the closure of the Aquadia JV, (these are expected to be utilised within one year).

The release of the disposal provision relates to the Brophy business unit that had been disposed of in a prior year and is no longer required.

Contract obligations are expected to be utilised within one year.

Notes to the financial statements (continued)

17 Finance leases

Future minimum payments under finance leases are as follows:-

	31 December 2003 £'000	31 December 2002 £'000
Within one year	-	134
In more than one year, but not more than five years	-	15
	<u>-</u>	<u>149</u>

18 Deferred taxation

The recognised and unrecognised deferred tax assets are as follows:-

	Recognised Amount 31 December 2003 £'000	Unrecognised Amount 31 December 2003 £'000	Recognised Amount 31 December 2002 £'000	Unrecognised Amount 31 December 2002 £'000
Tax effect of timing differences because of:				
Excess of depreciation over tax	-	95	-	1,006
Pension contributions	1,171	-	31	-
Other	314	2179	-	2,162
	<u>1,485</u>	<u>2274</u>	<u>31</u>	<u>3,168</u>

A deferred tax asset of £1,485,000 (2002: £31,000) has been recognised, of which £1,171,000 relates to pension contributions and £314,000 relates to the disposal of discontinued businesses (note 13).

Deferred tax movement

	£'000
At 1 January 2003	31
Credited to profit and loss account	<u>1,454</u>
At 31 December 2003	<u>1,485</u>

Notes to the financial statements (continued)

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 £1,437,000 (December 2002: £1,181,000).

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. An interim valuation was undertaken on the 31 August 2003. Scheme assets at that date amounted to £863m and this represents 100% of the value of the benefits accrued to members as at 31 August 2003.

No immediate remedial action was considered necessary. The total cost for the schemes attributable to Thames Water Services for the year ended December 2003 was £1,217,000 (December 2002: £848,000).

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 RWE Thames Water Plc Group accounts, prepared for the year ended 31 December 2003.

Certain employees belonged 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 2003 by a qualified independent actuary and was based on the projected unit method. At the valuation date the market value of the assets for the scheme was £2.5m. The actuarial value was sufficient to cover 38% of the value of the accrued benefits. As at December 2003 the scheme remained in a deficit position where the present value of the schemes obligations exceeded the market value of the assets. The main reasons for the worsening in the financial position of the plan are:

- (i) All previously active members became deferred members as at 31 August 2003. Previously the assumption was that their past service liability would be linked to future salary increases (3.5% in 2002); however, Old Section deferred pensions revalue at a fixed rate of 5% pa, leading to a significant increase in the Plan liabilities; and
- (ii) the change in the economic assumptions since the previous figures were produced combined with the impact of two Directors now being calculated with retirement age 60 rather than 65

This has been partly offset by better than expected investment return over the year with the long term rate of return increasing to 7.8% (2002 5.5%). The total pension cost for the scheme for the year ended December 2003 was £220,000 (December 2002: £289,000).

Notes to the financial statements (continued)

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 2003	31 December 2002	31 December 2001
Rate of increase in salaries	N/A	3.5% pa	4.0% pa
Rate of increase in pensions in payment			
- old section benefits (accrued after 1 July 2001)	5.0% pa	5.0% pa	5.0% pa
- new section benefits	2.7% pa	2.0% pa	2.5% pa
Discount rate	5.4% pa	5.5% pa	6.0% pa
Inflation assumption	2.7% pa	2.0% 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 2003	Value at 31 December 2003 £'000	Long term rate of return expected at 31 December 2002	Value at 31 December 2002 £'000 (Restated)	Long term rate of return expected at 31 December 2001	Value at 31 December 2001 £'000 (Restated)
Equities	8.3%	2,558	5.6%	2,188	6.2%	2,166
Property	8.3%	37	5.6%	31	6.2%	31
Bonds	5.0%	360	5.0%	308	5.2%	305
Cash & Net current assets	4.3%	110	4.0%	94	4.5%	93
Total	7.8%	3,065	5.5%	2,621	6.0%	2,595
Present value of scheme liabilities		(8,223)		(5,911)		(3,335)
Deficit in scheme		(5,158)		(3,290)		(740)
Related deferred tax asset, based on 30% rate of tax		1,547		987		222
Net balance sheet liability		(3,611)		(2,303)		(518)

The values shown for 31 December 2002 and 2001 have been restated to more properly reflect those shown in the scheme Balance sheet and Actuarial report

Notes to the financial statements (continued)

Amounts not recognised in financial statements

If FRS17 had been fully adopted, the Company's net assets and profit and loss deficit at 31 December 2003 would be as follows:-

	31 December 2003 £'000	31 December 2002 £'000 (Restated)	31 December 2001 £'000 (Restated)
Net assets per Balance Sheet	3,527	764	163
Provision for Scheme deficit	3,800	-	-
Related deferred tax asset	(1,171)	-	-
Net assets excluding pension liability	6,156	764	163
Pension liability	(3,611)	(2,303)	(518)
Net assets/(liabilities) including FRS17 pension liability	<u>2,545</u>	<u>(1,539)</u>	<u>(355)</u>
Profit and loss reserve per Balance Sheet	(10,473)	(13,236)	(13,837)
Provision for Scheme deficit	3,800	-	-
Related deferred tax asset	(1,171)	-	-
Profit and loss (deficit) excluding pension liability	(7,844)	(13,236)	(13,837)
Pension liability	(3,611)	(2,303)	(518)
Profit and loss (deficit) including FRS17 pension liability	<u>(11,455)</u>	<u>(15,539)</u>	<u>(14,355)</u>

The values shown for 31 December 2002 and 2001 have been restated to more properly reflect those shown in the scheme Balance sheet and Actuarial report

Analysis of the amount charged to operating profit

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Current service cost	300	389
Life assurance premium	48	58
Past service cost	36	-
Loss on curtailment	949	-
Total operating charge	<u>1,333</u>	<u>447</u>

Notes to the financial statements (continued)

Analysis of the amount credited to other finance income

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000
Expected return on pension scheme assets	155	177
Interest on pension scheme liabilities	<u>(314)</u>	<u>(179)</u>
Net return	<u><u>(159)</u></u>	<u><u>(2)</u></u>

If FRS17 had been fully adopted, the statement of total recognised gains and losses for the year ended 31 December 2003 would be as follows:-

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

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000 (Restated)
Actual return less expected return on pension scheme assets	333	(830)
Experience gains and losses arising on the scheme liabilities	(434)	(166)
Changes in assumptions underlying the present value of the scheme liabilities	<u>(442)</u>	<u>(1,349)</u>
Actuarial gain/(loss) recognised in STRGL	<u><u>(543)</u></u>	<u><u>(2,345)</u></u>

Movement in deficit during the year

	Year ended 31 December 2003 £'000	Year ended 31 December 2002 £'000 (Restated)
Deficit in scheme in beginning of the year	(3,290)	(740)
Movement in year:		
Current service cost including Life Assurance	(1,333)	(447)
Contributions	167	244
Other finance income	(159)	(2)
Actuarial gain	<u>(543)</u>	<u>(2,345)</u>
Deficit in scheme at end of the year	<u><u>(5,158)</u></u>	<u><u>(3,290)</u></u>

Notes to the financial statements (continued)

History of experience gains and losses

	Year ended 31 December 2003	Year ended 31 December 2002 (Restated)
Difference between the expected and actual return on scheme assets		
Amount (£'000)	333	(830)
Percentage of scheme assets	11%	(32%)
Experience gains and losses on scheme liabilities		
Amount (£'000)	(434)	(166)
Percentage of the present value of the scheme liabilities	5%	3%
Total amount recognised in statement of total recognised gains and losses		
Amount (£'000)	(543)	(2,345)
Percentage of the present value of the scheme liabilities	7%	40%

Defined contribution schemes

No employees during the year belonged 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 year was £nil (December 2002: £44,000).

20 Called up share capital

	31 December 2003 £'000	31 December 2002 £'000
Authorised		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>
Allotted, called up and fully paid		
13,000,000 ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>

21 Reserves

	Share premium account £'000	Profit and loss account £'000
At 1 January 2003	1,000	(13,236)
Profit for the year	-	2,763
At 31 December 2003	<u>1,000</u>	<u>(10,473)</u>

Notes to the financial statements (continued)

22 Reconciliation of movements in shareholders' funds

	31 December 2003 £'000	31 December 2002 £'000
Profit for the year	2,763	601
Net Increase to shareholders' funds	2,763	601
Shareholders' funds as at 1 January	764	163
Shareholders' funds as at 31 December	3,527	764

23 Financial commitments

At 31 December 2003 the Company had annual commitments under non-cancellable operating leases as follows:

	Land and Buildings 31 December 2003 £'000	Other 31 December 2003 £'000	Land and Buildings 31 December 2002 £'000	Other 31 December 2002 £'000
Expiring within one year	-	94	97	-
Expiring between two and five years inclusive	-	40	134	470
	<u>-</u>	<u>134</u>	<u>231</u>	<u>470</u>

24 Immediate and ultimate parent company

RWE Thames Water Plc (formerly 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, RWE 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.