

30 JUL 1970

THAMES WATER UTILITIES LIMITED
ANNUAL REPORT AND ACCOUNTS
INCLUDING REGULATORY INFORMATION
1989/90

I. DIRECTORS' REPORT

The Directors present their first annual report together with the accounts for the year ended 31 March 1990.

Incorporation

Thames Water Utilities Limited was incorporated on 1 April 1989 under the Companies Act 1985. On 1 September 1989 a certificate to do business was granted to the company and the property, rights and liabilities of Thames Water Authority, other than those parts of the business which were either vested in the National Rivers Authority or transferred to the Port of London Authority, were vested in it. On that date it became a wholly owned subsidiary of Thames Water Plc under the terms of the Water Act 1989.

Principal Activities and Review of the Year

Thames Water's principal activities are the supply of water to over three million premises in its area and the collection and treatment of sewage from almost five million premises. In 1989-90 it put into supply some 2770 tcmd of water and treated some 4280 tcmd of sewage. It also undertook significant statutory duties relating to the environment.

During the year new Water Quality Regulations were brought into existence. These Regulations fundamentally affect the standards which the company must meet for drinking water and will entail substantial programmes of investment in water treatment.

At the same time a major programme of investment in sewage treatment has been embarked upon to ensure that by 1992 all sewage treatment works meet their final consent standards for discharge to the relevant watercourses.

To meet the challenge which this poses the company has signed an agreement with Taylor Woodrow Management Contracting Limited and with PWT Worldwide Limited for the implementation of part of the capital programme. In parallel a new organisation structure was introduced in the Engineering department based on project management principles.

The company has welcomed the Government's Code of Practice on Conservation, Access and Recreation and by the year end its initial policies in response were almost complete. It has also redrawn its community affairs policy better to reflect its interest in the well-being of the communities in which it operates.

We have also implemented a Customer Guarantee Scheme covering the standards by which the company must operate, details of which were sent to customers in the first quarter of 1990. Codes of Practice have also been drawn up and most are now approved by the Director General of Water Services which cover the services and standards customers can expect, leakage from customers' supply pipes, disconnection for non-payment, pipe-laying and the use of powers of entry on to private land.

The company has itself begun a major project to make relationships with customers easier through the establishment of a modern service bureau. Steps have already been taken to streamline arrangements for customers with questions about the quality of their water.

Directors expect that the present level of activity will continue for the foreseeable future.

A detailed review of the year forms a separate addendum to this report.

Capital

The company's share capital on incorporation was £100 divided into 100 shares of £1 each, of which two were subscribed at par by nominees of the Crown. On 29 August 1989, the authorised share capital was increased to £50,000 divided into 50,000 ordinary shares of £1 each and on 20 November further increased to £360,050,000 divided into 360,050,000 ordinary shares of £1 each.

Profit and Dividend

The profit for the year as contribution to the Group was £160.6m. A dividend of £40m was paid out of opening reserves to the ultimate holding company, Thames Water Plc, leaving reserves carried forward of £969.3m.

Fixed Assets

Notes 11 and 12 to the accounts detail changes in fixed assets during the year.

In the opinion of the Directors, and having regard to certain valuation work undertaken earlier in the year, the market value of the company's properties exceeds the balance sheet value.

Ring Fencing

Under Condition K of its Appointment, the Company is at all times required to ensure, so far as reasonably practicable, that if a special administration order were made the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company.

The Company was in compliance with that requirement as at 31 March 1990.

Directors

The first Directors of the Company were J A L Gunn and A D Whetnall who were appointed on 1 April 1989 and who resigned on 31 August 1989.

The names of the present Directors of the Company are:

Directors	Date of Appointment
M R Hoffman (Chairman)	31 August 1989
W R Harper (Deputy Chairman)	"
W J Alexander	6 November 1989
D Badcock	31 August 1989
J K Boudier	"
J G Hurcom	"
D J Luffrum	"
R J Marshall	"
P T McIntosh	"
M G Ribbins	"

Directors' Interests in Shares

The interests of Directors, together with those of their families, in the shares of Thames Water Plc at 31 March 1990, which are contained in the Register of Directors' Interests, are shown in the following table:

Beneficial Owner	Shares	Share Options
W J Alexander	980	59000
D Badcock	1261	51000
J K Boudier	3854	56159
J G Hurcom	6440	66090
R J Marshall	1282	60090
P T McIntosh	6661	55136
M G Ribbins	1261	60090

M R Hoffman, W R Harper and D J Luffrum are also Directors of Thames Water Plc and their share interests are shown in the Directors' Report of that company. None of the Directors has any interest in the shares of Thames Water Plc's subsidiary companies or held shares in Thames Water Plc on the date of their appointment.

Significant Contracts

During the period under review none of the Directors had significant contracts with Thames Water Plc or any other Group company other than their contracts of service.

Employees

Formal employee involvement is through the three Joint Councils for staff, craft and industrial employees. New joint functional committees for water, sewerage and sewage treatment, and headquarters departments were set up during the year under the auspices of the councils to deal with matters specific to those parts of the company. Managers at local level continue to meet employees and their representatives to discuss matters of mutual interest and concern.

As part of the arrangements for employees to acquire ordinary shares in Thames Water Plc, various share option schemes have been adopted. As a result the overwhelming majority of employees participate as shareholders in the holding company.

An established network of communication exists through a monthly newspaper, Thames Water News, and quarterly video news presentations.

Health and Safety

During the year, a number of significant changes were made in the management of health and safety matters within the company. An integrated Health and Safety Group was formed, consisting of specialists from within the company and strengthened by the inclusion of an occupational hygienist. A new senior manager was appointed to head the function to ensure that high standards of health and safety are achieved and maintained.

Achievement and maintenance of high standards of health and safety are seen as being both essential in order to protect our employees and members of the public.

Employment of the disabled

The company recognises its responsibilities towards the disabled and employs them where suitable opportunities arise. Every effort is made to find appropriate alternative jobs for those who become disabled whilst working for the company.

Research and Development

The Company is committed to a programme of research and development activities.

Political and Charitable Donations

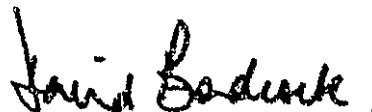
No donations were made for political or charitable purposes during the year.

Auditors

Coopers & Lybrand were appointed by the Directors as the first auditors to the company. Coopers & Lybrand have since merged their practice with Deloitte, Haskins & Sells and now practise in the name of Coopers & Lybrand Deloitte. They have signed the audit report in their new name.

A resolution to reappoint Coopers & Lybrand Deloitte as the company's auditors and to authorise the directors to fix their remuneration will be proposed at the Annual General Meeting.

By order of the Board.



DAVID BADCOCK
Secretary & Legal Director

5 June 1990

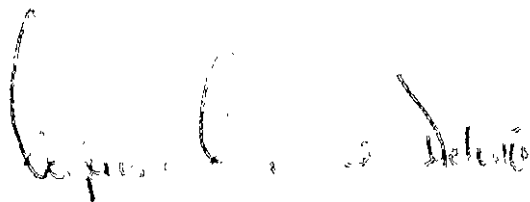
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REPORT OF THE AUDITORS TO THE MEMBERS OF THAMES WATER UTILITIES LIMITED

We have audited the accounts on pages 7 to 31 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the company at 31 March 1990 and of the profit and source and application of funds of the company for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Chartered Accountants
Reading

1990

THAMES WATER UTILITIES LIMITED
 PROFIT AND LOSS ACCOUNT
 YEAR ENDED 31 MARCH 1990

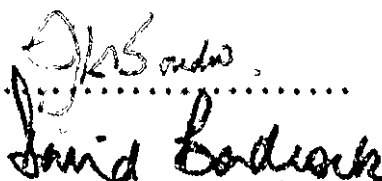
Notes	1990	1989
	£m	£m
2a Turnover	610.4	557.4
2 Operating Costs	(445.0)	(369.4)
3 Operating profit	162.4	187.6
6 Other income	36.8	38.8
7 Interest payable and similar charges	(19.9)	(19.8)
Profit on ordinary activities before taxation	179.3	206.6
8 Taxation on profit on ordinary activities	0.0	0.0
Profit on ordinary activities after taxation	179.3	206.6
9 Extraordinary charges	(18.7)	(3.2)
Profit for the financial year	160.6	203.4
10 Dividend	(440.0)	0.0
22 Transfer (from) to reserves	(279.4)	203.4

The notes on pages 10 to 31 form part of these accounts.

THAMES WATER UTILITIES LIMITED
BALANCE SHEET AT 31 MARCH 1990

	Notes	1990 £	1989 £
FIXED ASSETS			
Tangible assets	11	1,413.1	1,218.2
Investments	12	0.1	1.6
		<u>1,413.2</u>	<u>1,219.8</u>
CURRENT ASSETS			
Stocks and work in progress	13	20.7	18.4
Debtors	14	103.1	75.7
Investments	15	91.6	126.4
Creditors: amounts falling due within one year	16	(200.0)	(113.7)
NET CURRENT ASSETS		<u>15.4</u>	<u>106.8</u>
Total assets less current liabilities		<u>1,428.6</u>	<u>1,326.6</u>
Creditors: amounts falling due after more than one year	17	(95.1)	(185.9)
Provisions for liabilities and charges	20	(4.2)	0.0
		<u>1,329.3</u>	<u>1,140.7</u>
CAPITAL AND RESERVES			
Called up share capital	21	360.0	0.0
Reserves and retained profits	22	969.3	1,140.7
		<u>1,329.3</u>	<u>1,140.7</u>

The notes on pages 10 to 31 form part of these accounts.
The accounts were approved by the Board on 5 June 1990.

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 Directors

STATEMENT OF SOURCE AND APPLICATION OF FUNDS FOR THE YEAR ENDED 31 MARCH 1990

SOURCE OF FUNDS	1990 fm	1989 fm
Funds generated internally:		
Profit on ordinary activities before taxation	179.3	206.6
Extraordinary charges	(18.7)	(3.2)
Items not involving the movement of funds:		
Depreciation of tangible fixed assets	32.7	29.4
Profit on sale of tangible fixed assets	(11.3)	(18.0)
Increase (decrease) in provisions for liabilities and charges	4.2	(5.6)
	186.2	206.2
Funds from external sources:		
Capital grants and contributions	11.9	8.7
Proceeds from sales of tangible fixed assets	11.7	19.9
Sale of fixed asset investments	1.6	0.0
Finance leases	4.2	0.1
Long term borrowing	33.6	0.0
Issue of shares	360.0	0.0
	609.2	234.9
Total source of funds	<u>609.2</u>	<u>234.9</u>
 <u>APPLICATION OF FUNDS</u>		
Purchase of tangible fixed assets	(239.9)	(164.9)
Debenture repayment	(11.5)	0.0
Purchase of subsidiary companies	(0.1)	(0.1)
Loan repayments	(6.0)	(18.1)
Finance lease repayments	(1.7)	(0.6)
Dividend paid	(440.0)	0.0
	(699.6)	(183.7)
Increase/(decrease) in working capital:		
Stocks and work in progress	(2.3)	(5.5)
Debtors	(27.4)	(5.4)
Creditors (excluding loans, finance leases and overdrafts)	90.9	10.8
	(638.4)	(189.8)
Increase/(decrease) in net liquid funds	(29.2)	51.1
Increase/(decrease) in net liquid funds:		
Current asset investments	(34.8)	52.1
Bank overdraft	5.6	(1.0)
	(29.2)	51.1

NOTES TO THE ACCOUNTS
for the year ended 31 March 1990

1. PRINCIPAL ACCOUNTING POLICIES

A summary of the more important accounting policies, which have been applied consistently except where indicated, is set out below:

(a) Basis of preparation and accounting convention

On 1 September 1989 the property, rights and liabilities of Thames Water Authority (the Authority), other than those vested in the National Rivers Authority (NRA) and the Port of London Authority (PLA), were vested in the company under the provision of the Water Act 1989. For statutory accounts purposes this vesting is treated as having taken place immediately after the end of the Authority's last financial year and these accounts are prepared for the financial year 1 April 1989 to 31 March 1990.

The accounts have been prepared in accordance with the historical cost convention. Group accounts have not been prepared as the company is a wholly-owned subsidiary of Thames Water Plc.

(b) Comparative figures

Comparative figures are stated after having eliminated from the accounts of Thames Water Authority for the year ended 31 March 1989 profits and losses, balance sheet items, and sources and applications of funds attributable to the NRA and the PLA.

(c) Turnover

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

(d) Tangible fixed assets and depreciation

Tangible fixed assets comprise:

-Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines) and

-Other assets (including properties, overground plant and equipment).

(i) Infrastructure assets

Infrastructure assets comprise a network of systems.

Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting grants and contributions. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost and is classified as infrastructure renewals expenditure.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

(ii) Other assets

Other assets are included at net cost less accumulated depreciation. Net cost is stated after deducting grants and contributions.

Freehold and leasehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings:	
Operational structures	40-80 years
Other	30-60 years
Fixed plant	20-40 years
Vehicles, mobile plant and computers	4-10 years

(e) Leased assets

Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (finance leases), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in relation to the assets' written down value. The assets are depreciated over the shorter of their estimated useful life and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

(f) Investments

Investments held as fixed assets are stated at cost less amounts written off. Those held as current assets are stated at the lower of cost and net realisable value.

(g) Stocks and work in progress

Stocks and work in progress are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

(h) Pension costs

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. The pension cost is assessed in accordance with the advice of an independent qualified actuary. Any difference between the cost charged and the amounts paid by the company is treated as a prepayment or accrual.

This is a change in accounting policy to comply with Statement of Standard Accounting Practice Number 24. In previous years, the charge to the profit and loss account was the actual amount of the employer's contributions paid to the schemes and their predecessor schemes, details of which are given in the notes to the accounts. No cumulative adjustment arises on the implementation of SSAP 24.

(i) Foreign Currencies

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies have been translated into sterling at the rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

(j) Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

(k) Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise.

21a9 ANALYSIS OF TURNOVER AND PROFIT BEFORE TAXATION BY CLASS OF BUSINESS

	Water Supply	Sewerage Services		Other Trading Activities	Total 1990	Total 1989	
	£m	Sewerage & Sewage Treatment & Disposal £m	Trade Effluent £m		Total £m	£m	£m
Unmeasured charges	178.2	269.0	0.0	269.0	0.0	438.2	399.6
Measured charges	57.7	52.7	0.0	52.7	0.0	110.4	99.2
Trade effluent charges	0.0	0.0	19.8	19.8	0.0	19.8	20.6
Other income	29.1	7.3	0.0	7.3	5.6	42.0	38.0
TURNOVER	265.0	329.0	19.8	339.8	5.6	610.4	557.4
Operating costs before depreciation and maintenance of infrastructure assets	201.7			183.0	5.6	390.3	321.4
Depreciation	13.6			19.1	0.0	32.7	29.4
Infrastructure renewals charge	10.5			14.5	0.0	25.0	19.0
Operating costs	225.8			216.6	5.6	448.0	369.8
Operating profit	39.2			123.2	0.0	162.4	187.6
Other income	29.1			25.7	0.0	26.8	28.8
Interest payable	(4.8)			(15.1)	0.0	(19.9)	(19.8)
PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION	45.5			133.8	0.0	179.3	206.6

Turnover derives wholly from within the United Kingdom.

2(b) ANALYSIS OF OPERATING COSTS BY TYPE OF EXPENSE

	1990	1989
	Total	Total
	£m	£m
Manpower costs	134.3	124.2
Other employment costs	21.3	13.8
Power	37.9	32.7
Local authority rates	39.4	35.9
Agencies	30.5	29.7
Hired and contracted services	66.3	46.0
Materials and consumables	25.3	21.4
Depreciation	32.7	29.4
Infrastructure renewals charge	25.0	19.0
Water charges	3.1	0.3
Charge for doubtful debts	3.5	1.6
Other operating costs	27.7	15.8
Total	448.0	369.8

Included in operating costs are certain fees and corporate awareness costs (£5.1m) which had not been incurred in previous years when Thames Water was a public authority but which are expected to recur, at least in part, in the future.

3. OPERATING PROFIT

	1990 Pm	1989 Pm
Operating profit is stated after charging:		
Directors' emoluments	0.5	0.1
Rentals under operating leases		
Hire of plant and machinery	0.5	0.3
Other	2.9	2.4
Depreciation:		
Own assets	30.6	29.7
Assets held under finance leases	2.1	0.7
Auditors' remuneration	0.2	0.2
Research and development	4.1	3.4

4. DIRECTORS' EMOLUMENTS

	1990 £000	1989 £000
For management services as directors	488	41
	-	103
	488	144

Directors' emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985, excluding pension contributions, are as follows:

Chairman	-	41
Highest paid director	75	-

Scale of other directors' emoluments

i	1990 Number	1989 Number
0-5,000	2	5
5,001-10,000	-	7
30,001-35,000	2	-
40,001-45,000	-	1
50,001-55,000	2	-
60,001-65,000	3	-

The chairman and two directors are remunerated in respect of their services to the group as a whole and details of their remuneration are disclosed in the accounts of Thames Water Plc. The directors' emoluments bands above also include a shadow director in respect of the period to 31 August 1990. Directors' emoluments for the year ended 31 March 1990 represent costs incurred for the full year. The number of directors and their emoluments for the year ended 31 March 1989 are in respect of the Members of the Board of Thames Water Authority.

5. EMPLOYEE INFORMATION

	1990 £m	1989 £m
Employment costs including Directors' emoluments were:		
Salaries and wages	128.4	118.3
Social security costs	9.9	9.0
Pension contributions	11.8	8.6
Total employment costs	150.1	135.9

Total employment costs contain £1.5m (1989 £1.2m) which are included in the infrastructure renewals charge and £14.0m (1989 £10.5m) which has been recharged to capital.

Proponents of senior employees, excluding Directors and pension contributions, which fall within the following ranges:

	1990 Number	1989 Number
£30,001-£35,000	68	32
£35,001-£40,000	25	13
£40,001-£45,000	14	7
£45,001-£50,000	1	4
£50,001-£55,000	3	-
£55,001-£60,000	2	-
£60,001-£65,000	-	2

Average number of persons employed

The average number of persons employed, including executive Directors, analysed by service was:

	1990 Number	1989 Number
Water supply	4,347	4,434
Sewerage services	3,341	3,408
	<u>7,688</u>	<u>7,842</u>

TRANSACTIONS WITH DIRECTORS AND OFFICERS

There were no transactions or arrangements which would be disclosable under the provisions of the Companies Act 1985.

6. OTHER INCOME

	1990 fm	1989 fm
Other income comprises:		
Interest receivable and similar income	25.4	20.8
Profit on sale of tangible fixed assets	11.3	18.0
	<u>36.8</u>	<u>38.8</u>

7. INTEREST PAYABLE AND SIMILAR CHARGES

	1990 fm	1989 fm
Interest payable on :		
Bank loans, overdrafts and other loans		
- Repayable within five years other than by instalments	11.2	16.2
- Repayable within five years by instalments	5.1	0.2
- Not wholly repayable within five years	3.4	3.3
Finance charges in respect of finance leases	0.2	0.1
	<u>19.9</u>	<u>19.8</u>

8. TAXATION ON PROFIT ON ORDINARY ACTIVITIES

No liability to corporation tax arises on the result for the year due to the availability of capital allowances.

9. EXTRAORDINARY CHARGES

Extraordinary charges comprise:

Privatisation and restructuring costs in respect of preparation for the vesting of the assets and liabilities of Thames Water Authority in successor bodies under the provisions of the Water Act 1989 - £11.3 m (1989 £3.2m).

Costs in respect of pension and accrued service liabilities for former Lee and Thames Conservancy Pension Scheme members and their dependents - £7.4m (1989 nil).

No tax credit arises during the year on these extraordinary charges.

10. DIVIDEND

The directors declared and paid a dividend of £440m, being £8,800 per share, to its parent company, Thames Water Plc, on 20 November 1989. No further dividend is to be paid in respect of the year ended 31 March 1990.

11. TANGIBLE FIXED ASSETS

	Cost £m	Depreciation £m	Net book value 1990 £m	Net book value 1989 £m
Land and buildings	592.6	145.7	446.9	374.9
Plant and machinery	1066.1	99.9	966.2	843.4
	<u>1658.7</u>	<u>245.6</u>	<u>1413.1</u>	<u>1218.2</u>
Movements during the year:				

Land and buildings	Freehold land and buildings £m	Leaseholds		Total £m
		Over 50 Years £m	Under 50 Years £m	
Cost:				
At 1 April 1989	501.7	6.9	0.1	508.7
Additions	77.0	7.6	0.0	84.6
Disposals	(0.4)	0.0	0.0	(0.4)
Grants and contributions	(0.3)	0.0	0.0	(0.3)
	<u>578.0</u>	<u>14.5</u>	<u>0.1</u>	<u>592.6</u>
At 31 March 1990				
Depreciation:				
At 1 April 1989	133.8	0.1	0.0	133.9
Provided during the year	11.7	0.1	0.0	11.8
On disposals	0.0	0.0	0.0	0.0
	<u>145.5</u>	<u>0.2</u>	<u>0.0</u>	<u>145.7</u>
At 31 March 1990				
Net book value				
At 31 March 1990	432.5	14.3	0.1	446.9
At 31 March 1989	367.9	6.8	0.1	374.8

Depreciation has not been charged on freehold and leasehold land stated in the accounts at a cost of £2.8m.

Plant & Machinery	Infra- structure assets £m	Plant Machinery & vehicles £m	Fixtures, fittings, equipment £m	Total £m
Cost:				
At 1 April 1989	667.0	195.4	60.0	922.4
Additions	75.1	46.5	33.7	155.3
Grants and contributions	(11.5)	(0.1)	0.0	(11.6)
	<u>730.6</u>	<u>241.8</u>	<u>93.7</u>	<u>1,066.1</u>
At 31 March 1990				
Depreciation:				
At 1 April 1989	0.0	51.6	27.4	79.0
Provided during the year	0.0	12.2	8.7	20.9
	<u>0.0</u>	<u>63.8</u>	<u>36.1</u>	<u>99.9</u>
At 31 March 1990				
Net book value				
At 31 March 1990	730.6	178.0	57.6	966.2
At 31 March 1989	667.0	143.8	32.6	843.4

11. TANGIBLE FIXED ASSETS (Continued)

Tangible fixed assets at 31 March 1990 include F169m (1989 F143m) of assets in the course of construction.

Details of tangible fixed assets included above which are held under finance leases are shown below.

	Fixtures fittings and equipment fm
Cost:	
At 1 April 1989	8.5
Additions	4.1

At 31 March 1990	12.6

Depreciation:	
At 1 April 1989	2.6
Provision for the year	2.1

At 31 March 1990	4.7

Net book value:	
At 31 March 1990	7.9
At 31 March 1989	5.9

12. FIXED ASSET INVESTMENTS

Fixed asset investments at 31 March 1990 comprise:

	fm
Shares in Group companies	0.1

Investments in Group companies, all of which are unlisted are made up as follows:

	fm
Cost:	
At 1 April 1989	1.6
Acquisition during the year	0.1
Transfer to group companies	(1.6)
	<hr/>
At 31 March 1990	0.1

At 31 March 1990 the company held more than 10% of the allotted share capital of the following companies:

	Country of incorporation	Class of share capital held	Proportion of shares held
Manor Farm Management Company Limited	Great Britain	Ordinary	100%
Thames Water Utilities Finance plc.	Great Britain	Ordinary	100%
	Effective date of acquisition	Nature of business	
Manor Farm Management Company Limited	28 September 1989	Site maintenance	
Thames Water Utilities Finance Plc.	18 January 1990	Financing	

13. STOCKS AND WORK IN PROGRESS

	1990 £m	1989 £m
Raw materials and consumables	15.7	14.7
Work in progress	5.0	3.7
	<u>20.7</u>	<u>18.4</u>

14. DEBTORS

	1990 £m	1989 £m
Trade debtors	50.7	46.4
Amounts owed by the holding company and fellow subsidiaries	2.3	0.0
Other debtors	15.0	10.9
Prepayments and accrued income	35.1	18.4
	<u>103.1</u>	<u>75.7</u>

Included in other debtors is an amount of £0.8m (1989 £0.7m) due after more than one year.

15. CURRENT ASSET INVESTMENTS

	1990 £m	1989 £m
Government and Local Authority loans	24.3	126.4
Fixed term deposits and certificates of deposit	67.3	0.0
	<u>91.6</u>	<u>126.4</u>

The market value of investments is not significantly different from cost.

16. CREDITORS: amounts falling due within one year

	1990 fm	1989 fm
Bank loans, overdrafts and temporary borrowings (see note 18)	8.1	13.7
Other loans (see note 18)	8.8	5.1
Obligations under finance leases (see note 19)	1.7	0.7
Progress claims and advance payments	41.4	11.7
Trade creditors	99.1	64.5
Amounts owed to the holding company and fellow subsidiaries	0.1	0.0
Other creditors	2.6	2.3
Taxation and social security	3.5	2.3
Accruals and deferred income	34.7	8.2
	<u>200.0</u>	<u>113.7</u>

17. CREDITORS: amounts falling due after more than one year

	fm	fm
Loans (see note 18)	77.9	173.9
Obligations under finance leases (see note 19)	2.9	1.4
Amounts owed to the holding company and fellow subsidiaries	0.5	0.0
Other creditors	13.8	10.6
	<u>95.1</u>	<u>185.9</u>

18. LOANS

	Range of interest rates	Loan repayments				1990	1989
		Up to 1 year	1-2 years	2-5 years	Over 5 years		
	%	£m	£m	£m	£m	£m	
Relevant loans	2-15	0.0	0.0	0.0	0.0	122.8	
Bank loans	11-12	0.0	0.0	0.0	25.0	0.0	
Other loans	2-12	8.8	1.0	2.2	49.7	56.2	
Bank overdraft		8.1	0.0	0.0	0.0	13.7	
		16.9	1.0	2.2	74.7	94.8	
Less: amounts repayable within one year						(16.9)	
						77.9	

Notes:

- Loans are repayable between 1990 and 2030.
- Relevant loans were loans to Thames Water Authority from the Secretary of State for the Environment or the Public Works Loan Commissioners. On 1 September 1989 these loans were transferred to Thames Water Plc (the Holding Company) under the terms of the Water Act 1989 and the Water Reorganisation (Successor Companies) (Transfer of Loans) Order 1989 and a debenture in the same amount (£120.5m) was issued to Thames Water Plc. Part of the capital restructuring of Thames Water Plc on flotation included the extinguishment of relevant loans and the issuance of a debenture by that company to the Secretary of State amounting to £11.9m. Accordingly on 15 November 1989 the intra-group debenture was extinguished and a debenture of £11.9m was issued to Thames Water Plc. This was repaid on 29 December 1989.
- Of the loans repayable after more than five years hence, £58m (1989 £33m) is in respect of loans wholly repayable after that date.
- Included in "Other loans" are loans totalling some £33m, which are secured on the revenues of the company and £7.6m secured on a property owned by the company.

19. OBLIGATIONS UNDER FINANCE LEASES

Amounts due under finance leases are payable as follows:

	1990 £m	1989 £m
Within one year	1.9	1.0
Between one and two years	1.7	1.0
Between two and five years	1.6	0.9
	<u>5.2</u>	<u>2.9</u>
Less: finance charges allocated to future periods	(0.6)	(0.8)
	<u>4.6</u>	<u>2.1</u>

20. PROVISIONS FOR LIABILITIES AND CHARGES

Provision for infrastructure
renewals expenditure

	£m
At 1 April 1989	0.0
Provided during the year	4.2
At 31 March 1990	<u>4.2</u>

Deferred taxation

The company's medium and long term plans for capital investment together with the asset base transferred from Thames Water Authority on vesting indicate that for the foreseeable future the amount of tax allowances in respect of eligible plant and machinery will exceed the depreciation on existing and new assets. Accordingly, no provision for deferred taxation has been recognised in these accounts.

An analysis of the amounts unprovided is as follows:

	1990 £m	1989 £m
Accelerated capital allowances:		
Infrastructure assets	37.3	0.0
Other assets	18.5	0.0
Other timing differences	(4.1)	0.0
Losses	(16.7)	0.0
	<u>35.0</u>	<u>0.0</u>

21. SHARE CAPITAL

The company's share capital on incorporation was f100 divided into 100 shares of f1 each, of which two were subscribed at par by nominees of the Crown. On 29 August 1989, the authorised share capital was increased to f50,000 divided into 50,000 ordinary shares of f1 each and on 1 September 1989 a further 49,998 ordinary shares were issued at par to the parent company. On 20 November 1989 the authorised share capital was further increased to £360,050,000 divided into 360,050,000 ordinary shares of f1 each and the remaining 360,000,000 shares were allotted to the parent company at par. The share capital has been set at a level sufficient to enable the company to fund its operations.

Authorised, allotted, called up and fully paid.	1990 f	1989 f
360,050,000 ordinary shares of f1 each	360,050,000	-

22. RESERVES AND RETAINED PROFITS

	1990	1989
	£m	£m
Profit and loss account		
Balance at 1 April 1989	1,140.7	937.3
Transfer (to) from profit and loss account	(279.4)	203.4
Net debt extinguished	108.9	0.0
Other movements	(0.9)	0.0
Balance at 31 March 1990	969.3	1,140.7

Details relating to the net debt extinguished are given in note 18.

23. CAPITAL COMMITMENTS

	1990 fm	1989 fm
Contracted for but not provided in the financial statements	159.3	160.0
Authorised but not yet contracted for	323.6	215.0

In addition to these commitments, the company has long term capital investment plans to meet shortfalls in performance and asset condition and to provide for new demand and growth.

24. OPERATING LEASES

At 31 March 1990 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases :

	Land and buildings fm	Other fm
Leases which expire:		
Within one year	-	0.1
Between one and five years	0.3	0.2
After five years	2.6	-
	<u>2.9</u>	<u>0.3</u>

25. PENSION SCHEMES

Pension arrangements for the majority of the company's employees are of the defined benefit type which at the end of the year were provided through:-

- i) the Thames Water Pension Scheme ("TWPS"); or
- ii) the Thames Water Mirror Image Pension Scheme ("TWMIPS").

The assets of each pension scheme are held separately from those of the company in trustee administered funds.

Re-organisation of pension arrangements

On 1 September 1989, the date of Vesting, employees who were members of the Water Authorities Superannuation Fund ("WASF") were given the option of becoming members of TWPS or TWMIPS and additionally of transferring their accrued benefits into whichever scheme they had joined or to leave their accrued benefits in WASF. Such transfers are to be funded in full as at 1 September 1989 by actuarially determined transfers of assets from WASF such that there is no unfunded liability of the company in respect of the past service of the employees of the company.

TWPS

TWPS was established on 1 July 1988. The company's contribution is determined by TWPS' consulting actuary, Bacon & Woodrow, using the attained age method, at a level which, together with members' contributions, will meet the full cost of providing benefits, including post-retirement and deferred pension increases, in line with price inflation but subject to a maximum rate of employers' contributions specified in the scheme's trust deed.

The first formal actuarial valuation of the scheme has not yet been completed. The assumptions which will have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increases in pay and pensions. In determining the company's initial contribution rate these assumptions were as follows:-

Rate of return on investments	9% per annum
Rate of increase to pay and pensionable pay	7.5% per annum plus a promotional scale
Rate of pension increases (except for GMPs)	6% per annum

At inception the Scheme had no investments, although it was due the transfer payment from WASF. Transfer payments have been made on account of final transfer values from WASF in respect of those members who have elected to transfer their accrued benefits in WASF. Final transfer values will be appropriate to meet the accrued liabilities as at the date the liabilities were assumed by the Scheme including allowance for future salary increases and index-linked increases to pensions.

Pension costs charged in the profit and loss account amounted to £4.0M (1989:£2.1M). The change in accounting policy has had no significant effect on the amount charged in the current year.

The company operates discretionary arrangements under which it augments benefits on retirement which are funded by way of a capital contribution to the Scheme. In the year ended 31 March 1990 these payments amounted to £0.5M (1989: £0.1M).

TWMIPS

TWMIPS was established on 1 September 1989 to provide benefits on an unchanged basis for those employees who were, prior to that date, members of the Water Authorities Superannuation Fund and who had not opted to transfer to TWPS. As a consequence of vesting, employees of the company were no longer eligible to participate in WASF for future service.

The company's contribution is determined by TWMIPS' consulting actuary, Bacon & Woodrow, using the attained age method at a level which, together with members' contributions, will meet the full cost of providing the benefits, including post-retirement and deferred pension increases in line with price inflation.

Transfer payments have been made on account of final transfer values from WASF in respect of those members who have elected to transfer their accrued benefits in WASF. Final transfer values will be appropriate to meet the accrued liabilities as at the date the liabilities were assumed by the scheme including allowance for future salary increases and index-linked increases to pensions.

Pension costs charged in the profit and loss account amounted to £4.5M. The change in accounting policy has had no significant effect on the amount charged in the current year.

The company operates discretionary arrangements under which it augments benefits on retirement which are funded by way of a capital contribution to the Scheme. In the year ended 31 March 1990 these payments amounted to £2.8M.

WASF

The employers' contributions were set by WASF's consulting actuary, William M Mercer Fraser Limited ("the Actuary"). The last actuarial valuation reviewed the state of the fund as at 31 March 1988. The rate of employers' contributions was 137.5 per cent of members' contributions and the employer's contributions charged to the profit and loss account for the period to 31 August 1989 amounted to £2.2M (£5.0M for the year to 31 March 1989).

In addition to the employer's contribution payable to WASF, the company met the unfunded cost of statutory increases to pensions in payment. The company also operated supplementary discretionary arrangements under which it made lump sum payments and/or augmented the payments to pensioners by the award of added years. The company was not permitted to pre-fund these liabilities through WASF but met the associated cost as payments were made to beneficiaries. For the period ended 31 August 1989 these payments totalled £4.4M (£8.0M for the year to 31 March 1989).

General

In addition to the above arrangements, the company made payments to a number of pensioners in respect of unfunded benefits. In the period ended 31 August 1989 these payments totalled £1.1M. (£1.5M for the year to 31 March 1989).

Pension costs amounting to £0.6M (1989: £0.6M) have been charged to the profit and loss account relating to payments made to fund pensions increases for pre 1974 employees, arising from liabilities assumed on the re-organisation of the water industry in 1974. The company's liability to fund such increases terminated on 31 March 1990.

Included in extraordinary charges (note 9) is a payment of £5.5M into TWIPIS in order to fund in full as at 1 September 1989 certain pension arrangements inherited from the Lee and Thames Conservancies in respect of pensioners, deferred pensioners and employees. The payment was made on the basis of actuarial assumptions which Bacon & Woodrow have confirmed would be appropriate for funding those liabilities, including allowance for future salary increases and fully index-linked increases to pensions.

26. CONTINGENT LIABILITIES

The company has been informed by a holder of part of one of the loan stocks included under loans repayable after more than five years, that he considers such stock to have been overdue for a number of years prior to the establishment of the company and that such stock is immediately repayable together with an additional amount of interest at market rates. The directors have been advised that the principal amount of stock potentially involved is unlikely to exceed £3M.

The company has also been notified by the Secretary of State for the Environment that any liability in respect of past interest arising by virtue of any loan stocks being found to be overdue would be an item eligible for consideration for recovery through the price adjustment formula.

27. HOLDING COMPANY

The ultimate holding company is Thames Water Plc, a company incorporated in Great Britain.

SUPPLEMENTARY REGULATORY INFORMATION

	Pages
SUPPLEMENTARY HISTORICAL COST INFORMATION	13-36
CURRENT COST ACCOUNTING STATEMENTS:	
PROFIT AND LOSS ACCOUNT	37
BALANCE SHEET	38
NOTES TO THE ACCOUNTS	39-43
REPORT OF THE AUDITORS TO THE DIRECTOR GENERAL	44

INTRODUCTION

The company has been appointed by the Secretary of State for the Environment as a water and sewerage undertaker under the Water Act 1989 and is required to comply with the Conditions set out in the Instrument of Appointment (the Licence) issued thereunder.

The supplementary regulatory information which follows has been prepared in accordance with Condition F of the Licence taking into account the following factors agreed in discussion with the Director General of Water Services.

- (a) Separate accounting statements have not been prepared for the non-appointed business of the company on the grounds of immateriality.
- (b) At the request of the Director General the disclosure of tangible fixed assets by principal service within asset type has been limited to their net book values.

The supplementary information on pages 34 to 43 was approved by the board on 10 July 1990.

ANALYSIS OF OPERATING COSTS BY TYPE OF EXPENSE AND BY PRINCIPAL SERVICE

				1990	1989
	Water Supply	Sewerage services	Other trading activities	Total	Total
	fm	fm	fm	fm	fm
Manpower costs	72.2	59.8	2.3	134.3	124.2
Other employment costs	10.0	11.3	0.0	21.3	13.9
Power	22.5	15.4	0.0	37.9	32.7
Local authority rates	25.2	14.2	0.0	39.4	35.4
Agencies	3.1	27.4	0.0	30.5	29.7
Hired and contracted services	35.2	28.8	2.3	66.3	46.0
Materials and consumables	15.2	10.7	0.4	26.3	21.4
Depreciation	13.6	19.1	0.0	32.7	29.4
Infrastructure renewals charge	10.5	14.5	0.0	25.0	19.0
Water charges	2.9	0.2	0.0	3.1	0.3
Charge for doubtful debts	1.8	1.7	0.0	3.5	1.6
Other operating costs	13.6	13.5	0.6	27.7	15.8
Total	225.8	216.6	5.6	448.0	369.8

Tangible fixed assets

The net book value of assets attributable to each of the company's principal services within each category is shown below:

	Net book value 31.3.90	Net book value 31.3.89
Land and buildings	fr	fr
<u>Water supply</u>	140.3	128.7
<u>Sewerage services</u>	253.7	215.9
<u>General</u>	52.9	30.2
	<u>446.9</u>	<u>374.8</u>
Infrastructure assets		
<u>Water supply</u>	284.3	241.6
<u>Sewerage services</u>	446.2	425.3
<u>General</u>	0.1	0.1
	<u>730.6</u>	<u>667.0</u>
Plant, machinery and vehicles		
<u>Water supply</u>	61.6	49.8
<u>Sewerage services</u>	92.2	70.7
<u>General</u>	24.2	23.3
	<u>178.0</u>	<u>143.8</u>
Fixtures and fittings		
<u>Water supply</u>	6.7	4.9
<u>Sewerage services</u>	5.3	4.7
<u>General</u>	45.6	23.0
	<u>57.6</u>	<u>32.6</u>
Total assets		
<u>Water supply</u>	492.9	425.0
<u>Sewerage services</u>	797.4	716.6
<u>General</u>	122.8	76.6
	<u>1,413.1</u>	<u>1,218.2</u>

Reconciliation of the historic cost accounts fixed asset net book value with the 1988/89 accounts of Thames Water Authority.

	£m
Closing net book value 55/89 accounts	1,441.1
less transfer to National Rivers Authority	(219.6)
less transfer to Port of London Authority	(3.3)
Opening balance per fixed asset statements	1,218.2

SUPPLEMENTARY CURRENT COST ACCOUNTING STATEMENTS

PROFIT AND LOSS ACCOUNT

YEAR ENDED 31 MARCH 1990

	1990 fm	1989 fm
Operating profit on historical cost basis	162.4	187.6
Current cost operating adjustment:		
Depreciation	(53.4)	(49.6)
Current cost operating profit	109.0	138.0
Other income	36.8	38.8
Disposal of assets adjustment	(0.2)	(1.8)
Interest payable and similar charges	(19.9)	(19.8)
Current cost profit on ordinary activities before taxation	125.7	155.2
Taxation on profit on ordinary activities	0.0	0.0
Current cost profit on ordinary activities after taxation	125.7	155.2
Extraordinary charges	(18.7)	(3.2)
Current cost profit for the financial year	107.0	152.0
Dividend	(440.0)	0.0
Transfer (from) to reserves	(333.0)	152.0

SUPPLEMENTARY CURRENT COST ACCOUNTING STATEMENTS

BALANCE SHEET AT 31 MARCH 1990

	Notes	1990 fm	1989 fm
FIXED ASSETS			
Tangible assets	4	6,345.7	5,748.3
Investments		0.1	1.6
		<u>6,345.8</u>	<u>5,749.9</u>
Net current assets		16.1	107.1
Total assets less current liabilities		<u>6,361.9</u>	<u>5,857.0</u>
Creditors: amounts falling due after more than one year		(95.1)	(185.9)
Provisions for liabilities and charges		(4.2)	0.0
		<u>6,262.6</u>	<u>5,671.1</u>
CAPITAL AND RESERVES			
Called up share capital		360.0	0.0
Current cost reserve	5	5,434.2	4,977.7
Profit and loss account	6	468.4	693.4
		<u>6,262.6</u>	<u>5,671.1</u>

NOTES TO SUPPLEMENTARY CURRENT COST ACCOUNTING STATEMENTS

1. GENERAL

- (a) These supplementary statements have been prepared under the current cost accounting basis, having regard to the guidance contained in the publication entitled "Accounting for the effects of changing prices : A handbook " issued by the Accounting Standards Committee. The current cost convention is not a system of accounting for general inflation, but allows for price changes specific to the company's operations.
- (b) The principal accounting policies used are the same as those used in the historical cost accounts with the exceptions set out below.
- (c) The supplementary current cost accounting statements comprise a profit and loss account and a balance sheet together with notes thereto.
- (d) The Director General of Water Services is currently in the process of issuing guidelines on the methodology for preparing current cost accounting statements for inclusion in the 1990/1991 accounts.

2. PRINCIPAL CURRENT COST ACCOUNTING POLICIES AND METHODS ADOPTED

(a) Tangible fixed assets

Tangible fixed assets comprise substantially all assets in use by the company, including certain assets vested in the company which are excluded from the historical cost accounts. No value is attributed in these current cost accounts to certain sewers vested in the company in respect of which, prior to the Water Act 1989, the cost of maintenance was directly recoverable from those consumers who benefitted from their operation. The company does not currently have sufficient information on these assets to enable an estimate of replacement cost to be included in these accounts.

Properties

Properties are stated in the current cost balance sheet at their net replacement cost.

The gross replacement cost of properties as at 1 April 1982 was arrived at using published or locally derived construction cost formulae or unit costs, indexed for the effects of subsequent price level changes. Additions since 1 April 1982 have been included at original cost indexed for the effects of changing price levels.

NOTES TO SUPPLEMENTARY CURRENT COST ACCOUNTING STATEMENTS

Infrastructure assets

Infrastructure assets are stated in the current cost balance sheet at their value to the business, based on their estimated replacement costs. Replacement costs are calculated using estimated unit costs where appropriate.

Infrastructure assets at 1 April 1984 have been included at their current cost net book value at that date indexed for the effects of subsequent price level changes. Additions since 1 April 1984 have been included at replacement cost.

As in the historical cost accounts, expenditure on maintaining the operating capability of the network systems is charged as an operating cost. Accordingly, no depreciation is charged on infrastructure assets.

Other assets

Other assets are included at estimated replacement cost less accumulated depreciation.

(b) Stores

Stores are stated at their value to the business, based upon the estimated net current replacement cost, which is calculated by applying indices to reflect increases in purchase costs.

(c) Cost of sales and monetary working capital adjustments

The cost of sales and monetary working capital adjustments have not been applied as they are not material.

(d) Gearing adjustment

The gearing adjustment has not been applied following guidelines issued by the Director General of Water Services.

3. ANALYSIS OF CURRENT COST OPERATING PROFIT BY SERVICE

	Water supply	Sewerage services	Other trading activities	Total
	£m	£m	£m	£m
Historical cost operating profit	39.2	123.2	0.0	162.4
Less:				
Current cost adjustments	(17.5)	(35.9)	0.0	(53.4)
Current cost operating profit	21.7	87.3	0.0	109.0

4. CURRENT COST TANGIBLE FIXED ASSETS

	Cost fm	Depreciation fm	Net book value	
			1990 fm	1989 fm
Land and buildings	2,614.4	1,209.7	1,404.7	1,261.8
Plant and machinery	5,642.8	701.8	4,941.0	4,486.5
	<u>5,257.2</u>	<u>1,911.5</u>	<u>6,345.7</u>	<u>5,748.3</u>
Movements during the year:				
Land and buildings				
	Freehold land and buildings fm	Leaseholds Over 50 Years fm	Under 50 Years fm	Total fm
Gross replacement cost:				
At 1 April 1989	2,344.0	7.4	0.0	2,351.4
Additions, net of grants on disposals	76.7 (1.1)	7.6 0.0	0.0 0.0	84.3 (1.1)
Revaluation adjustment	179.2	0.6	0.0	179.8
At 31 March 1990	<u>2,598.8</u>	<u>15.6</u>	<u>0.0</u>	<u>2,614.4</u>
Depreciation:				
At 1 April 1989	1,089.5	0.1	0.0	1,089.6
Provided during the year On disposals	38.9 (0.5)	0.1 0.0	0.0 0.0	39.0 (0.5)
Revaluation adjustment	81.6	0.0	0.0	81.6
At 31 March 1990	<u>1,209.5</u>	<u>0.2</u>	<u>0.0</u>	<u>1,209.7</u>
Net book value				
At 31 March 1990	1,389.3	15.4	0.0	1,404.7
At 31 March 1989	1,254.5	7.3	0.0	1,261.8
Plant and machinery				
	Infra- structure assets fm	Plant machinery & vehicles fm	Fixtures, fittings, equipment fm	Total fm
Gross replacement cost:				
At 1 April 1989	4,223.6	813.9	70.4	5,107.9
Additions, net of grants Revaluation adjustment	63.5 321.4	46.3 62.6	33.9 7.2	143.7 391.2
at 31 March 1990	<u>4,608.5</u>	<u>922.8</u>	<u>111.5</u>	<u>5,642.8</u>
Depreciation:				
At 1 April 1989	0.0	585.5	35.9	621.4
Provided during the year Revaluation adjustment	0.0 0.0	35.3 32.1	11.8 1.2	47.1 33.3
At 31 March 1990	<u>0.0</u>	<u>652.9</u>	<u>48.9</u>	<u>791.8</u>
Net book value				
At 31 March 1990	4,608.5	269.9	62.6	4,941.0
At 31 March 1989	4,223.6	228.4	34.5	4,486.5

1. CURRENT COST TANGIBLE FIXED ASSETS (CONTINUED)

By service:	Water	Sewerage services		Total
	Supply	Sewerage	Sewage treatment & disposal	
Gross replacement cost:	fm	fm	fm	fm
Balance at 1 April 1989	1,998.0	3,550.6	1910.7	7,459.3
Additions	113.8	35.4	78.6	228.3
On disposals	(1.0)	0.0	(0.1)	(1.1)
Revaluation adjustment	154.3	272.1	144.3	570.7
Balance at 31 March 1990	<u>2,265.1</u>	<u>3,858.6</u>	<u>2,133.5</u>	<u>8,257.2</u>
Depreciation:				
Balance at 1 April 1989	604.7	129.4	976.9	1,711.0
Provided during the year	31.1	8.8	46.2	86.1
On disposals	(0.4)	0.0	(0.1)	(0.5)
Revaluation adjustment	41.2	9.2	64.5	114.9
Balance at 31 March 1990	<u>676.6</u>	<u>147.4</u>	<u>1,087.5</u>	<u>1,911.5</u>
Net book value:				
AT 31 March 1990	<u>1,588.5</u>	<u>3,711.2</u>	<u>1,046.0</u>	<u>6,345.7</u>
AT 31 March 1989	<u>1,393.3</u>	<u>3,421.2</u>	<u>933.8</u>	<u>5,748.3</u>

5. CURRENT COST RESERVE

	1989
	£m
Balance at 1 April 1989	4,977.7
Revaluation surpluses reflecting price changes	456.1
Other movements	0.4
Balance at 31 March 1990	5,434.2

6. PROFIT AND LOSS ACCOUNT

	£m
Balance at 1 April 1989	693.4
Transfer (from) profit and loss account	(333.0)
Net debt extinguished	108.9
Other movements	(10.9)
Balance at 31 March 1990	468.4

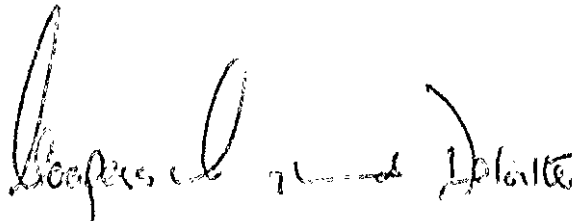
THAMES WATER UTILITIES LIMITED

REPORT OF THE AUDITORS TO THE DIRECTOR GENERAL OF WATER SERVICES

We have audited the accounting statements on pages 7 to 43 in accordance with Auditing Standards.

In our opinion:

- (i) the accounting statements on pages 7 to 36, prepared under the historical cost convention, give a true and fair view of the revenues, costs, assets and liabilities of, or reasonably attributable to, the businesses and activities of the company as defined in paragraph 4 of Condition F;
- (ii) the supplementary current cost accounting statements on pages 37 to 43 have been properly prepared in accordance with the current cost principles, accounting policies and methods described on pages 39 and 40;
- (iii) proper accounting records have been kept by the company, as required by paragraph 3 of Condition F;
- (iv) the accounting statements on pages 7 to 43 are in agreement with the company's accounting records and comply with paragraphs 4 to 8 of Condition F.



Chartered Accountants
Reading

16 July 1990

Thames Water Utilities Ltd : Directors' Report 1989-90

ADDENDUM STATEMENT - REVIEW OF THE YEAR

WATER

Resources

1. Rainfall during the year was characterised by prolonged dry spells, interspersed by heavy downpours. There were no major difficulties from a water resources standpoint and overall rainfall in the winter was above average.
2. Demographic and socio-economic trends point towards continuing growth in the Thames basin and the consequential need for additional water supplies. During the year work continued to improve the use of existing resources : groundwater resources were developed at four locations and the Enfield-Haringey artificial recharge scheme neared completion. To secure resources in the longer term we have begun the task of identifying and selecting options for the construction of major capital works.

Supply

1. During the year we put into supply a total daily average of 2779 thousand cubic metres per day (tcmd) of water, about 2 per cent more than 1988/89.
2. Last summer's peak demands caused distribution problems leading to bans of the use of hosepipes in several areas for various periods between June and September. South East London was particularly badly hit in July when a combination of factors left some 500,000 of our customers with either insufficient pressure or no supplies to their properties for several days. This was one of the worst operational incidents in our history and the lessons learned will be incorporated into operating and investment plans to avoid a repetition.

Quality

1. In July 1989, the Water Supply (Water Quality) Regulations 1989 were made. These Regulations incorporate the requirements of the European Drinking Water Directive and set additional national standards for drinking water. Where these standards are not met a total of eleven Undertakings have been given and seven Relaxations granted under the new Regulations. These set out the remedial or investigatory work to be undertaken.
2. The new Regulations have also required the introduction of an enhanced sampling programme involving more complex analyses at water treatment works, around the system and at customer's premises. What were 85 supply areas have become over 220 supply zones. Random sampling has been introduced and the number of samplers increased. A public register of results has been established. This new regime was implemented on January 1 1990.

3. On the basis of data collated for the first quarter of the year under review, Thames Water complied with the standards for the majority of parameters set out in the new Regulations. However it is too early to give reliable statistics on performance since the introduction of the new sampling regime in January.

Investment

1. We invested £88m in water supply and quality projects. We have begun major investment programmes aimed at ensuring that the quality of water leaving treatment works and in the distribution system reliably meets the new Regulations into the next Century.
2. A programme planned for completion at various dates up to 1994 will primarily cover the microbiological, aluminium and nitrate parameters in the Regulations. Plans were also laid for a major extension of the programme beyond that date which will install the most up to date water treatment processes involving granular activated carbon and ozone treatment of water. These measures will be designed to control micro pollutants such as pesticides.
3. In the year under review improvements filtration plant at Wilmington (Kent) and Latton (near Swindon) were undertaken, schemes to secure service reservoir roofs begun and investment made in instrumentation and sample analysis arrangements in order to meet the first part of the programme. Plans were drawn up for a pilot plant at Kempton Park to investigate the application of granular activated carbon and ozone processes and to assess likely results as the first step in the second part.
4. Investment in supply and distribution was again concentrated on the London Water Ring Main, the first phase of which is estimated to cost £165m in total. It is scheduled to be completed in 1993. The tunnels between Merton and Streatham and from Battersea to Park Lane have been completed. Tunnelling from New River Head to Barrow Hill has started. The scheme incorporates a significant increase in the capacity of water treatment works and the uprating of Coppermills and Hampton Treatment Works as part of the overall Ring Main Scheme is well advanced.
5. Tunnels to improve the delivery of supplies for treatment in the Lee and Thames Valleys were completed at a cost of some £20m. Trunk main schemes between Hedsor and Bourne End and between Cleeve and Didcot were also completed.

Investigations

1. An important part of Thames Water's work to ensure present and future water quality lies in its investigatory work.
2. Investigations were continued on levels of polycyclic aromatic hydrocarbons (PAH) in the distribution system and on factors which might affect their dissolution from the coal-tar pitch lining material used for some iron water mains. A comprehensive survey of water quality was carried out at Blewbury in Oxfordshire after traces of an industrial solvent, carbon tetrachloride, were found in a local groundwater source. An investigation into the occurrence of sediments in water mains has begun to identify measures which will improve water quality at the tap.

3. Following an outbreak of cryptosporidiosis in the Oxford and Swindon areas in the previous year investigation has identified agricultural activities as being the probable source of contamination.

Liaison

We maintained our policy of openness in water quality monitoring, reporting and consultation procedures. In addition to the introduction of the public register, we made quarterly reports to local authorities and held regular liaison meetings with Environmental Health Officers and Community Physicians.

RESEARCH AND DEVELOPMENT - WATER

Research & Development has covered factors affecting the conservation and quality of Thames groundwater supplies. The uprating of London's water treatment works has led to several initiatives. A wet sand skimmer, the SANDGRAZER, has been developed. Real time forecasting and control computer models are being developed to aid the management of reservoirs and water treatment works. We are developing several advanced water treatment processes. A new pump optimisation system is being tested to improve distribution. Thames Water has supported the national metering trials.

SEWAGE TREATMENT AND DISPOSAL

1. Sewage flows arriving for treatment in 1989-90 are estimated at 4,280 tcmd. This was similar to the previous year.
2. Until new arrangements were introduced in Autumn 1989 returns indicated that at any one time works serving some 85-90% of the relevant resident population were able to comply with the quality conditions of their discharge consents.
3. In October, 84 time-limited consents were issued for works unable reliably to meet their original consent conditions. By the year end 11 consents had expired: the remainder will expire on various dates up to 31 March 1992.
4. Since discharge consent compliance is judged on works performance over a complete year, it is not possible to report fully on whether effluent standards have been met until after September 1990 at the earliest.

Investment

1. We invested £111m in sewage and sewage treatment projects. A major programme of improvements to works with temporary consents or at risk of failure was launched in order to meet all final consent conditions by 1992. This programme to bring the reliable effluent performance of over 150 works to final consent standards is now underway. Construction work on improvements was in progress at 87 sites during 1989-90.
2. Improvement work is well advanced on most of the larger works in the programme. Six schemes, each costing over £5m, at Aldershot, Banbury, Camberley, Luton, Mogden and Swindon made satisfactory progress.

3. A number of modifications to equipment or operating procedures are being made to reduce odours. At Chertsey Works, work is proceeding with the Water Research Centre to compare different odour reduction methods and at Swindon modern odour control methods are being incorporated in the improvement work.

Sludge Disposal to Sea

1. We disposed under licence from MAFF some 4 million tonnes of sludge to sea.
2. In March the Secretary of State for the Environment announced that the disposal of sewage sludge in the North Sea would not be allowed after 1998. The implications of this are being examined. In the current licence for sea disposal limits for toxic materials have been reduced and monitoring requirements, for example dispersion surveys, considerably increased.
3. In February a contract management agreement was introduced with Crescent Ship Management Ltd. by which it operates the sludge disposal ships but ownership remains with Thames Water.

Land

1. Sludge disposal to land is now governed by the Sludge (Use in Agriculture) Regulations 1989. The principal effects are a requirement for increased monitoring and greater restriction on disposal. We have produced a guidance manual on good disposal practice.
2. A contract to remove 1.5 million cubic metres of lagooned liquid digested sludge from Perry Oaks over a 3-year period commenced during the year. This sludge is principally being utilised on agricultural land but a proportion is being dried for land reclamation use.

SEWERAGE

Operations

1. Thames Water is responsible for an estimated 50,000 km of sewers. Under the Water Act, Thames Water is no longer entitled to recover directly from property owners the cost of maintenance of "Section 24" sewers. These sewers, some 30,000 km in length, had been constructed privately prior to 1965 in inner London and prior to 1937 elsewhere.
2. During the course of the Autumn all known storm and emergency overflows and surface water outfalls were identified and where necessary discharge consents obtained. There are almost 3,000 such outfalls.
3. Most local sewerage operations are handled by local authorities acting as agents. From 1992 their 'right of first refusal' to act as sewerage agents will be removed. We have begun work on a sewerage management contract to replace the present form of agreement.

4. Responsibility for sewer mapping passed from local authorities to Thames Water in September. Copies of maps from the local authorities are being recorded and filed. Tenders were invited for a Sewer Mapping Contract to enable gaps to be filled and maps to be validated and digitised.

Investment

1. The Cross Thames Link Sewer has been commissioned and proposals for the associated control system at Western Pumping Station are being developed. This will allow for the first time a connection between the sewer systems north and south of the tidal River Thames. A second major sewer scheme in London, the Western Deep Sewer, has also been commissioned.
2. Major developments in the London Docklands have led to the construction of some 3.5 km new trunk sewers and 2.7 km of new twin rising main.

RESEARCH AND DEVELOPMENT - SEWAGE TREATMENT

Research into sewage treatment processes has concentrated on developing technology to improve works performance. A detailed investigation into methods of controlling odours at sewage works has continued. Alternative methods of sludge disposal are being looked at to provide greater flexibility when the North sea route is phased out. Work on incineration has continued and other outlets for sludge, such as composting and soil substitute, have been investigated.

CONSERVATION AND RECREATION

1. In addition to meeting consent standards for discharges to watercourses Thames Water has statutory responsibilities towards conservation and recreation.
2. In September Thames Water formally welcomed the Code of Practice on Conservation, Access and Recreation issued by the Government in July and by the year end we were completing a detailed policy response.
3. We have progressed 10 landscaping and habitat enhancement schemes inherited from Thames Water Authority and have initiated 9 further schemes during the last 6 months. Over 10,000 native trees and shrubs have been planted. Major archaeological excavations have been undertaken at Windsor, Newbury, Beddington and Horton. A database of listed buildings has been established.
4. We have implemented procedures for environmental screening of all capital and maintenance schemes undertaken by the Utility. Advice and guidance to safeguard and enhance natural environments has been given on over 400 schemes and we have developed Conservation Management Agreements with a number of local conservation bodies.

5. Thames Water continues to provide recreation facilities at reservoirs and at other operational sites. The most important activities are dinghy and board sailing (leases are issued to eight clubs sailing at reservoirs), angling (some 30,000 visits were made during the year) and birdwatching (for which some 1500 permits were sold leading to several thousand visits). A wide variety of other activities from canoeing to tennis is also undertaken but each tends to be confined to a single site.
6. As part of the response to the Code of Practice we shall be establishing top-level liaison arrangements with conservation and recreation interests. In the meantime we have established and furthered relationships with over 50 conservation organisations including the Nature Conservancy Council, English Heritage, County Naturalist Trusts and the Royal Society for Protection of Birds.

THE COMMUNITY

1. We believe that it is in our interests to foster good relationships with the communities in which we operate. In early March Thames Water revised its community affairs policy to take advantage of the wider opportunities afforded it as a private company.
2. During the year we continued to develop links with education concentrating in particular on curriculum development work, the offer of pupil and teacher work experience places and the giving of 150 talks to schools.
3. We also provided sponsorship funds for local community projects, particularly those concerned with the environment and recreation. Encouragement of staff activity in fund raising for charity continued with the relaunch of the Give As You Earn scheme. Work is co-ordinated with the Plc Charities Committee.

OUR CUSTOMERS

1. The 1989 Water Act brought major changes to the statutory mechanisms for safeguarding the interests of customers.
2. In the light of Thames Water's declared aim of putting the customer first, a review of customer contact facilities was put in hand during the year. Steps were also taken to make it easier for customers to contact us if they have a problem with the quality of their water.
3. The Consumer Consultative Committees operated by Thames Water were wound up early in the year. They have been replaced under the 1989 Water Act by a Customer Services Committee administered by the Office of Water Services. This committee has a specific remit to deal with individual customers complaints as well as consider other issues of direct customer interest.
4. Thames Water also implemented a Guarantee scheme covering interruptions to water supply, the answering of written complaints, billing enquiries and the keeping of appointments. Details of the scheme were sent to customers in the first quarter of 1990.

5. Thames Water also prepared a Customer Code of Practice which has been approved by the Director General and which gives customers details of the services and standards they may expect. Further Codes of Practice were drawn up on leakage from customers' supply pipes, disconnection for non-payment, pipelaying and the use of powers of entry on to private land.

PERSONNEL & ORGANISATION

1. The year was one of great change. The identification of employees who were to become part of the new Plc and the transfer of those who were to form the Thames Region NRA on 1 September was accomplished smoothly.
2. Many organisational changes were made to meet the needs of the business, including the creation of a new Customer Accounting Centre at Swindon involving the recruitment of over 280 staff.
3. Thames continued to enjoy relatively low rates of turnover of staff, with resignations running at under 5% over the year. We are confident that we can meet the challenges of demographic changes by continuing to offer attractive conditions of employment and by taking a creative approach to recruitment.
4. Our second round of pay bargaining outside the national structure was successfully concluded. The agreement with Industrial & Craft employees included provision for a two year review of productivity schemes and working arrangements.
5. We are committed to training and development. A further 104 managers participated in our 'Templeton' programme and we also launched the 'Latimer' programme, a developmental programme for supervisors and first-line managers. Over 100 such employees attended.
6. We established the Thames Water Mirror Image Pension Scheme (TWMIPS) which came into existence on Vesting Day, and was open to existing employees who had been contributors to the national Water Authorities Superannuation Fund (WASF). Eligible employees were also given the option of transferring from WASF into the existing Thames Water Pension Scheme (TWPS).

[NOTE: The statutory sections on employee participation, employment of the disabled, and health and safety at work are located in the Directors' Report].

PROPERTY

1. Our objective of optimising the use of land and property assets within our businesses was further pursued during the year.
2. Rationalisation of office and laboratory accommodation saw major activity with the purchase of new office buildings in Reading and two new buildings for laboratory use. We decided to vacate our offices at The Grange at Waltham Cross in 1990 and to close our New River Head offices in London at the end of 1991. Development proposals are being formulated for both sites.

3. The disposal of surplus property assets was affected by the general downturn in the property market. In all some £11.7m of receipts were achieved; after deduction of costs there was a net profit of £11.3m.
4. Though market conditions remain depressed at present we have taken an optimistic view of the medium term and are pressing ahead with our plans accordingly.

REGULATION

1. Thames Water Utilities Limited is the regulated subsidiary of Thames Water Plc. Its activities as a water and sewerage undertaker are principally regulated by the Water Act and the Condition of Appointment (the Licence).
2. The principal regulators of TWUL are the Secretary of State, the Director General and the National Rivers Authority (NRA). Both the Director General of Water Services and the NRA are new regulatory authorities established under the Water Act.
3. The Secretary of State's responsibilities include the regulation of drinking water quality and we report to him on this on a calendar year basis.
4. The Director General is responsible for the regulation of charges and service standards primarily through the conditions of the Licence. Each July we shall report on the previous financial year's achievements in all areas of our business and have a duty to provide him with information on request.
5. The NRA has direct responsibility for the quality of the water environment and the regulation of environmental standards (in conjunction with Her Majesty's Inspectorate of Pollution (HMIP)) and in particular responsibility for licensing water abstractions and for ensuring that effluent consent standards are met.
6. Other regulatory bodies include the Ministry of Agriculture, Fisheries and Food for disposal of sewage sludge to sea and HMIP for disposal of sewage sludge to land. The new Drinking Water Inspectorate, which is part of the Department of the Environment helps ensure that the new legal standards for drinking water quality are met.
7. The regulators are concerned with incidents and as well as with the on-going operations of the regulated business.