

**Thames Water Services Limited**

**Annual report and financial statements**

**For the year ended 31 December 2005**



# **Thames Water Services Limited**

## **Annual report for the year ended 31 December 2005**

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# **Thames Water Services Limited**

## **Directors and advisors at 31 December 2005**

### **Directors and advisors**

#### **Directors**

P Harding  
N Paterson  
C Anderson  
J Earle (resigned 7 February 2006)  
C Millington  
J Mitchell

#### **Registered auditors**

PricewaterhouseCoopers LLP  
9 Greyfriars Road  
Reading  
Berkshire  
RG1 1JG

#### **Secretary and registered office**

C Davis  
Clearwater Court  
Vastern Road  
Reading  
Berkshire  
RG1 8DB

## **Directors' report for the year ended 31 December 2005**

The Directors present their report and the audited financial statements of the Company for the year ended 31 December 2005.

### **Principal activity**

The principal activity of the Company in the year ended 31 December 2005 was the provision of infrastructure and customer outsourcing and water-related services.

### **Review of business and future developments**

The Company has enjoyed another successful year, which saw it commence a major contract with the Ministry of Defence. Thames Water Nevis Limited, a subsidiary of the Company, is managing the water and waste water services to around 550 Army, Navy, Royal Air Force and associated sites throughout Scotland for a period of 25 years.

A consultancy contract with Metronet Rail SSL also commenced in 2005. This is an unincorporated joint venture with Balfour Beatty plc and Atkins plc to provide project management services to Metronet Rail SSL Limited, to project manage the construction of the new ticketing hall at Kings Cross Station.

During 2005, the Company also mobilised for the Allenby Connaught contract following announcement of preferred bidder status in 2004. This is also a Ministry Of Defence project with the Company, through a joint venture with EdF, providing multi-utility services to the main contractor over a 35 year period.

The Company, in a consortium with EdF has also secured preferred bidder status to provide the utility services to the Land Securities development at Kent Thameside, one of Europe's largest urban regeneration projects. This contract will result in the multi-utility joint venture company providing these services over the next 40 years.

The Company successfully won the re-bid for the provision of customer services to Dwr Cymru Welsh Water, for the next seven years.

Engenica, a trading division of the Company, continued to consolidate its position as one of the leading water utility operation and maintenance providers in the UK. It successfully retained all of its existing contracts in England and Wales through out the year whilst in Scotland began to build a stronger platform by securing and completing the Alnwickhill GAC project in Edinburgh for the Company's indirect joint venture, Scottish Water Solutions Limited.

Another of the Company's trading divisions, Terra Eco Systems, successfully secured a contract with Hertfordshire County Council to design, build, operate and finance a municipal composting facility. This contract is for fifteen years, composting 55,000 tonnes a year and will help Hertfordshire County Council meet its recycling targets.

The Company is continuing to bid for further contracts within the UK and Ireland.

On 17 October 2006, the ultimate parent company, RWE AG announced that it has agreed to sell the Company's intermediate parent company, Thames Water Holdings plc to Kemble Water Limited, a consortium led by Macquarie's European Infrastructure Funds subject to the approval by the Supervisory Board of RWE AG and by relevant antitrust authorities. The transaction is expected to close by early December.

### **Financial risk management**

The Company is a subsidiary of the RWE Thames Water plc Group. The Group has a Risk Management Committee which receives regular reports from all areas of the business to enable prompt identification of financial and other risks so that appropriate actions can be taken. The Company has embedded these risk systems in its wholly owned business units and ensures that equivalent systems exist within the joint ventures in which it has stakes. There are, at least monthly financial results and risk reviews presented by these joint venture companies to independent staff from the Company.

### **Results and dividends**

The Company's retained profit for the financial year is £9.8m (2004: £6.7m).

No interim dividend was paid in the year (2004: £Nil) and the Directors do not recommend payment of a final dividend (2004: £Nil).

**Directors' report for the year ended 31 December 2005 (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. A health and safety manager has been appointed to enhance the overall management of health and safety within the Company.

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.

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. We have appointed a communications manager to help with this important area.

We believe that meaningful 'two-way' communication with employees is an essential component of making our business successful. To achieve this, we complete employee opinion surveys, undertake roadshows and hold informal lunches where employees can meet and discuss issues with directors.

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 120 staff seconded to a range of joint ventures, including Metronet, Trans4m, CTRL, MUJV 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 2005 was 15 days (2004: 12 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 (2004: £Nil) were made during the year.

**Directors' report for the year ended 31 December 2005 (continued)**

**Directors and their interests**

The Directors of the Company who served during the year were:

C Anderson (appointed 1 September 2005)  
P Harding  
J Earle (resigned 7 February 2006)  
C Millington  
G W Edwards (resigned 31 March 2005)  
G N Mallett (resigned 1 January 2005)  
S D Skelton (resigned 24 March 2005)  
J Mitchell  
N Paterson (appointed 1 January 2005)  
M Carr (appointed 8 May 2006)  
J McKinley (appointed 8 May 2006)  
J Cherrett (appointed 8 May 2006)

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 year 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 2005 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 resolutions**

Pursuant to Sections 386, 366A and 252 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.

Notice is hereby given that members have the following rights while such Elective Resolutions are in force. These rights are invoked by serving notice in writing to the Company's Registered Office within the timescales specified.

- 1) To require the laying of accounts and reports before a general meeting, by serving notice within 28 days of receiving the report and accounts.
- 2) To require the holding of an annual general meeting in that calendar year, by serving notice before 30 September in any year.
- 3) To propose that the appointment of the Company's auditors be brought to an end, by serving notice at any time.

**On behalf of the board**

**Peter Harding**  
Director

31 October 2006

## **Independent Auditor's Report To The Members Of Thames Water Services Limited**

We have audited the financial statements of Thames Water Services Limited for the year ended 31 December 2005 which comprise the profit and loss account, the balance sheet, the statement of total recognised gains and losses and the related notes. These financial statements have been prepared under the accounting policies set out therein.

### **Respective responsibilities of directors and auditors**

As described in the Statement of Directors' Responsibilities the Company's Directors are responsible for the preparation of the financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). 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 other transactions is not disclosed.

We read the Directors' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **Basis of audit opinion**

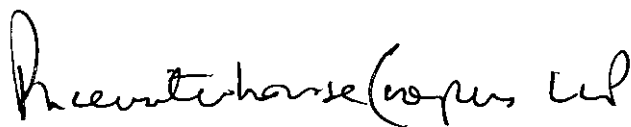
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the 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, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 December 2005 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

**31 OCT 2006**

# Thames Water Services Limited

## Profit and loss account for the year ended 31 December 2005

|                                                                    | Note | 2005<br>£'000       | Restated<br>2004<br>£'000 |
|--------------------------------------------------------------------|------|---------------------|---------------------------|
| <b>Turnover</b>                                                    | 2    | 124,167             | 98,302                    |
| Cost of sales                                                      |      | <u>(104,495)</u>    | <u>(79,264)</u>           |
| <b>Gross profit</b>                                                |      | 19,672              | 19,038                    |
| Net operating costs                                                | 3    | <u>(13,456)</u>     | <u>(15,005)</u>           |
| <b>Operating profit</b>                                            |      | 6,216               | 4,033                     |
| Income from fixed asset investments                                |      | 1,900               | 1,325                     |
| Exceptional items: release of provisions on discontinued operation | 15   | <u>4,268</u>        | <u>466</u>                |
| <b>Profit on ordinary activities before interest and taxation</b>  |      | 12,384              | 5,824                     |
| Net interest receivable                                            | 6    | <u>254</u>          | <u>723</u>                |
| <b>Profit on ordinary activities before taxation</b>               |      | 12,638              | 6,547                     |
| Taxation on profit on ordinary activities                          | 7    | <u>(2,838)</u>      | <u>182</u>                |
| <b>Retained profit for the year</b>                                | 20   | <u><u>9,800</u></u> | <u><u>6,729</u></u>       |

Apart from the exceptional items, all amounts above relate to continuing activities.

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.

## Statement of total recognised gains and losses

|                                                                                       | Note | 2005<br>£'000       | Restated<br>2004<br>£'000 |
|---------------------------------------------------------------------------------------|------|---------------------|---------------------------|
| Profit for the year                                                                   |      | <u>9,800</u>        | <u>6,729</u>              |
| Prior year adjustment in respect of a change in accounting policy - Pensions (FRS 17) | 1    | <u>65</u>           |                           |
| <b>Total gains recognised since last report</b>                                       |      | <u><u>9,865</u></u> |                           |

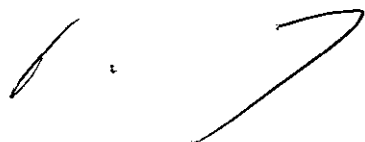
# Thames Water Services Limited

## Balance sheet at 31 December 2005

|                                                                | Note | 2005<br>£'000 | Restated<br>2004<br>£'000 |
|----------------------------------------------------------------|------|---------------|---------------------------|
| <b>Fixed assets</b>                                            |      |               |                           |
| Intangible assets                                              | 8    | 937           | 1,101                     |
| Tangible assets                                                | 9    | 1,528         | 1,599                     |
| Investments                                                    | 10   | 1,075         | 1,075                     |
|                                                                |      | <u>3,540</u>  | <u>3,775</u>              |
| <b>Current assets</b>                                          |      |               |                           |
| Stocks                                                         | 11   | 5,751         | 3,505                     |
| Debtors                                                        | 12   | 32,198        | 28,720                    |
| Cash at bank and in hand                                       |      | 10,940        | 10,308                    |
|                                                                |      | <u>48,889</u> | <u>42,533</u>             |
| <b>Creditors: amounts falling due within one year</b>          | 13   | (26,374)      | (18,718)                  |
| <b>Net current assets</b>                                      |      | <u>22,515</u> | <u>23,815</u>             |
| <b>Total assets less current liabilities</b>                   |      | <u>26,055</u> | <u>27,590</u>             |
| <b>Creditors: amounts falling due after more than one year</b> | 14   | (1,716)       | (7,523)                   |
| <b>Provisions for liabilities and charges</b>                  | 15   | (4,283)       | (9,811)                   |
| <b>Net assets</b>                                              |      | <u>20,056</u> | <u>10,256</u>             |
| <b>Capital and reserves</b>                                    |      |               |                           |
| Called up share capital                                        | 18   | 13,000        | 13,000                    |
| Share premium account                                          | 19   | 1,000         | 1,000                     |
| Profit and loss account                                        | 20   | 6,056         | (3,744)                   |
| <b>Equity shareholders' funds</b>                              | 21   | <u>20,056</u> | <u>10,256</u>             |

The financial statements on pages 6 to 19 were approved by the board of Directors on

and were signed on its behalf by:



**Peter Harding**

Director

31 October 2006

**Notes to the financial statements for the year ended 31 December 2005**

**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 principal 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.

**Adoption of new accounting policies**

The Company has adopted FRS 17 'Retirement Benefits', FRS 21 'Events after the balance sheet date' and FRS 25 'Financial Instruments: disclosure and presentations'. The adoption of the new standards constitutes changes in accounting policy.

For FRS 17, this has resulted in a prior year adjustments so that the comparative figures have been restated accordingly. The effect of the change in the accounting policy was to increase the brought forward profit and loss reserves by £65,000 (2004: Nil) and to increase the profit for the period by £1.3m (2004: Nil).

From 1 January 2005 the Company has adopted the presentational requirements of FRS 25 in the financial statements. The Company has not adopted the disclosural requirements of FRS 25, from which the Company is exempt in the current financial year. The adoption of this standard is a change in accounting policy but has no effect on current year or prior year results.

There has been no change as the result of adopting FRS 21.

**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 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.

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**1 Principal accounting policies (continued)**

**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.

**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**

From 1 January 2005, the Company has adopted the requirements of FRS 17 'Retirement Benefits'.

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

Information on the Company's pension arrangements can be found in note 17 to these financial statements.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension scheme assets and liabilities cannot be separately identified on a reasonable and consistent basis from those of the RWE Thames Water Group. Where this is the case, FRS 17 requires the Company to account for the pension contributions made by the Company as if they were contributions made into a defined contribution scheme. The FRS 17 pension cost of a defined contribution scheme is equal to the contributions payable to the scheme for the accounting period.

The adoption of this new standard represents a change in accounting policy and the comparative figures have been restated accordingly.

**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.

**Foreign currencies**

Monetary assets and liabilities denominated in foreign currencies are translated into sterling at rates of exchange ruling at the end of the financial year. Transactions in foreign currencies are translated into sterling at the rate of exchange ruling at the date of the transaction. All foreign exchange differences are taken to the profit and loss account in the year in which they arise.

# Thames Water Services Limited

## Notes to the financial statements for year ended 31 December 2005 (continued)

### 2 Segmental reporting

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

|                    | 2005<br>£'000  | 2004<br>£'000 |
|--------------------|----------------|---------------|
| United Kingdom     | 122,055        | 96,049        |
| Continental Europe | 2,112          | 2,253         |
|                    | <u>124,167</u> | <u>98,302</u> |

### 3 Net operating costs

|                                                                 | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------------------------------------------|---------------|---------------|
| <b>Operating profit is stated after charging / (crediting):</b> |               |               |
| Restructuring provision                                         | -             | (1,891)       |
| Exceptional item restructuring costs                            | 658           | -             |
| Pension provision (note 15)                                     | 300           | -             |
| Net contractual obligation provisions (note 15)                 | (1,510)       | 2,446         |
| (Profit)/loss on sale of fixed assets                           | -             | (6)           |
| Depreciation of tangible fixed assets                           |               |               |
| - owned fixed assets (note 9)                                   | 724           | 645           |
| Amortisation of intangible fixed assets (note 8)                | 164           | 165           |
| Auditors' remuneration for audit services                       | 175           | 165           |
| Auditors' remuneration for non-audit services                   | 3             | -             |
| Operating lease charges                                         |               |               |
| - other                                                         | 276           | 251           |

# Thames Water Services Limited

## Notes to the financial statements for year ended 31 December 2005 (continued)

### 4 Directors' emoluments

|                      | 2005<br>£'000 | 2004<br>£'000 |
|----------------------|---------------|---------------|
| Aggregate emoluments | <u>724</u>    | <u>504</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 (2004: 5 Directors) under the Company's defined benefit schemes.

During the year no Directors (2004: no Directors) exercised share options.

|                                                                                     | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------------------------------------------------|---------------|---------------|
| <b>Highest paid Director</b>                                                        |               |               |
| Total amount of emoluments and amounts receivable under long-term incentive schemes | <u>249</u>    | <u>106</u>    |
| Accrued pensions benefit                                                            | <u>17</u>     | <u>20</u>     |

### 5 Employee information

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

|                                            | 2005<br>Number | 2004<br>Number |
|--------------------------------------------|----------------|----------------|
| <b>By function</b>                         |                |                |
| Administration                             | 52             | 53             |
| Engineering and services                   | <u>928</u>     | <u>826</u>     |
|                                            | <u>980</u>     | <u>879</u>     |
|                                            |                |                |
|                                            | 2005<br>£'000  | 2004<br>£'000  |
| <b>Staff costs (for the above persons)</b> |                |                |
| Wages and salaries                         | 30,682         | 25,474         |
| Social security costs                      | 2,571          | 2,135          |
| Pension costs (see note 17)                | <u>2,619</u>   | <u>2,011</u>   |
|                                            | <u>35,872</u>  | <u>29,620</u>  |

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**6 Net interest receivable**

|                                        | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------|---------------|---------------|
| Interest payable to group undertakings | (316)         | (126)         |
| Interest payable on bank overdrafts    | (17)          | (56)          |
| Interest receivable on bank deposits   | 587           | 905           |
|                                        | <u>254</u>    | <u>723</u>    |

**7 Taxation**

|                                                | Note | 2005<br>£'000  | Restated<br>2004<br>£'000 |
|------------------------------------------------|------|----------------|---------------------------|
| <b>Current year:</b>                           |      |                |                           |
| Amounts payable in respect of group relief     |      | (1,901)        | (828)                     |
| Adjustments in respect of previous periods     |      | 711            | (68)                      |
| Total current tax                              |      | <u>(1,190)</u> | <u>(896)</u>              |
| <b>Deferred tax :</b>                          |      |                |                           |
| Current year:                                  |      |                |                           |
| Origination and reversal of timing differences | 16   | (1,464)        | (851)                     |
| Deferred tax previously unrecognised           |      | -              | 2,268                     |
| Prior year:                                    |      |                |                           |
| Deferred tax previously unrecognised           |      | -              | (91)                      |
| Deferred tax previously recognised             |      | (184)          | (248)                     |
| Taxation on profit on ordinary activities      |      | <u>(2,838)</u> | <u>182</u>                |

The tax assessed for the year is lower (2004: lower) than the standard rate of corporation tax in the UK of 30%. The differences are explained below:

|                                                                                               | 2005<br>£'000 | 2004<br>£'000 |
|-----------------------------------------------------------------------------------------------|---------------|---------------|
| Profit on ordinary activities before taxation                                                 | <u>12,638</u> | <u>6,547</u>  |
| Tax on profit on ordinary activities at the standard rate of 30% (2004: 30%)                  | <u>3,791</u>  | <u>1,964</u>  |
| Effect of:                                                                                    |               |               |
| Income not taxable                                                                            | (570)         | (534)         |
| Depreciation in excess of capital allowances                                                  | 114           | 29            |
| Other timing differences                                                                      | (1,581)       | (881)         |
| Other permanent differences                                                                   | 147           | 269           |
| Adjustments to tax charge in respect of previous periods                                      | (711)         | 68            |
| Prior year adjustment in respect of a change in accounting policy - FRS 17 Retirement benefit | -             | (19)          |
| Current tax charge for the year                                                               | <u>1,190</u>  | <u>896</u>    |

Notes to the financial statements for year ended 31 December 2005 (continued)

8 Intangible fixed assets

|                                           | Goodwill<br>£'000 | Patents &<br>licences<br>£'000 | Total<br>£'000 |
|-------------------------------------------|-------------------|--------------------------------|----------------|
| <b>Cost</b>                               |                   |                                |                |
| At 1 January 2005                         | 2,755             | 1,122                          | 3,877          |
| Additions                                 | -                 | -                              | -              |
| Disposals                                 | -                 | -                              | -              |
| <b>At 31 December 2005</b>                | <b>2,755</b>      | <b>1,122</b>                   | <b>3,877</b>   |
| <b>Amortisation</b>                       |                   |                                |                |
| At 1 January 2005                         | 1,723             | 1,053                          | 2,776          |
| Charge for year                           | 137               | 27                             | 164            |
| Disposals                                 | -                 | -                              | -              |
| <b>At 31 December 2005</b>                | <b>1,860</b>      | <b>1,080</b>                   | <b>2,940</b>   |
| <b>Net book value at 31 December 2005</b> | <b>895</b>        | <b>42</b>                      | <b>937</b>     |
| Net book value at 31 December 2004        | 1,032             | 69                             | 1,101          |

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 of patents and licences to be five years.

9 Tangible fixed assets

|                                           | Freehold land<br>& buildings<br>£'000 | Fixtures, fittings,<br>plant &<br>equipment<br>£'000 | Total<br>£'000 |
|-------------------------------------------|---------------------------------------|------------------------------------------------------|----------------|
| <b>Cost</b>                               |                                       |                                                      |                |
| At 1 January 2005                         | 189                                   | 3,761                                                | 3,950          |
| Additions                                 | -                                     | 653                                                  | 653            |
| Disposals                                 | -                                     | -                                                    | -              |
| <b>At 31 December 2005</b>                | <b>189</b>                            | <b>4,414</b>                                         | <b>4,603</b>   |
| <b>Depreciation</b>                       |                                       |                                                      |                |
| At 1 January 2005                         | 47                                    | 2,304                                                | 2,351          |
| Charge for year                           | -                                     | 724                                                  | 724            |
| Disposals                                 | -                                     | -                                                    | -              |
| <b>At 31 December 2005</b>                | <b>47</b>                             | <b>3,028</b>                                         | <b>3,075</b>   |
| <b>Net book value at 31 December 2005</b> | <b>142</b>                            | <b>1,386</b>                                         | <b>1,528</b>   |
| Net book value at 31 December 2004        | 142                                   | 1,457                                                | 1,599          |

No assets were held under finance leases in the year (2004: Nil)

# Thames Water Services Limited

## Notes to the financial statements for year ended 31 December 2005 (continued)

### 10 Fixed asset investments

|                                           | Interests in<br>group<br>undertakings<br>£'000 |
|-------------------------------------------|------------------------------------------------|
| <b>Cost</b>                               |                                                |
| At 1 January 2005                         | 1,881                                          |
| Additions                                 | -                                              |
| Disposals                                 | -                                              |
| <b>At 31 December 2005</b>                | <b>1,881</b>                                   |
| <b>Impairment</b>                         |                                                |
| At 1 January 2005                         | 806                                            |
| Provided during the year                  | -                                              |
| <b>At 31 December 2005</b>                | <b>806</b>                                     |
| <b>Net book value at 31 December 2005</b> | <b>1,075</b>                                   |
| Net book value at 31 December 2004        | 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 2005:

|                              | Year end | Country of<br>incorporation | Description of<br>shares held | Nature of<br>business |
|------------------------------|----------|-----------------------------|-------------------------------|-----------------------|
| Thames Water Services MR Ltd | 31 Dec   | Great Britain               | Ordinary £1                   | Dormant               |
| Morgan Collis Group<br>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        |
| Thames Water Retail Ltd      | 31 Dec   | Great Britain               | Ordinary £1                   | Non trading           |

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.

In accordance with S231(5) of the Companies Act 1985, information is given only with respect to such undertakings whose financial position, principally affect the figures of the Company. A full list of subsidiary undertakings will be filed at Companies House with the Company's annual return.

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**10 Fixed asset investments (continued)**

**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 Limited               | 31 Mar   | Great Britain            | Ordinary £1                | 25%                                                | Engineering services |
| Stirling Water (2003) Limited | 31 Mar   | Great Britain            | Ordinary £1                | 25%                                                | Water services       |
| Glen Water (Holdings) Limited | 31 Mar   | Great Britain            | Ordinary £1                | 50%                                                | Waste water services |
| MUJV Limited                  | 31 Dec   | Great Britain            | Ordinary £1                | 50%                                                | General construction |

**11 Stocks**

|                               | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------|---------------|---------------|
| Raw materials and consumables | 940           | 1,318         |
| Work in progress              | 4,811         | 2,187         |
|                               | <u>5,751</u>  | <u>3,505</u>  |

**12 Debtors**

|                                             | 2005<br>£'000 | 2004<br>£'000 |
|---------------------------------------------|---------------|---------------|
| <b>Amounts falling due within one year:</b> |               |               |
| Trade debtors                               | 5,369         | 7,404         |
| Amounts owed by group undertakings          | 14,950        | 11,295        |
| Deferred tax (note 16)                      | 915           | 2,563         |
| Other debtors                               | 2,285         | 2,203         |
| Prepayments and accrued income              | 8,679         | 5,255         |
|                                             | <u>32,198</u> | <u>28,720</u> |

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

**13 Creditors: amounts falling due within one year**

|                                            | 2005<br>£'000 | Restated<br>2004<br>£'000 |
|--------------------------------------------|---------------|---------------------------|
| Bank overdraft                             | -             | 231                       |
| Trade creditors                            | 3,700         | 2,647                     |
| Amounts due to group undertakings          | 4,836         | 3,290                     |
| Other taxation and social security payable | 1,812         | 1,050                     |
| Group relief payable                       | 967           | 466                       |
| Other creditors                            | 429           | 617                       |
| Accruals and deferred income               | 14,630        | 10,417                    |
|                                            | <u>26,374</u> | <u>18,718</u>             |

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

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**14 Creditors: amounts falling due after more than one year**

|                                   | <b>2005</b>         | 2004                |
|-----------------------------------|---------------------|---------------------|
|                                   | <b>£'000</b>        | £'000               |
| Amounts due to group undertakings | <u><u>1,716</u></u> | <u><u>7,523</u></u> |

Amounts due to the group undertakings are in relation to loans with subsidiary undertakings. These loans are unsecured, interest free and have no fixed repayment dates.

**15 Provisions for liabilities and charges**

|                                        | <b>Disposal<br/>Provisions</b> | <b>Contract<br/>Obligations</b> | <b>Pension<br/>Obligation</b> | <b>Total</b>        |
|----------------------------------------|--------------------------------|---------------------------------|-------------------------------|---------------------|
|                                        | <b>£'000</b>                   | <b>£'000</b>                    | <b>£'000</b>                  | <b>£'000</b>        |
| At 1 January 2005                      | 5,562                          | 4,249                           | -                             | 9,811               |
| Released during the year               | (4,268)                        | (1,510)                         | -                             | (5,778)             |
| Utilised during the year               | (50)                           | -                               | -                             | (50)                |
| Additional provisions made in the year | -                              | -                               | 300                           | 300                 |
| Movement in year                       | <u>(4,318)</u>                 | <u>(1,510)</u>                  | <u>300</u>                    | <u>(5,528)</u>      |
| <b>At 31 December 2005</b>             | <u><u>1,244</u></u>            | <u><u>2,739</u></u>             | <u><u>300</u></u>             | <u><u>4,283</u></u> |

Disposal provisions consist of:

|                          |                     |
|--------------------------|---------------------|
| Subterra:                |                     |
| Pension Costs            | 330                 |
| Contracts and warranties | 534                 |
| Legal costs              | 27                  |
| Other disposal costs     | 194                 |
| Other                    | <u>159</u>          |
|                          | <u><u>1,244</u></u> |

The above disposal provisions relate mainly to the disposal of the Subterra business unit. The timing and amounts to be utilised are uncertain.

The release of the disposal provision relates mainly to the release of the pension provision of £3,468,000 relating to the disposal of Subterra in a prior year and the release of a contractual provision of £800,000 also relating to the disposal of Subterra.

Within contract provisions £339,000 relates to contract penalty provisions and £2,400,000 relates to a provision made for losses on a long term contract. The timing and amounts to be utilised are uncertain.

Under the contract with Dwr Cymru Welsh Water, Thames Water Services Limited is responsible for the pension funding of the employees working on the Dwr Cymru Customer Services contract. In order to fund our pension commitments in relation to these employees, we have received external advice that we would need to make an additional £300,000 per annum contribution. We have therefore raised a provision for this amount in 2005.

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**16 Deferred taxation**

The recognised deferred tax assets are as follows:-

|                                              | 2005<br>£'000 | 2004<br>£'000 |
|----------------------------------------------|---------------|---------------|
| Tax effect of timing differences because of: |               |               |
| Excess of depreciation over tax allowances   | 208           | 93            |
| Pension contributions                        | 99            | 1,140         |
| Other                                        | 608           | 1,330         |
|                                              | <u>915</u>    | <u>2,563</u>  |

A deferred tax asset of £915,000 (2004: £2,563,000) has been recognised, of which £99,000 relates to pension contributions, £279,000 relates to the disposal of discontinued businesses, £208,000 relates to the excess of depreciation over tax allowances and £329,000 relates to other timing differences that will attract tax allowances when reversed.

**Deferred tax movement**

|                                                   | £'000      |
|---------------------------------------------------|------------|
| At 1 January 2005                                 | 2,563      |
| Debited to profit and loss account - prior year   | (1,464)    |
| Debited to profit and loss account - current year | (184)      |
| At 31 December 2005                               | <u>915</u> |

**17 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. In addition, there are unfunded defined benefits provided for directors and senior employees affected by the cap on earnings, which cannot be provided through approved arrangements.

The Company's pension arrangements are of the group multi-employer scheme nature, such that the Company's pension schemes assets and liabilities cannot be separately identified on a reasonable and consistent basis, from those of the RWE Thames Water Group. Accordingly, the Company has accounted for the pension contributions as if they were made into a defined contribution scheme.

The FRS 17 ongoing pension cost and the Company's contributions in the year were £2,619,000 (2004: £2,011,000).

Information on the Group schemes is disclosed in accordance with FRS 17 in the RWE Thames Water Plc Group accounts, prepared for year ended 31 December 2005.

The latest full actuarial valuation was undertaken as at December 2004. This valuation has been updated at 31 December 2005 by Hewitt, Bacon and Woodrow using revised assumptions that are consistent with the requirements of FRS 17 and shown in the table below. At this date, the Group schemes were in deficit to the extent of £74.2m (2004: £104.9m).

The next full actuarial valuation as at 31 December 2007 will be undertaken by Hewitt, Bacon and Woodrow (the independent and professionally qualified consulting actuaries to the schemes) during 2008.

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

|                                      |       |
|--------------------------------------|-------|
| Price inflation                      | 2.90% |
| Salary increases                     | 3.90% |
| Pension increases                    | 2.90% |
| Discount rate for scheme liabilities | 4.75% |

RWE Thames Water Group has taken advice from Hewitt, Bacon and Woodrow in respect of the funding position of the Group pension schemes. The FRS 17 deficit does not have a direct impact on funding. With consideration of the funding position of the schemes, the Company contribution rate has been increased where necessary in accordance with Hewitt, Bacon and Woodrow recommendations.

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**18 Called up share capital**

|                                           | 2005<br>£'000 | 2004<br>£'000 |
|-------------------------------------------|---------------|---------------|
| <b>Authorised</b>                         |               |               |
| 13,000,000 ordinary shares of £1 each     | <u>13,000</u> | <u>13,000</u> |
| <b>Allotted, called up and fully paid</b> |               |               |
| 13,000,000 ordinary shares of £1 each     | <u>13,000</u> | <u>13,000</u> |

**19 Share premium reserves**

|                                   | £'000        |
|-----------------------------------|--------------|
| At 1 January and 31 December 2005 | <u>1,000</u> |

**20 Profit and loss account reserve**

|                                       | 2005<br>£'000 |
|---------------------------------------|---------------|
| At 1 January 2005 previously reported | (3,809)       |
| Prior year adjustment                 | <u>65</u>     |
| At 1 January as restated              | (3,744)       |
| Retained profit for the year          | <u>9,800</u>  |
| At 31 December 2005                   | <u>6,056</u>  |

**21 Reconciliation of movements in shareholders' funds**

|                                              | 2005<br>£'000 | Restated<br>2004<br>£'000 |
|----------------------------------------------|---------------|---------------------------|
| Profit for the financial year                | 9,800         | 6,710                     |
| Shareholders' funds as previously reported   | 10,191        | 3,527                     |
| Prior year adjustment                        | <u>65</u>     | <u>19</u>                 |
| Shareholders' funds at 1 January as restated | <u>10,256</u> | <u>3,546</u>              |
| Shareholders' funds as at 31 December        | <u>20,056</u> | <u>10,256</u>             |

**Notes to the financial statements for year ended 31 December 2005 (continued)**

**22 Financial commitments**

At 31 December 2005 the Company had annual commitments under non-cancellable operating leases for assets other than land and buildings expiring as follows:

|                                               | 2005<br>Other<br>£'000 | 2004<br>Other<br>£'000 |
|-----------------------------------------------|------------------------|------------------------|
| Expiring within one year                      | 73                     | 88                     |
| Expiring between two and five years inclusive | 178                    | 137                    |
|                                               | <u>251</u>             | <u>225</u>             |

**23 Related party transactions**

Sales of £5,324,000 (2004: £432,000) were made to Stirling Water (2003) Limited, a joint venture of Thames Water Services Limited, from Engenica, a trading division of the Company. Engenica also made sales of £6,695,000 (2004: £2,724,000) to Trans4M Limited. The balance owed by Stirling Water (2003) Limited at the year end was £333,000 (2004: Nil), and the balance owed by Trans4M at the year end was £695,000 (2004: Nil).

Sales of £3,663,000 (2004: £2,815,674) were made to Trans4M Limited from Thames Water Services Limited during the year ended 31 December 2005. The balance owed to Thames Water Services Limited at the year end was £258,000 (2004: £803,189).

Sales of £3,354,000 (2004: £3,496,653) 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 2005 was Nil (2004: £851,749).

Sales of £2,390,000 (2004: Nil) were made to Metronet Rail BCV Holdings Limited and Metronet Rail SSL Holdings Limited, joint ventures of RWE Thames Water plc from Thames Water Services Limited during the year. The balance owed to Thames Water Services Limited at 31 December 2005 was £600,000 (2004: Nil).

Sales of £4,616,000 (2004: £2,030,387) were made to Stirling Water (2003) Limited from Thames Water Services Limited during the year. The balance owed to Thames Water Services Limited at 31st December 2005 was £618,000 (2004: £524,358 ).

**24 Immediate and ultimate parent company**

RWE 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, Clearwater Court, Vastern Road, Reading Berkshire, RG1 8DB.

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 AG, Opernplatz 1, D-45128 Essen, Germany.