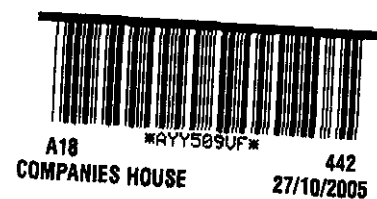


Thames Water Services Limited

Annual report

For the year ended 31 December 2004



Registered Office:
Thames Water Services Ltd
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Thames Water Services Limited

Annual report for the year ended 31 December 2004

	Pages
<i>Directors' report</i>	1 - 3
Independent auditors' report	4
Profit and loss account	5
Balance sheet	6
Notes to the financial statements	7 - 20

Directors' report for the year ended 31 December 2004

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2004.

Principal Activity

The principal activity of the Company in the year ended 31 December 2004 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 incorporation of Nevis Water, a 100% subsidiary responsible for managing the outsourced water and wastewater infrastructure on behalf of the Ministry of Defence in Scotland. Nevis Water commenced trading in March 2005.

Thames Water Services also secured preferred bidder status for a contract to construct and manage water and waste water infrastructure for the Ministry of Defence at both Aldershot and Tidworth Garrisons over 35 years. This forms part of a larger contract to construct and manage water, gas and electricity utility services for the Ministry of Defence at these sites. MUJV Limited, a Thames Water Services Limited joint venture company has been successful in securing preferred bidder status for this contract.

Engenica, a trading division of the company, was awarded a ten year contract by RWE Solutions (UK) for the provision of utility operation and maintenance services for their client, Coors Brewery Limited. This ten year contract started in January 2005 and represents the largest industrial contract that Engenica has secured, covering four breweries and one maltings in the UK based at Burton-on-Trent, Tadcaster, and Alton.

Engenica also successfully retained its pumping stations operation and maintenance contract in Cornwall with South West Water and in addition gained the Devon area, consolidating its position as one of the leading water utility operation and maintenance providers in the UK.

Trans4M, a joint venture company in which Thames Water Services Limited has a 25 percent shareholding, has contracted with the Metronet PPP companies to undertake civil engineering work on the London Underground and also to refurbish and modernise stations. Thames Water Services Limited also provides staff directly into Metronet to help with the delivery of their capital programme.

Terra Eco Systems, a trading division of the company, successfully secured a contract with Buckinghamshire County Council to operate and maintain a municipal composting facility at High Wycombe. This contract is for seven years, composting 40,000 tonnes a year and will help Buckinghamshire County Council meet its recycling targets.

The company is also currently bidding for customer services, operations and maintenance and capital management contracts with Northern Ireland Water Services.

Results and Dividends

The Company's retained profit for the financial year is £6.7m (2003: £2.8m).

No interim dividend was paid in the year (2003: £Nil) and the Directors do not recommend payment of a final dividend (2003: £Nil).

Directors' report for the year ended 31 December 2004 (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.

We continue to have over 100 staff seconded to a range of joint ventures, including Metronet, Trans4m and Scottish Water Solutions.

Policy on Payment of Suppliers

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 2004 was 12 days (2003: 28 days), based on the ratio of company trade creditors at the end of the period to the amounts invoiced during the period by trade creditors.

Donations

Charitable donations of £Nil (2003: £Nil) were made during the year.

Directors' report for the year ended 31 December 2004 (continued)

Directors and their interests

The Directors of the Company who served during the year, all of whom were Directors for the whole year ended 31 December 2004, except as noted below, were:

P Harding (Appointed 5th January 2004)
J J Earle
C P Millington
G W Edwards (Appointed 15th April 2004, Resigned 31st March 2005)
G N Mallett (Resigned 1st January 2005)
S D Skelton (Resigned 24th March 2005)
A J Whiteside (Resigned 1st March 2004)
J Mitchell (Appointed 26th October 2004)
N Paterson (Appointed 1 January 2005)
C Anderson (Appointed 1 September 2005)

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. They also confirm that reasonable and prudent judgements and estimates have been made in preparing the financial statements for the year ended 31 December 2004 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.

Elective resolution

Pursuant to Sections 386, 366A and 379A of the Companies Act 1985, the Company passed the following elective resolutions on 11 November 2004:

- 1) To dispense with the obligation to appoint auditors annually. PricewaterhouseCoopers LLP will continue to act as auditors of the Company.
- 2) To dispense with the holding of annual general meetings.
- 3) To dispense with the laying of accounts and reports before the Company in a general meeting.

These elective resolutions will remain in effect until revoked by the passing of an ordinary resolution to that effect.

By order of the Board


Peter Harding
Director

21/10/05

**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.

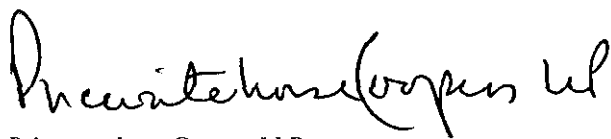
Basis of audit opinion

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 2004 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

25 October 2005

**Profit and loss account
for the year ended 31 December 2004**

		Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
	Note		
Turnover	2, 3	98,302	144,785
Cost of sales	3	<u>(79,329)</u>	<u>(125,645)</u>
Gross profit		18,973	19,140
Net operating costs	4	<u>(14,539)</u>	<u>(10,904)</u>
Operating profit		4,434	8,236
Income from fixed asset investments		1,325	-
Exceptional items	5	-	(2,663)
Loss on disposal of discontinued businesses	5	-	(80)
Profit on ordinary activities before interest and taxation		5,759	5,493
Net interest receivable / (payable)	8	<u>723</u>	<u>(262)</u>
Profit on ordinary activities before taxation		6,482	5,231
Taxation on profit on ordinary activities	9	<u>182</u>	<u>(2,468)</u>
Retained profit for the year	21	<u>6,664</u>	<u>2,763</u>

All activities in the year ended 31 December 2004 relate to continuing activities. The analysis of the results for the year ended 31 December 2003 between continuing and discontinued activities is given in note 3.

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

There are no material differences 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 2004

	Note	31 December 2004 £'000	31 December 2003 £'000
Fixed assets			
Intangible assets	10	1,101	1,266
Tangible assets	11	1,599	2,070
Investments	12	<u>1,075</u>	<u>1,075</u>
		3,775	4,411
Current assets			
Stocks	13	3,505	2,900
Debtors	14	28,720	23,704
Cash at bank and in hand		<u>10,308</u>	<u>15,400</u>
		42,533	42,004
Creditors: amounts falling due within one year	15	<u>(18,783)</u>	<u>(30,183)</u>
Net current assets		23,750	11,821
Total assets less current liabilities		<u>27,525</u>	<u>16,232</u>
Creditors: amounts falling due after more than one year	16	<u>(7,523)</u>	<u>(1,716)</u>
Provisions for liabilities and charges	17	<u>(9,811)</u>	<u>(10,989)</u>
Net assets		<u>10,191</u>	<u>3,527</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 - deficit	21	<u>(3,809)</u>	<u>(10,473)</u>
Equity shareholders' funds	22	<u>10,191</u>	<u>3,527</u>

The financial statements on pages 5 to 20 were approved by the board of Directors on 21.10.05 and were signed on its behalf by:



Peter Harding
Director

Notes to the financial statements for the year ended 31 December 2004

1 Principal accounting policies

Basis of preparation

The financial statements have been prepared on the going concern basis under the historical cost convention and in accordance with the Companies Act 1985 and applicable accounting standards. The principle accounting policies are set out below.

The Company has not prepared consolidated group financial statements, as permitted under section 228 of the Companies Act 1985. The Company and its subsidiaries are included in the consolidated accounts of its parent company 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. The revenue is recognised when the services have been performed.

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.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items. Tax deferred or accelerated is accounted for in respect of all material timing differences in full, in accordance with the requirements of FRS 19 'Deferred tax'. Provision is made at the rate which is expected to apply when the liability or asset is expected to crystallise. Future liabilities have not been discounted.

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.

Pension costs

The Company operates defined benefit schemes for certain of its employees. The pension cost is assessed in accordance with the advice of an independent qualified actuary to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any differences between the cost charged and the amounts paid is treated as a prepayment or accrual.

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

The transitional disclosure requirements of Financial Reporting Standard 17 (Retirement Benefits) have been adopted.

Cash flow statement and related party disclosures

The Company is a wholly owned subsidiary of RWE Thames Water Plc and is included in the consolidated financial statements of RWE Thames Water Plc, which are publically available. Consequently, the Company has taken advantage of the exemption from preparing cash flow statements under the terms of FRS1 (revised 1996). The Company is also exempt under the terms of FRS 8 from disclosing related party transactions with entities that are part of the RWE AG group or investees or the RWE Thames Water Plc group.

Notes to the financial statements (continued)

2 Segmental reporting

Turnover of the Company is wholly attributable to its principal activities arising in the following countries.

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
United Kingdom	96,049	144,785
Continental Europe	2,253	-
	<u>98,302</u>	<u>144,785</u>

3 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 £'000	Discontinued Operations £'000	Year ended 31 December 2003 Total £'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	<u>(9,121)</u>	<u>(1,783)</u>	<u>(10,904)</u>
Operating profit	<u>5,923</u>	<u>2,313</u>	<u>8,236</u>

Results in 2004 relate entirely to continuing activities.

Notes to the financial statements (continued)

4 Net operating costs

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Operating profit is stated after charging / (crediting):		
Restructuring provision (note 17)	(1,891)	2,000
Net contractual obligation provisions (note 17)	2,446	863
Disposal provision (note 17)	(1,624)	4,603
Bid costs written off	-	9,440
(Profit)/loss on sale of fixed assets	(6)	6
Depreciation of tangible fixed assets		
- owned fixed assets	645	1,161
- under finance leases	-	70
Amortisation of intangible fixed assets	165	874
Auditors' remuneration for audit services	165	160
Operating lease charges		
- plant and machinery	-	542
- other	251	302

Net restructuring provision credit in 2004 relates to the release and utilisation of the restructuring provision established in 2003 (see note 17), net of restructuring cost incurred in 2004 as part of a head office reorganisation.

5 Exceptional items

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'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
Loss on disposal of discontinued businesses	-	80

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Continuing activities:-		
Losses on closure of Aquadia	-	791
Write down of investment	-	3,136
Write down of loans	-	1,041
Provision for closure costs	-	4,968
Discontinued activities:-		
Release of provision made on disposal of business in prior year no longer required	-	(2,305)
	-	2,663

Thames Water Services Limited

Notes to the financial statements (continued)

6 Directors' emoluments

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Aggregate emoluments	<u>504</u>	<u>758</u>

J Mitchell is remunerated by RWE Thames Water plc in respect of his services to the group as a whole, as RWE Thames Water Business Development Director. J Mitchell is not remunerated in respect of his role as a director of the Company, accordingly his remuneration is not disclosed in the aggregate disclosures above.

Retirement benefits are accruing to 5 Directors (2003: 5 Directors) under the Company's defined benefit schemes.

During the year no Directors (2003: no Directors) exercised share options.

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Highest paid		
Total amount of emoluments and amounts receivable under long-term incentive schemes	<u>106</u>	<u>135</u>
Accrued pensions benefit	<u>20</u>	<u>3</u>

Notes to the financial statements (continued)

7 Employee information

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

	Year ended 31 December 2004 Number	Year ended 31 December 2003 Number
By function		
Administration	53	172
Engineering and services	826	1,247
	<u>879</u>	<u>1,419</u>

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Staff costs (for the above persons)		
Wages and salaries	25,474	36,928
Social security costs	2,135	2,749
Pension costs (see note 19)	2,011	1,437
	<u>29,620</u>	<u>41,114</u>

8 Net interest receivable/(payable)

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Interest payable to group undertakings	(126)	(416)
Interest payable on bank overdrafts	(56)	(63)
Interest receivable on bank deposits	905	221
Finance charges on finance leases	-	(4)
	<u>723</u>	<u>(262)</u>

Notes to the financial statements (continued)

9 Taxation

(a) Analysis of charge in year

		Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Current year:			
Amounts payable in respect of corporation tax for the period		-	-
Amounts (payable) in respect of group relief		(828)	(4,040)
Adjustments in respect of previous periods		(68)	118
Total current tax	9(b)	<u>(896)</u>	<u>(3,922)</u>
Deferred tax :			
Current year:			
Origination and reversal of timing differences	18	(851)	1,454
Deferred tax previously unrecognised		2,268	-
Prior year:			
Deferred tax previously unrecognised		(91)	-
Deferred tax previously recognised		<u>(248)</u>	<u>-</u>
Taxation on profit on ordinary activities		<u>182</u>	<u>(2,468)</u>

(b) Factors affecting the tax charge for the year

The tax assessed for the year is lower (2003: higher) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

	Year ended 31 December 2004 £'000	Year ended 31 December 2003 £'000
Profit on ordinary activities before taxation	<u>6,482</u>	<u>5,231</u>
Tax on profit on ordinary activities at the standard rate of 30% (2003: 30%)	1,945	1,569
Effect of:		
Disposal of Subterra business unit	-	2,856
Income not taxable	(534)	-
Deferred tax movement not recognised	-	(894)
Depreciation in excess of capital allowances	29	-
Other timing differences	(881)	-
Amortisation of goodwill	-	250
Other permanent differences	269	259
Adjustments to tax charge in respect of previous periods	<u>68</u>	<u>(118)</u>
Current tax charge for the year	<u>896</u>	<u>3,922</u>

Notes to the financial statements (continued)

10 Intangible fixed assets

	Goodwill £'000	Patents & licences £'000	Total £'000
Cost			
At 1 January 2004	2,755	1,122	3,877
Additions	-	-	-
Disposals	-	-	-
At 31 December 2004	2,755	1,122	3,877
Amortisation			
At 1 January 2004	1,585	1,026	2,611
Disposals	-	-	-
Charge for year	138	27	165
At 31 December 2004	1,723	1,053	2,776
Net book value at 31 December 2004	1,032	69	1,101
Net book value at 31 December 2003	1,170	96	1,266

The Directors consider that the remaining useful economic life of the goodwill generated on acquisitions at 1 April 1998 to be a period of 20 years. Other intangible fixed assets represent patents and licences. The Directors consider the useful economic life to be four years.

11 Tangible fixed assets

	Freehold land & buildings £'000	Fixtures & fittings, plant & equipment £'000	Total £'000
Cost			
At 1 January 2004	189	3,593	3,782
Additions	-	373	373
Disposals	-	(205)	(205)
At 31 December 2004	189	3,761	3,950
Depreciation			
At 1 January 2004	47	1,665	1,712
Charge for year	-	645	645
Disposals	-	(6)	(6)
At 31 December 2004	47	2,304	2,351
Net book value at 31 December 2004	142	1,457	1,599
Net book value at 31 December 2003	142	1,928	2,070

No assets were held under finance leases in the year (2003: Nil)

Notes to the financial statements (continued)

12 Fixed asset investments

	Interests in group undertakings £'000
Cost	
At 1 January 2004	1,881
Additions	1
Disposals	(1)
At 31 December 2004	1,881
Impairment	
At 1 January 2004	806
Provided during the year	-
At 31 December 2004	806
Net book value at 31 December 2004	1,075
Net book value at 31 December 2003	1,075

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

All of the principal subsidiary undertakings below are 100% owned by the Company at 31 December 2004.

Name of undertaking	Year end	Country of incorporation	Description of shares held	Nature of business
Thames Water Services MR Ltd	31 Dec	Great Britain	Ordinary £1	Dormant
Morgan Collis Group Ltd	31 Dec	Great Britain	Ordinary £1	Dormant
Surta Ltd	31 Dec	Great Britain	Ordinary £1	Dormant
A J Whiteside & Co Ltd	31 Dec	Great Britain	Ordinary £1	Dormant
Thames Water Nevis Ltd	31 Mar	Great Britain	Ordinary £1	Water Services

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.

Investments in Joint Ventures

Name of Undertaking	Year end	Country of incorporation	Description of shares held	Proportions of Nominal value of issued shares held	Nature of business
Trans4M Ltd	31 March	Great Britain	Ordinary £1	25%	Engineering Services
Stirling Water (2003)	31 March	Great Britain	Ordinary £1	25%	Water Services

Notes to the financial statements (continued)

13 Stocks

	31 December 2004 £'000	31 December 2003 £'000
Raw materials and consumables	1,318	806
Work in progress	2,187	2,094
	<u>3,505</u>	<u>2,900</u>

14 Debtors

	31 December 2004 £'000	31 December 2003 £'000
Amounts falling due within one year:		
Trade debtors	7,404	7,516
Amounts owed by group undertakings	11,295	11,110
Deferred tax (note 18)	2,563	1,485
Other debtors	2,203	102
Prepayments and accrued income	5,255	3,491
	<u>28,720</u>	<u>23,704</u>

Amounts owed by group undertakings are unsecured, interest free and repayable on demand.

15 Creditors: amounts falling due within one year

	31 December 2004 £'000	31 December 2003 £'000
Bank overdraft	231	-
Trade creditors	2,647	2,083
Amounts due to group undertakings	3,290	18,448
Other taxation and social security payable	1,050	552
Group relief payable	466	2,514
Other creditors	617	965
Accruals and deferred income	10,482	5,621
	<u>18,783</u>	<u>30,183</u>

Amounts due to group undertakings are unsecured, interest free and repayable on demand.

Notes to the financial statements (continued)

16 Creditors: amounts falling due after more than one year

	31 December 2004 £'000	31 December 2003 £'000
Amounts due to group undertakings*	<u>7,523</u>	<u>1,716</u>
	<u>7,523</u>	<u>1,716</u>

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

17 Provisions for liabilities and charges

	Restructuring Provision £'000	Disposal Provisions £'000	Contract Obligations £'000	Total £'000
At 1 January 2004	2,000	7,186	1,803	10,989
Released during the year	(1,781)	(466)	(1,100)	(3,347)
Utilised during the year	(219)	(1,158)	-	(1,377)
Additional provisions made in the year	<u>-</u>	<u>-</u>	<u>3,546</u>	<u>3,546</u>
Movement in year	<u>(2,000)</u>	<u>(1,624)</u>	<u>2,446</u>	<u>(1,178)</u>
At 31 December 2004	<u>-</u>	<u>5,562</u>	<u>4,249</u>	<u>9,811</u>

Disposal provisions consist of:

Subterra	
Pension Costs	3,800
Contracts and warranties	1,380
Legal costs	28
Other disposal costs	195
Other	<u>159</u>
	<u>5,562</u>

The above disposal provisions relate mainly to the disposal of the Subterra business unit. These are expected to be utilised within one year.

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

Of the £2m restructuring provision made in 2003, only £219,000 was spent. £1,781,000 was released during the year as the redundancy payments and integration costs provided for were not as high as originally anticipated.

Within contract provisions £1,674,000 relates to contract penalty provisions and £2,575,000 relates to a provision made for losses on a long term contract.

Notes to the financial statements (continued)

18 Deferred taxation

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

	Recognised Amount	Unrecognised Amount	Recognised Amount	Unrecognised Amount
	31 December 2004	31 December 2004	31 December 2003	31 December 2003
	£'000	£'000	£'000	£'000
Tax effect of timing differences because of:				
Excess of depreciation over tax allowances	93	-	-	95
Pension contributions	1,140	-	1,171	-
Other	1,330	-	314	2,179
	<u>2,563</u>	<u>-</u>	<u>1,485</u>	<u>2,274</u>

A deferred tax asset of £2,563,000 (2003: £1,485,000) has been recognised, of which £1,140,000 relates to pension contributions, £231,000 relates to the disposal of discontinued businesses, £93,000 relates to the excess of depreciation over tax allowances and £1,099,000 relates to other timing differences that will attract tax allowances when reversed.

Deferred tax movement

	£'000
At 1 January 2004	1,485
Credited to profit and loss account - Prior year	(339)
Credited to profit and loss account - Current year	<u>1,417</u>
At 31 December 2004	<u>2,563</u>

Notes to the financial statements (continued)

19 Pension obligations

Pension arrangements for the majority of the Company's employees are of the defined benefit type, funded through pension schemes covering employees within the RWE Thames Water Group, whose assets are held separately from those of the Group in independently administered funds.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension schemes assets and liabilities cannot be separately identified on a reasonable and consistent basis, from those of the RWE Thames Water Group. Accordingly, the Company has made the appropriate FRS 17 transitional disclosures, required of a company with group multi-employer pension schemes. Full adoption of FRS 17 will become mandatory for accounting periods ending after 1 January 2005, until then the transitional arrangements will apply. 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 2004.

SSAP 24

The latest full actuarial valuation was undertaken at 31 December 2001. Scheme assets at that date amounted to £947m and this represents 123% of the value of benefits accrued to members as at 31 December 2001.

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

The total SSAP24 cost for the schemes during the year is £2,011,000 (2003: £1,437,000).

The pension cost is assessed in accordance with advice received from Hewitt, Bacon and Woodrow, the independent and professionally qualified consulting actuaries to the schemes. The SSAP 24 pension cost has increased following the interim valuation undertaken at 31 August 2003, which indicated a reduced pension surplus.

At 31 December 2004 an accrual in respect of the funded schemes amounting to £65,000 (2003: £Nil) was included in creditors.

20 Called up share capital

	31 December 2004 £'000	31 December 2003 £'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 - deficit £'000
At 1 January 2004	1,000	(10,473)
Profit for the year	-	6,664
At 31 December 2004	<u>1,000</u>	<u>(3,809)</u>

Notes to the financial statements (continued)

22 Reconciliation of movements in shareholders' funds

	31 December 2004 £'000	31 December 2003 £'000
Profit for the year	<u>6,664</u>	<u>2,763</u>
Net Increase to shareholders' funds	6,664	2,763
Shareholders' funds as at 1 January	<u>3,527</u>	<u>764</u>
Shareholders' funds as at 31 December	<u>10,191</u>	<u>3,527</u>

23 Financial commitments

At 31 December 2004 the Company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows:

	Other 31 December 2004 £'000	Other 31 December 2003 £'000
Expiring within one year	88	94
Expiring between two and five years inclusive	<u>137</u>	<u>40</u>
	<u>225</u>	<u>134</u>

24 Related party transactions

During the year Engenica, a trading division of the company, made sales to Stirling Water (2003) Limited of £432,000 (2003: Nil) and sales of £2,724,000 (2003: Nil) to Trans4M. There were no balances outstanding at the year end (2003: Nil).

Thames Water Services Limited made sales to Trans4M of £2,815,674 (2003: £1,965,581) during the year ended 31 December 2004. The balance owed by Trans4M to Thames Water Services Limited at the year end was £803,189 (2003: £863,661).

Sales amounting to £3,496,653 (2003: Nil) were made to Scottish Water Solutions Limited from Thames Water Services Limited during the year. The balance owed to Thames Water Services Limited at 31 December 2004 was £851,749 (2003: Nil).

During the year Thames Water Services Limited invoiced £2,030,387 (2003: Nil) to Stirling Water (2003) Limited. The balance remaining at the year end was £524,358 (2003: Nil).

25 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.