



Translation of the

**Financial Statements of**

**Thames Water Aqua Holdings GmbH**

**for the Fiscal Year from**

**January 1, 2002 through December 31, 2002**

The financial statements of Thames Water Aqua Holdings GmbH for the fiscal year from January 1, 2002 through December 31, 2002, are filed with the Commercial Register at Essen Local Court under HRB 14447 and published in the German Federal Gazette.

A collective listing of the investments held by Thames Water Aqua Holdings GmbH pursuant to section 285, no. 11, of the German Commercial Code is filed with the Commercial Register at Essen Local Court.

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# **Financial Statements of Thames Water Aqua Holdings GmbH**

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# Balance Sheet

as of December 31, 2002

<b>Assets</b>	Notes	12/31/2002 € thousand
<hr/>		
<b>Fixed assets</b>		
Financial assets	(1)	7,419,423
<b>Current assets</b>		
Accounts receivable and other assets	(2)	161,856
Cash and cash equivalents		-
<hr/>		
		<b>7,581,279</b>
<b>Equity and liabilities</b>	Notes	12/31/2002 € thousand
<hr/>		
<b>Equity</b>		
Subscribed capital	(3)	501,000
<b>Provisions</b>		
Other provisions	(4)	1,988
<b>Liabilities</b>	(5)	7,078,291
<hr/>		
		<b>7,581,279</b>

# Income Statement

for the year ended December 31, 2002

	Notes	01/01 - 12/31/2002 € thousand
Other operating income	(8)	723
Other operating expenses	(9)	9,100
Income from investments	(10)	299,680
Other interest and similar income	(11)	314,182
Interest and similar expenses	(12)	372,991
Expenses from loss transfer	(13)	7,313
<b>Profit from ordinary activities</b>		<b>225,181</b>
Taxes on income	(14)	84,907
Profit transferred under a profit/ loss transfer agreement	(15)	310,088
<b>Net profit for the year</b>		<b>-</b>
Reversal of capital reserve		-
<b>Distributable profit</b>		<b>-</b>

# Notes

## Basis of presentation

The object of the company is to acquire and manage investments in companies in Germany and abroad.

Thames Water Aqua Holdings GmbH is an affiliate of RWE AG, Essen, and is included in their consolidated financial statements.

The financial statements are prepared in accordance with the provisions of the German Commercial Code (HGB) and the Limited Liabilities Companies Act (GmbHG). TWAH is a small corporation within the meaning of section 267, subsection 1, of the German Commercial Code. Use has been made of simplifications allowed pursuant to section 274a, no. 1, and section 288 of the German Commercial Code in preparing the financial statements for small corporations. In line with section 264, subsection 1, sentence 3, of the German Commercial Code, a management report has not been drawn up.

Some individual items of the balance sheet and the income statement are combined in order to improve clarity. These items are shown and explained separately in the notes. The income statement is prepared by the nature of expense method. The financial statements are drawn up in euros (€); all amounts are stated in thousands of euros (€ thousand).

## **Accounting policies**

The investments in affiliated companies are carried at amortized cost.

Accounts receivable and other assets are disclosed at nominal value. No value adjustments had to be made as at December 31, 2002.

The amount of provisions takes account of all identifiable risks and contingent liabilities.

Liabilities are shown at the amount repayable.

Foreign currency transactions are valued at the exchange rate applicable at the time of first entry, when covered by hedging contracts at the hedge rate. Exchange rate losses from receivables, payables and currency holdings are recognized in net profit or loss at the balance sheet date unless a hedge has been concluded.

## Notes on the balance sheet

### (1) Fixed assets

The financial assets comprise the following investments in affiliated companies:

		12/31/2002
	%	€ thousand
Thames Water Plc., London	100	7,183,571
RWE Aqua GmbH, Berlin	100	235,700
Thames Water Aqua International GmbH, Essen	100	50
GBV Sechste Gesellschaft für Beteiligungsverwaltung mbH, Essen	100	50
GBV Achte Gesellschaft für Beteiligungsverwaltung mbH, Essen	100	50
Apollo Acquisition Company, Wilmington/Delaware	100	1
Thames Water Aqua US Holdings, Inc., Wilmington/Delaware	100	1
		<u>7,419,423</u>

During the reporting year, RWE AG acquired GBV Sechste Gesellschaft für Beteiligungsverwaltung mbH, Essen (GBV 6) and GBV Achte Gesellschaft für Beteiligungsverwaltung mbH, Essen (GBV 8) at € 50,000 each. The purpose of these companies is to acquire and manage investments in companies in Germany and abroad. A control and profit and loss transfer agreement has been concluded with GBV 8 with effect from the beginning of the short fiscal year 2002. Thames Water Aqua US Holdings, Inc. (USA) was founded in July 2002.

### (2) Accounts receivable and other assets

The accounts receivable and other assets comprise receivables from affiliated companies in the amount of € 161,848,000, of which € 161,300,000 are receivables from the shareholder RWE AG, as well as other assets in the amount of € 8,000. As a rule, the remaining term to maturity is less than one year.



### (3) Equity

The distributable profit of the previous year was paid out to the shareholder.

### (4) Provisions

The other provisions not only contained outstanding invoices for consulting services in connection with the AWW acquisition but also expenses incurred for the audit of the annual financial statements.

### (5) Liabilities

	12/31/2002 € thousand	thereof RT *) < 1 yr. € thousand	thereof RT*) > 5 yrs. € thousand
Accounts payable to affiliated companies	6,971,593	999,179	5,972,414
Other liabilities	106,698	1,736	-
	7,078,291	1,000,915	5,972,414

\*) RT = remaining term

The accounts payable to affiliated companies comprise € 6,002,370,000 payable to the shareholder RWE AG. Thereof, € 5,972,414,000 are attributable to amounts actually used as at December 31, 2002 under a master loan agreement concluded between RWE AG and TWAH. The accounts payable which have a remaining term to maturity of less than 1 year chiefly comprise the current account at RWE AG, the profit to be transferred as well refund claims regarding tax charges and creditable taxes.

Moreover, a capital contribution of € 800,000,000 by the dormant partner NBG Nord Beteiligungs GmbH & Co. KG (NBG) is disclosed who has taken up an interest in TWAH as a typically dormant partner by contract dated December 27, 2001 effective January 10, 2002.

GBV 6 has granted TWAH a loan of € 100,000.

The other liabilities contain loan notes in the amount of € 104,962,000 which were granted to those existing shareholders of Thames Water Plc. who had opted for signing a loan note instead of a cash compensation under the recommended cash offer of October 2, 2000. The term of the loan notes will end on July 1, 2006 at the latest. During the term, the creditors are entitled to demand repayment of the loan note at nominal value at specified dates. The loan notes bear interest at 6-month Libor less 0.5%.

In addition, the other liabilities mainly refer to interest deferrals.

## **(6) Derivative financial instruments/hedging relationships**

The currency risk inherent in the purchase price of Thames Water Plc., which was acquired in 2000, is hedged by currency swaps currently totaling € 5.65 billion in addition to the loan notes (€ 105 million) and the GBP loan of RWE AG (€ 972 million). Upon termination of a hedging transaction, the difference between the respective repayment rate and the original GBP rate is offset against the acquisition cost of the investment in Thames Water without profit or loss effect. The currency swaps have a positive market value of € 375.6 million at the balance sheet date.

## **(7) Other financial obligations**

On September 17, 2001 the company submitted an irrevocable takeover bid for the US water utility American Water Works Company Inc., Voorhees/New Jersey (AWW). The offered purchase price per common share is USD 46 in cash, resulting in an overall purchase price of USD 4.6 billion. RWE AG has promised to meet the payment obligation. On January 17, 2002 the majority of the American Water Works' shareholders has approved of the transaction which was completed on January 10, 2003.

## **Notes to the income statement**

### **(8) Operating income**

The other operating income mainly comprises gains from foreign currency translations (€ 722,000).

### **(9) Other operating expenses**

The other operating expenses primarily arise from consulting services in connection with the projected AWW takeover as well as tax allocations to RWE Aqua and Thames Water Aqua International GmbH (TWAi).

### **(10) Income from investments**

The income from investments includes € 298,608,000 of distributions by Thames Water Plc. which relate to the payout for the year 2001 and the preliminary payout for the year 2002. € 1,072,000 relate to the profit transfer by TWAi.

### **(11) Other interest and similar income**

€ 308,615,000 of the other interest and similar income are attributable to affiliated companies. The interest received mainly stems from foreign currency receivables from affiliated companies, from the financing funds account at RWE AG, from term deposit investments and from swap contracts concluded with RWE AG and banks.

## **(12) Interest and similar expenses**

€ 366,374,000 of the interest and similar expenses are attributable to affiliated companies. The interest payable mainly stems from the funds called by RWE AG under the master loan agreement, from the financing funds account at RWE AG, from swap contracts concluded with RWE AG and banks as well as from loan notes.

## **(13) Expenses from loss transfer**

A profit and loss transfer agreement has been concluded with RWE Aqua GmbH effective January 1, 2002. A loss of € 7,311,000 has been transferred in fiscal 2000.

A profit and loss transfer agreement has been concluded with GBV 8 with effect from the beginning of the short fiscal year 2002. A loss of € 2,000 has been transferred in the fiscal year.

## **(14) Taxes on income**

The taxes on income were refunded by the parent company.

## **(15) Profit transfer**

The dormant partner NBG accounts for a profit share of € 157.6 million; a profit of € 152.5 million has been transferred to RWE AG.

## **(16) Employees**

The company has no staff of its own.

Essen, February 7, 2003

The Management Board

Bill Alexander

Dr. Richard Klein

Dr. Klaus Sturany

# Auditors' Report

We have audited the annual financial statements, including the accounting records, of Thames Water Aqua Holdings GmbH, Essen, for the fiscal year ended December 31, 2002. The company's Managing Directors are responsible for the accounting records and for preparing the annual financial statements in compliance with German commercial legislation and the supplementary provisions of the Articles of Incorporation. Based on the audit we have performed, it is our task to give an opinion on the annual financial statements including the accounting records.

We have audited the annual financial statements according to section 317 of the German Commercial Code in compliance with the German principles of proper auditing as laid down by the Institute of German Auditors (IDW). These principles require that the audit be planned and conducted so as to identify with sufficient reliability any errors and infringements which have a material impact on the presentation by the annual financial statements, in conformance with the principles of proper accounting, of a true and fair view of the company's financial position and performance. The acts constituting the audit are to be determined with due regard to knowledge of the company's business activities, its economic and legal circumstances, and expectations regarding potential errors. The audit also assesses the effectiveness of the internal controlling system for accounting and evidence for the contents of the accounting records and the annual financial statements, largely on the basis of random samples. The scope of the audit includes an assessment of the applied accounting principles and of the significant estimates made by the Management Board as well an evaluation of the general presentation by the annual financial statements. We believe that our audit provides a sufficiently reliable basis for our opinion.

Our audit did not give rise to any objections.

In our opinion, the annual financial statements, with due regard to the principles of proper accounting, give a true and fair view of the financial position and performance of the company.

Essen, February 14, 2003

PwC Deutsche Revision  
Aktiengesellschaft  
Wirtschaftsprüfungsgesellschaft

Dr. N. Schwieters  
Wirtschaftsprüfer  
(Auditor)

M. Theben  
Wirtschaftsprüfer  
(Auditor)

# The Boards

## Management Board

Dr. Klaus Sturany  
- Member of the Executive Board of RWE AG

Dortmund

Dr. Richard Klein  
- Member of the Executive Board of RWE AG

Essen

Bill Alexander  
- Chief Executive Officer of Thames Water Plc.

Blakehouse



# Balance Sheet <sup>1)</sup>

as of December 31, 2002

<b>Assets</b>	Notes	12/31/2002 US \$ thousand
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<b>Fixed assets</b>		
Financial assets	(1)	7,780,749
<b>Current assets</b>		
Accounts receivable and other assets	(2)	169,738
Cash and cash equivalents		-
<hr/>		
		<b>7,950,487</b>
<b>Equity and liabilities</b>	Notes	12/31/2002 US \$ thousand
<hr/>		
<b>Equity</b>		
Subscribed capital	(3)	525,399
<b>Provisions</b>		
Other provisions	(4)	2,085
<b>Liabilities</b>	(5)	7,423,003
<hr/>		
		<b>7,950,487</b>

1) Converted from EUR into USD with the exchange rate of December 31, 2003; 1/1,048 €/€

# Income Statement <sup>1)</sup>

for the year ended December 31, 2002

	Notes	01/01 - 12/31/2002 US \$ thousand
Other operating income	(8)	758
Other operating expenses	(9)	9,543
Income from investments	(10)	314,274
Other interest and similar income	(11)	329,483
Interest and similar expenses	(12)	391,156
Expenses from loss transfer	(13)	7,669
<b>Profit from ordinary activities</b>		<b>236,147</b>
Taxes on income	(14)	89,042
Profit transferred under a profit/ loss transfer agreement	(15)	325,189
<b>Net profit for the year</b>		<b>-</b>
Reversal of capital reserve		-
<b>Distributable profit</b>		<b>-</b>

1) Converted from EUR into USD with the exchange rate of December 31, 2003; 1/1,048 €/€