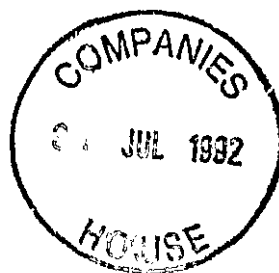


Thames Water Utilities Limited

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Annual report for the year ended 31 March 1992

	Pages
Directors and advisers	1
Directors' report	2 - 6
Report of the auditor to the members	7
Profit and loss account	8
Balance sheet	9
Notes to the financial statements	10 - 26
Supplementary regulatory information	27 - 44



Directors and advisers

Executive directors

M R Hoffman (Chairman)
W J Alexander
W R Harper
D Badcock
J K Boudier
J G Hurcom
D J Luffrum
R J Marshall
P T McIntosh
M G Ribbins

Secretary and registered office

D Badcock
Nugent House
Vastern Road
Reading
Berkshire
RG1 8DB

Auditor

Coopers & Lybrand
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

Bankers

National Westminster Bank plc
21 Lombard Street
London
EC3P 3AR

**Directors' report
for the year ended 31 March 1992**

The directors present their report and the audited financial statements for the year ended 31 March 1992.

Principal activities and review of the year

The company's principal activities are the supply of water to over 3 million premises in its area and the collection and treatment of sewage from almost 5 million premises. In 1991/92 it put into supply an average 2,738 megalitres per day of water and treated an average of 3,800 megalitres per day of sewage. It also undertook significant statutory duties relating to the environment.

In 1991/92 the company had the lowest combined (water and sewerage services) average bill of all Water Services Plcs for unmeasured households. Our extensive capital programme, amounting to £394 million gross in 1991/92 is ahead of schedule.

Careful management of water resources enabled us to avoid any hosepipe restrictions despite another dry summer. Proposals are continuing for a new reservoir in south west Oxfordshire to meet growing demand. Substantial progress was made in leakage control.

The London Water Ring Main, our largest single project, is already distributing some 25% of London's water. Its control centre was opened in January.

In July we opened an advanced water treatment (AWT) centre at Kempton Park. This pilot AWT centre using two new processes plays a vital part in the company's aim to produce water of an even higher quality than demanded by current standards.

In November we brought our second state-of-the-art laboratory in London's Docklands into operation. This completed rationalisation of our laboratories and formed part of this investment in water quality.

A programme of investment in 157 sewage treatment works to meet consent standards was completed in March. Good progress is being made on the development of incinerators to deal with sewage sludge when the North Sea disposal route closes. Planning applications have been submitted for two incinerators at Beckton and Crossness using technology designed to the highest European standards.

Our Customer Centre at Swindon became fully operational serving customers throughout the Thames area. The Centre is able to deal with every type of enquiry. Contacts by customer by telephone and by letter have increased by more than a third.

The company completed for publication in June, the second annual report of those of its activities which lie within the scope of the Code of Practice on conservation, access and recreation. We continued to sponsor activities in the local community.

Regulation

The company's Annual Return for 1991 was sent to the Director General of Water Services on 1 July 1991 and the full current cost accounts required for regulatory purposes on 13 November 1991. The company agreed to defer 0.5% of K for the Financial Year 1992/93.

Preparation for the second annual report (for the calendar year 1991) on the quality of drinking water supplied as required by the Water Supply (Water Quality) Regulations 1989 has begun and will be available from July 1992. The DoE Drinking Water Inspectorate undertook a drinking water audit at the end of 1991; its final report is awaited.

During the year one discharge without consent following a blockage at a works brought prosecution from the NRA, proceedings were begun in one case of breach of discharge consent conditions and proceedings are pending on one case of breach of consent conditions where the terms of the consent are under appeal. There were three other prosecutions following discharges from blocked sewers.

Capital

The company's share capital is £360,050,000.

Profit and dividend

The profit for the year as contribution to the Group was £229.9 million (1991: £214.8 million). Interim dividends of £98.9 million were paid to the ultimate holding company, Thames Water Plc, leaving retained profits to be transferred to reserves of £131.0m.

Fixed assets

Note 11 to the financial statements details changes in tangible fixed assets during the year. In the opinion of the directors, the market value of the company's properties exceeds the balance sheet value.

Ring fencing

Under Condition K of its Instrument of 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 1992.

The directors have prepared a certificate under Condition F6A of the Licence stating that the company will have available to it sufficient financial resources and facilities to enable it to carry out, for at least twelve months, its regulated activities.

Directors

The names of the present directors of the company, all of whom served throughout the year, are:

M R Hoffman	(Chairman)	J G Hurcom
W J Alexander		D J Luffrum
W R Harper		R J Marshall
D Badcock		P T McIntosh
J K Boudier		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 1992, which are contained in the Register of Directors' Interests, are shown in the following table:

Beneficial owner	Shares held as at 1 April 1991	Shares held as at 31 March 1992	Share options held at 1 April 1991	Share options held at 31 March 1992
W J Alexander	980	1,028	59,000	77,000
D Badcock	1,261	1,322	51,000	66,000
J K Boudier	3,568	3,682	56,159	73,692
J G Hurcom	6,719	6,719	66,090	80,000
R J Marshall	1,282	1,345	60,090	78,090
P T McIntosh	6,661	6,752	55,136	70,136
M G Ribbins	1,261	1,261	60,090	76,090

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.

Significant contracts

During the year 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

The Employee Project has made good progress. Three operational training centres are being established to offer NVQ-based training. Under the single-table negotiating arrangements introduced in November 1991 detailed discussions on new attendance patterns and flexible operational working are going well. All staff employees are on new pay scales introduced after job evaluation.

Employees had another opportunity to join or extend their interest in the Thames Water Plc ShareSave scheme.

Direct communication through the company's newspaper, videos and team briefing was continued. Each employee received a statement of the company's commitment to internal communications.

Health and safety

The company continues to be committed to achieving and maintaining high standards of health and safety both for its own employees and members of the public who could be affected by its operations. During the year a formal programme of health and safety training for operational managers has been initiated to build on, and reinforce the standards we require within the company.

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

Strong links to the capital programme ensure designs take early advantage of the research findings. A notable example is the advanced water treatment pilot plant at Kempton Park. This has provided valuable data in its first year of operation which has already been utilised in the more cost effective design of advanced water treatment plans.

The development and application of odour mapping techniques has enabled us to identify key sources of odour at sewage treatment works and prepare action plans to deal with them.

Auditor

A resolution to reappoint Coopers & Lybrand as the company's auditor and to authorise the directors to determine their remuneration will be proposed at the annual general meeting. Until 1 June 1992, the firm practised in the name of Coopers & Lybrand Deloitte.

By order of the Board



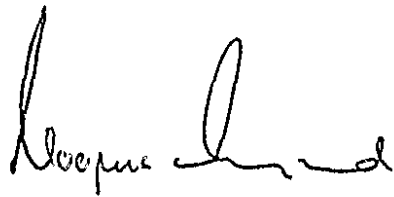
David Badcock
Secretary and Legal Director

18 June 1992

Report of the auditor to the members of Thames Water Utilities Limited

We have audited the financial statements on pages 8 to 26 in accordance with Auditing Standards.

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1992 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditor
Reading

18 June

1992

Thames Water Utilities Limited

8

Profit and loss account for the year ended 31 March 1992

	Notes	1992 £m	1991 £m
Turnover			
Operating costs	2 3	753.7 (519.7)	676.4 (479.1)
Operating income		<u>234.0</u>	<u>197.3</u>
Operating profit	6	12.5	10.5
Interest	4 7	246.5 (15.1)	207.8 4.7
Profit on ordinary activities before taxation		<u>231.4</u>	<u>212.5</u>
Consideration (payable)/receivable for surrender of tax losses	8	(1.5)	1.6
Profit on ordinary activities after taxation		<u>229.9</u>	<u>214.1</u>
Extraordinary income	9	-	0.7
Profit for the financial year		<u>229.9</u>	<u>214.8</u>
Dividends	10	(98.9)	(88.0)
Retained profit transferred to reserves	22	<u>131.0</u>	<u>126.8</u>

Balance sheet at 31 March 1992

	Notes	1992 £m	1991 £m
Fixed assets			
Tangible assets	11	2,062.5	1,740.0
Investments	12	0.1	0.1
		<u>2,062.6</u>	<u>1,740.1</u>
Current assets			
Stocks and work in progress	13	20.6	23.3
Debtors	14	142.7	126.0
Investments	15	81.5	56.4
		<u>244.8</u>	<u>205.7</u>
Creditors: amounts falling due within one year	16	(322.0)	(355.2)
Net current liabilities		<u>(77.2)</u>	<u>(149.5)</u>
Total assets less current liabilities		<u>1,985.4</u>	<u>1,590.6</u>
Creditors: amounts falling due after more than one year	17	(398.3)	(134.5)
		<u>1,587.1</u>	<u>1,456.1</u>
Capital and reserves			
Called-up share capital	21	360.0	360.0
Reserves and retained profits	22	1,227.1	1,096.1
		<u>1,587.1</u>	<u>1,456.1</u>

The financial statements on pages 8 to 26 were approved by the board of directors on 9 June 1992 and were signed on its behalf by:



J K Boudier
Director

**Notes to the financial statements
for the year ended 31 March 1992****1 Principal accounting policies**

A summary of the more important accounting policies, which have been applied consistently, is set out below.

Accounting convention

The financial statements have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards. Group accounts have not been prepared as the company is a wholly owned subsidiary of Thames Water Plc.

Turnover

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

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 capital contributions. Contributions received in respect of infrastructure assets are deducted from the cost of fixed assets in order to give a true and fair view of the cost to the company of the assets employed in the business. 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 cost less accumulated depreciation. Contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the useful lives of the assets.

Freehold and long 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 and mobile plant	20-40 years
Vehicles, computers, fixtures and fittings	4-10 years

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 costs 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 generally depreciated over the shorter of their estimated useful lives 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.

Investments

Investments held as fixed assets are stated at cost less amounts written off.

Investments held as current assets are stated at the lower of cost and net realisable value.

Stocks and work in progress

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

Pension costs

The majority of the company's employees belong to pension schemes which are funded by both employers' 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.

Research and development

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

Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items. Consideration receivable for tax losses surrendered to other group companies is credited to the profit and loss account.

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.

2 Turnover and profit on ordinary activities
before taxation by class of business

	Water supply	Sewerage services	Other trading activities	Total 1992	Total 1991
	£m	£m	£m	£m	£m
Unmeasured charges	224.9	324.5	-	549.4	487.2
Measured charges	72.1	69.3	-	141.4	125.7
Trade effluent charges	-	20.8	-	20.8	19.8
Rechargeable works	18.2	4.9	-	23.1	27.3
Other income	7.0	5.5	6.5	19.0	16.4
Turnover	<u>322.2</u>	<u>425.0</u>	<u>6.5</u>	<u>753.7</u>	
Turnover (1991)	<u>293.9</u>	<u>377.6</u>	<u>4.9</u>		<u>676.4</u>
Operating costs before depreciation and maintenance of infrastructure assets	(230.0)	(206.6)	(6.6)	(443.2)	(415.1)
Depreciation	(21.6)	(29.2)	-	(50.8)	(38.5)
Infrastructure renewals charge	(10.7)	(15.0)	-	(25.7)	(25.5)
Operating costs	<u>(262.3)</u>	<u>(250.8)</u>	<u>(6.6)</u>	<u>(519.7)</u>	<u>(479.1)</u>
Operating income	<u>6.1</u>	<u>6.4</u>	<u>-</u>	<u>12.5</u>	<u>10.5</u>
Operating profit	66.0	180.6	(0.1)	246.5	207.8
Interest	(3.9)	(11.2)	-	(15.1)	4.7
Profit on ordinary activities before taxation	<u>62.1</u>	<u>169.4</u>	<u>(0.1)</u>	<u>231.4</u>	
Profit (1991)	<u>57.4</u>	<u>155.0</u>	<u>0.1</u>		<u>212.5</u>

Turnover derives wholly from within the United Kingdom.

3 Operating costs

Analysis of operating costs by type of expense:

	1992 £m	1991 £m
Manpower costs	156.1	143.0
Other costs of employment	11.3	9.9
Power	41.3	38.9
Rates	42.7	41.4
Hired and contracted services	84.6	85.3
Group companies	18.7	14.7
Materials and consumables	25.7	27.9
Service charges	9.0	5.3
Sewerage agencies	28.0	26.7
Other operating costs	17.2	18.7
Charge for doubtful debts	8.6	3.3
Depreciation	50.8	38.5
Infrastructure renewals charge	25.7	25.5
Total	<u>519.7</u>	<u>479.1</u>

4 Operating profit

	1992 £m	1991 £m
Operating profit is stated after charging:		
Directors' emoluments	0.6	0.6
Rentals under operating leases:		
• Hire of plant and machinery	1.4	0.8
• Other	3.7	2.6
Depreciation:		
• Own assets	46.5	35.3
• Assets held under finance leases	4.3	3.2
Auditor's remuneration	0.2	0.2
Research and development	6.4	6.1
	<u> </u>	<u> </u>

Fees payable to the auditor for non-audit work carried out in 1992 amounted to £0.2m.

5 Information regarding directors and employees

	1992 £'000	1991 £'000
Directors' emoluments		
For management services	589	600
	<u> </u>	<u> </u>

	1991 £'000	1990 £'000
Directors' emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985, and excluding pension contributions		
Chairman	Nil	Nil
	<u> </u>	<u> </u>
Highest-paid director	75	79
	<u> </u>	<u> </u>

The chairman and two directors are remunerated in respect of their services to the group as a whole. Details of their remuneration are disclosed in the financial statements of Thames Water Plc and excluded from the bands below.

Scale of directors' emoluments

	1992 Number	1991 Number
£55,001 to £60,000	1	-
£60,001 to £65,000	2	3
£65,001 to £70,000	2	-
£70,001 to £75,000	1	2
£75,001 to £80,000	1	2

Transactions with directors and officers

There are no transactions or arrangements which are required to be disclosed under the provisions of the Companies Act 1985.

Employee information

The average number of persons employed by the company (including executive directors), analysed by service:

	1992 Number	1991 Number
Water supply	4,464	4,238
Sewerage services	3,098	3,162
	<u>7,562</u>	<u>7,400</u>

	1992 £m	1991 £m
Employment costs including Directors' emoluments were:		
Salaries and wages	150.6	136.2
Social security costs	12.1	10.9
Pension contributions	15.6	14.2
	<u>178.3</u>	<u>161.3</u>

Total employment costs contain £1.3m (1991: £1.5m) which is included in the infrastructure renewals charge in note 3 and £20.9m (1991: £16.8m) which has been recharged to capital projects.

6 Operating income

	1992 £m	1991 £m
Operating income comprises:		
Profit on sale of tangible fixed assets	<u>12.5</u>	<u>10.5</u>

7 Interest

	1992 £m	1991 £m
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments		
- third parties	(1.6)	(3.3)
- group companies	(2.8)	(0.7)
Repayable within five years by instalments	(0.7)	-
Not wholly repayable within five years	(16.5)	(6.6)
Finance charges in respect of finance leases	(2.5)	(1.1)
	<u>(24.1)</u>	<u>(11.7)</u>
Interest payable and similar charges		
	9.0	16.4
	<u>9.0</u>	<u>16.4</u>
Interest receivable		
	9.0	16.4
	<u>9.0</u>	<u>16.4</u>
Total	<u>(15.1)</u>	<u>4.7</u>

8 Taxation

No liability to UK corporation tax arises on the result for the year due to the availability of capital allowances. The tax credit in 1990/91 comprised the expected consideration receivable in respect of tax losses surrendered to other group companies. The current year charge is an adjustment to the previous year to reflect the current anticipated consideration receivable.

9 Extraordinary income

The extraordinary credit of £0.7m in the year ended 31 March 1991 was a refund of costs provided for in the previous year in respect of the Offer for Sale of the parent company's shares.

10 Dividends

	1992 £m	1991 £m
Ordinary:		
Interims: paid 27.5p per share (1991: 24.4p)	98.9	88.0
	<u>98.9</u>	<u>88.0</u>

11 Tangible fixed assets

	Freehold land and buildings £m	Short leaseholds £m	Plant, machinery, and vehicles £m	Fixtures and fittings £m	Infra- structure assets £m	Total £m
Balance at 1 April 1991	794.4	0.2	315.5	112.0	802.0	2,024.1
Additions	143.9	-	85.9	43.1	121.5	394.4
Disposals	(0.3)	-	-	-	-	(0.3)
Reclassifications	-	-	(0.1)	-	0.1	-
Balance at 31 March 1992	938.0	0.2	401.3	155.1	923.6	2,418.2
Capital contributions	-	-	-	-	(20.9)	(20.9)
Net cost at 31 March 1992	938.0	0.2	401.3	155.1	902.7	2,397.3
Depreciation						
At 1 April 1991	159.2	-	78.5	46.4	-	284.1
Provided during the year	15.8	-	18.9	16.1	-	50.8
Disposals	(0.1)	-	-	-	-	(0.1)
At 31 March 1992	174.9	-	97.4	62.5	-	334.8
Net book value At 31 March 1992	763.1	0.2	303.9	92.6	902.7	2,062.5
Net book value At 31 March 1991	635.2	0.2	237.0	65.6	802.0	1,740.0

Only £3.4m (1991: £2.1m) of the company's freehold land is identified as such in these accounts. No depreciation has been charged on this freehold land.

Tangible fixed assets at 31 March 1992 include £371m (1991: £344m) of assets in the course of construction.

Details of the company's tangible fixed assets included above which are held under finance leases are shown below:

	Cost		Net book value	
	1992	1991	1992	1991
	£m	£m	£m	£m
Plant, machinery and vehicles	58.7	4.7	54.5	4.2
Fixtures and fittings	18.3	17.4	11.8	10.0

The cost of infrastructure assets is stated net of capital contributions received in respect of those assets. As a result the net book value of infrastructure assets is £41m (1991: £20.2m) lower than it would have been had this policy not been adopted from 1 April 1990.

12 Fixed asset investments

	1992	1991
	£m	£m
Cost of shares in group companies	<u>0.1</u>	<u>0.1</u>

At 31 March 1992 the company held more than 10% of the allotted share capital of the following undertakings:

Name of undertaking	Country of registration	Description of shares held	Proportion of nominal value of issued shares held	Activity
Thames Water Utilities Finance Plc	England and Wales	Ordinary	100%	Finance Company
Manor Farm Management Company Limited	England and Wales	Ordinary	100%	Dormant

13 Stocks and work in progress

	1992	1991
	£m	£m
Raw materials and consumables	17.9	17.3
Work in progress	2.7	6.0
	<u>20.6</u>	<u>23.3</u>

14 Debtors

	1992 £m	1991 £m
Amounts falling due within one year		
Trade debtors	86.6	72.2
Amounts owed by parent and fellow subsidiary undertakings	2.1	1.9
Amount receivable in respect of group relief	0.1	1.6
Other debtors	4.5	11.6
Prepayments and accrued income	42.9	36.9
Infrastructure renewals expenditure	5.7	1.1
	<u>141.9</u>	<u>125.3</u>
Amounts falling due after more than one year		
Other debtors	0.8	0.7
	<u>142.7</u>	<u>126.0</u>

15 Current asset investments

	1992 £m	1991 £m
Government and Local Authority loans	-	0.3
Fixed term deposits and certificates of deposit	69.5	56.1
Fixed and floating rate interest securities	12.0	-
	<u>81.5</u>	<u>56.4</u>

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

16 Creditors: amounts falling due within one year

	1992 £m	1991 £m
Bank overdraft		
Other loans (note 18)	15.0	17.5
Obligations under finance leases (note 19)	0.8	1.6
Payments received on account	6.8	4.1
Trade creditors:	43.2	41.8
- Operating	36.1	37.9
- Capital	121.1	119.4
Amounts owed to parent and fellow subsidiary undertakings	33.0	76.5
Amounts owed to subsidiary undertaking (see below)	5.7	-
Other creditors	4.4	7.6
Taxation and social security payable	4.5	3.2
Accruals and deferred income	51.4	45.6
	<u>322.0</u>	<u>355.2</u>

17 Creditors: amounts falling due after more than one year

	1992 £m	1991 £m
Bank loans (note 18)	125.0	60.0
Other loans (note 18)	48.1	51.6
Obligations under finance leases (note 19)	57.4	7.7
Amounts owed to subsidiary undertaking (see below)	149.1	-
Other creditors	15.0	15.2
Deferred income	3.7	-
	<u>398.3</u>	<u>134.5</u>

During the year Thames Water Utilities Finance Plc, a subsidiary undertaking, issued £150 million 10½% Guaranteed Bonds due 2001 to finance capital investment in the company. The net proceeds arising from the issue were loaned to the company under the same interest terms and £149.1 million is included in amounts due to the subsidiary undertaking in respect of this loan. The company has guaranteed the principal and interest payments of its subsidiary undertaking due under the terms of the bond.

18 Loans

Loans outstanding are repayable as follows:

	1992 £'m	1991 £'m
Bank loans:		
• Within one year	-	-
• Between one and two years	-	-
• Between two and five years	7.0	-
• After more than five years	118.0	60.0
	<u>125.0</u>	<u>60.0</u>
Other loans:		
• Within one year	0.8	1.6
• Between one and two years	0.6	0.8
• Between two and five years	1.7	2.3
• After more than five years	45.8	48.5
	<u>48.9</u>	<u>53.2</u>

Notes

- 1 Loans are repayable between 1992 and 2030.
- 2 Of the loans repayable after more than five years hence, £32.4m (1991 £32.4m) is in respect of other loans wholly repayable after that date.
- 3 The aggregate amount of loans repayable by instalments any part of which fall due for repayment after more than five years hence is £16.7m (1991: £20.8m) and £125.0m (1991: £60.0m) for other loans and bank loans respectively.
- 4 Included in "other loans" are loans totalling £32.4m (1991: £32.4m), which are secured on the revenues of the company.
- 5 The range of interest rates on bank loans is 10.1% to 11.5% (1991: 11% to 13.9%) and "other loans" is 3% to 11.5% (1991: 3% to 13.4%).

19 Obligations under finance leases

	1992 £m	1991 £m
Amounts due under finance leases are payable as follows:		
Within one year	7.0	4.7
Between one and two years	10.4	3.7
Between two and five years	20.6	5.2
After more than five years	117.6	0.4
	<u>155.6</u>	<u>14.0</u>
Less finance charges allocated to future periods	(91.4)	(2.2)
Total	<u>64.2</u>	<u>11.8</u>

The aggregate amount of finance lease obligations, any part of which fall due for repayment after more than five years hence, is £46.9m (1991: nil).

20 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 amounts unprovided is as follows:

	1992 £m	1991 £m
Accelerated capital allowances:		
- Infrastructure assets (see below)	133.9	88.2
- Other assets	135.5	66.4
Other timing differences	(7.3)	(2.6)
Losses	(62.9)	(45.8)
	<u>199.2</u>	<u>106.2</u>

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of any disposal of these assets at amounts in excess of their written down value for tax purposes. In the opinion of the directors the likelihood of such a liability crystallising in the future is remote.

21 Called-up share capital

The share capital of the company is shown below:

	1992 £m	1991 £m
Authorised, allotted, called up and fully paid 360,050,000 ordinary shares of £1 each	<u>360.0</u>	<u>360.0</u>

22 Reserves

	Profit and loss account £m
At 1 April 1991	1,096.1
Retained profit for the year	131.0
At 31 March 1992	<u>1,227.1</u>

23 Capital commitments

	1992 £m	1991 £m
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>238.8</u>	<u>215.0</u>
Capital expenditure that has been authorised by the directors but has not yet been contracted for	<u>648.1</u>	<u>632.0</u>

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 1992 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	1992 Land and Buildings £m	Other £m
Leases which expire:		
Within one year	-	0.2
Between two and five years inclusive	0.1	0.8
After more than five years	3.4	0.4
	<u>3.5</u>	<u>1.4</u>
	<u>3.5</u>	<u>1.4</u>

25 Pension and similar obligations

Pension arrangements for the majority of the company's employees are of the defined benefit type funded through pension schemes whose assets are held separately from those of the company in independently administered funds.

The total pension cost for the company was £15.6m (1991: £14.2m). The pension cost is assessed by Bacon and Woodrow, the consulting actuaries to the schemes.

Current levels of pension charge and contributions to the schemes are based on initial actuarial reviews of the various schemes as at 6 April 1990. The principal assumptions used in determining the pension cost were that salary increases, excluding allowance for promotional increases, would be between 7% and 7.5% per annum and that the rate of return on investments would amount to 9% per annum. Pension increases would be granted in line with the rules of each scheme and any statutory requirements.

The actuarial methods used were the Projected Unit method for schemes open to new members and the Attained Age method for the scheme which is closed to new members. For the two largest schemes the total market value of assets as at the valuation date was £264.2m and the actuarial value of these assets represented 104% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

In addition to the ongoing cost of the UK Pension arrangements, the company operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional contributions to the schemes. In the year ended 31 March 1992 these payments amounted to £4.1m (£1991: £4.3m).

The funding of the schemes does not reflect the possible changes which may be required following the Social Security Act 1990 and the judgement in the European Court of Justice regarding the Barber v GRE sex discrimination case. The likely impact of these points in the future will be to increase pension costs generally. However, the practice under the defined benefit pension schemes operated in the UK by the company has been to provide for a reasonable level of inflation-proofing which is likely to meet statutory requirements. It is therefore expected that the impact of the Social Security Act 1990 will be relatively small. Similarly, the impact of the Barber v GRE judgement is expected to be relatively small as the main Thames Water pension schemes already include flexible provisions regarding retirement based on a common retirement age.

26 Ultimate parent company

The ultimate parent company is Thames Water Plc, a company registered in England and Wales. Copies of the parent's consolidated financial statements may be obtained from The Company Secretary, Thames Water Plc, 14 Cavendish Place, London W1M 9DJ.

SUPPLEMENTARY REGULATORY INFORMATION - 1991/92

	Pages
Introduction	28
Current cost accounting statements:	
Profit and loss account	29
Balance sheet	30
Notes to the current cost accounting statements	31 - 38
Rolling two-year summary - Profit and loss account	39
- Balance sheet	40
Statement of cash flows	41 - 43
Report of the auditor to the Director General of Water Services	44

Current Cost Accounting Statements - 1991/92

Introduction

The company was 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, Regulatory Accounting Guideline 1.02 (Accounting for Current Costs) and Regulatory Accounting Guideline 3.02 (Contents of Regulatory Accounts).

Current cost asset values for both infrastructure and non-infrastructure assets will be subject to ongoing review and this may give rise to further refinement of current cost asset values in future years. However the directors consider that no significant variation in asset values for depreciable assets is likely to occur, at least until a full periodic Surface Investment Requirement review is undertaken as part of the asset management planning process.

The supplementary information on pages 29 to 43 was approved by the Board of Directors on 9 June 1992.

The auditor's letter of engagement provides that they shall provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require.

Appointed and non-appointed activities

Appointed business activities are those regulated activities defined in Condition A of the Licence to be the "functions of " and "duties imposed" on a water and sewerage undertaker by the Water Act 1989. The principal appointed business activities include the provision of a service in respect of water supply, sewerage, sewage treatment and disposal and rechargeable work for which the company is a monopoly supplier.

Those activities undertaken by the company and classified within the Regulatory Accounting Guidelines as non-appointed business are disclosed as "Other trading" in the analysis of current cost operating profit for the appointed business. This includes the provision of rechargeable works for which the company is not a monopoly supplier, plumbing services and other services to third parties.

Current cost accounting statements

Profit and loss account
for the year ended 31 March 1992

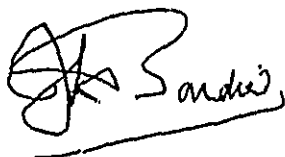
	Notes	1992 £m	1991 £m
Turnover	2	753.7	676.4
Current cost operating costs	2	(573.1)	(541.8)
Operating income		9.2	9.9
		<hr/>	<hr/>
Working capital adjustment	7	189.8	144.5
		4.9	3.3
		<hr/>	<hr/>
Current cost operating profit		194.7	147.8
Interest (payable)/receivable		(15.1)	4.7
Financing adjustment	7	6.5	3.6
		<hr/>	<hr/>
Current cost profit on ordinary activities before taxation		186.1	156.1
Consideration (payable)/receivable for surrender of tax losses		(1.5)	1.6
		<hr/>	<hr/>
Current cost profit on ordinary activities after taxation		184.6	157.7
Extraordinary income		-	0.7
		<hr/>	<hr/>
Current cost profit attributable to shareholders		184.6	158.4
Dividends		(98.9)	(88.0)
		<hr/>	<hr/>
Current cost profit retained	8	85.7	70.4
		<hr/> <hr/>	<hr/> <hr/>

Current cost accounting statements

Balance sheet
as at 31 March 1992

	Notes	1992 £m	1991 £m
Assets employed			
<i>Fixed assets:</i>			
Tangible assets	3 - 5	35,490.2	33,866.6
Third party contributions since 1989/90		(41.9)	(20.2)
		<u>35,448.3</u>	<u>33,846.4</u>
Working capital	6	(117.0)	(120.5)
Net operating assets		<u>35,331.3</u>	<u>33,725.9</u>
Cash and investments		81.6	56.5
Non-trade debtors due within one year		5.3	12.3
Non-trade creditors due within one year		(47.0)	(97.7)
Creditors due after more than one year		(398.3)	(134.5)
Net assets employed		<u><u>34,972.9</u></u>	<u><u>33,562.5</u></u>
FINANCED BY			
Capital and reserves			
Called up share capital		360.0	360.0
Current cost reserve	7	33,988.4	32,663.7
Profit and loss account	8	624.5	538.8
		<u>34,972.9</u>	<u>33,562.5</u>

The current cost accounting statements on pages 29 to 43 were approved by the Board of Directors on 9 June 1992 and were signed on its behalf by:



J K Boudier
Director

Notes to the current cost accounting statements

1 Current cost accounting policies

These accounts have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business with the exception of certain assets acquired prior to 31 March 1990, the effective commencement of the new regulatory regime.

The principal accounting policies used are the same as those adopted in the statutory historical cost financial statements, except as set out below.

(a) Valuation bases for determining depreciation and disposal adjustments

(i) Tangible fixed assets

Assets acquired prior to 31 March 1990 and in operational use are valued at the replacement cost of their operating capability. To the extent that the regulatory regime does not allow such assets to earn a return high enough to justify that value, this represents a modification of the value to the business principle. Also, no provision is made for the possible funding of future replacements of pre-31 March 1990 assets by contributions from third parties and, to the extent that some of those assets would on replacement be so funded, replacement cost again differs from value to the business. Redundant assets are valued at their recoverable amounts.

- Land and buildings

Non-specialised operational properties are valued on the basis of estimated open market value for existing use at 31 March 1991, indexed since that date by the movement in RPI, except for certain properties which have been valued as at 31 March 1992 by professionally qualified employees of the company.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of replacement cost and recoverable amount, restated annually between periodic reviews of replacement costs by adjusting for inflation as measured by changes in the Retail Price Index (RPI). No periodic review has been undertaken since the commencement of the new regulatory regime.

- **Infrastructure assets**

Mains, sewers, impounding and pumped raw water storage reservoirs and sludge pipelines are valued at replacement cost, determined principally on the basis of data provided by the Asset Management Plan (AMP). A process of continuing refinement of asset records is expected to produce adjustments to existing values when periodic reviews of the AMP take place. In intervening years values are restated to take account of changes in the general level of inflation, as measured by changes in the RPI over the year.

Following the repeal of Section 24 of the Public Health Act 1936 by the Water Act 1989, the company assumed responsibility for the maintenance and operation of a significant length of additional sewers. Detailed records of the total length of such sewers are not available and the company has used the length estimated in the AMP of 32,000 km, which is based on incomplete local authority records, and an estimate of replacement cost per metre of sewer, indexed by RPI to current year prices, to establish the total estimated replacement cost of £4,326m at which these sewers are included in these accounts. Adjustments may be required to these estimates in future years, when more accurate information becomes available.

- **Other operational fixed assets**

All other operational fixed assets are valued periodically at replacement cost. Between periodic reviews, values are restated for inflation as measured by changes in the RPI. No periodic review has been undertaken since the commencement of the new regulatory regime.

- **Surplus land**

Surplus land is valued at recoverable amount less where appropriate, that part of any proceeds to be passed on to customers under Condition B of the Licence.

(ii) Capital contributions

All third party capital contributions received since 31 March 1990 are carried forward as deferred income to the extent that any balance has not been credited to revenue or as a deduction from net operating assets in the case of infrastructure assets. The balance carried forward is restated for the change in the RPI for the year and deducted from the relevant fixed asset category in arriving at the net total for that category for the purpose of determining the depreciation charge and where applicable, the profit or loss on disposal.

(b) Real Financial Capital Maintenance Adjustments

These adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms:

Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these accounts and depreciation charged in arriving at historical cost profit.

Working capital adjustment - this is calculated by applying the change in the RPI over the year to the working capital of the company at the beginning of the year.

Disposal of fixed assets adjustment - this is the difference between the book values of realised assets in the current cost accounts and in the historical cost accounts.

Financing adjustment - this is calculated by applying the change in the RPI over the year to the opening balance of net finance, which comprises all monetary assets and liabilities in the balance sheet apart from those included in working capital.

Thames Water Utilities Limited

Year ended 31 March 1992

2 Analysis of current cost operating profit for the appointed business

Turnover:	Current year (£'m)				Prior year (£'m)			
	Water supply	Sewerage services	Other trading	Total	Water supply	Sewerage services	Other trading	Total
Unmeasured	224.9	324.5	-	549.4	199.7	287.5	-	487.2
Measured	72.1	69.3	-	141.4	65.2	60.5	-	125.7
Trade effluent	-	20.8	-	20.8	-	19.8	-	19.8
Rechargeable works	18.2	4.9	-	23.1	20.9	6.4	-	27.3
Other sources	7.0	5.5	6.5	19.0	8.1	3.4	4.9	16.4
Total turnover	322.2	425.0	6.5	753.7	293.9	377.6	4.9	676.4

Thames Water Utilities Limited

	Water supply	Sewerage	Current year (£'m) Sewage treatment & disposal	Total sewerage services	Other trading	Total	Water supply	Sewerage	Prior year (£'m) Sewage treatment & disposal	Total sewerage services	Other trading	Total
Total turnover	322.2		425.0		6.5	753.7	293.9		377.6		4.9	676.4
Operating costs:												
Manpower costs	87.4	14.0	51.6	65.6	3.1	156.1	81.0	12.9	47.3	60.2	1.8	143.0
Other costs of employment	5.7	1.5	4.0	5.5	0.1	11.3	5.0	1.2	3.6	4.8	0.1	9.9
Power	23.1	2.1	16.1	18.2	-	41.3	22.4	1.8	14.7	16.5	-	38.9
Rates	23.8	0.2	18.7	18.9	-	42.7	24.6	0.1	16.7	16.8	-	41.4
Hired and contracted	43.1	10.7	28.3	39.0	2.5	84.6	46.3	10.5	26.4	36.9	2.1	85.3
Associated companies	9.8	2.4	6.5	8.9	-	18.7	7.8	1.8	5.1	6.9	-	14.7
Materials & consumables	15.9	1.3	7.8	9.1	0.7	25.7	17.2	1.1	8.9	10.0	0.7	27.9
Service charges	7.3	0.9	0.8	1.7	-	9.0	5.3	-	-	-	-	5.3
Sewerage agencies	-	28.0	-	28.0	-	28.0	-	26.7	-	26.7	-	26.7
Other operating costs	9.7	1.8	5.5	7.3	0.2	17.2	9.7	2.4	6.5	8.9	0.1	18.7
Doubtful debts	4.2	1.3	3.1	4.4	-	8.6	1.7	0.5	1.1	1.6	-	3.3
Current cost depreciation	32.5	8.0	63.7	71.7	-	104.2	31.3	8.9	61.0	69.9	-	101.2
Infrastructure renewals:												
Expenditure	12.6	17.7	-	17.7	-	30.3	7.8	18.8	-	18.8	-	26.6
Prepayment	(1.9)	(2.7)	-	(2.7)	-	(4.6)	(0.3)	(0.8)	-	(0.8)	-	(1.1)
Total operating costs	273.2	87.2	206.1	293.3	6.6	573.1	259.8	85.9	191.3	277.2	4.8	541.8
Operating income:-												
Current cost profit on fixed asset disposals	5.1			4.1		9.2	7.0			2.9		9.9
Working capital adjustment	2.0			2.9		4.9	0.8			2.5		3.3
Current cost operating profit	56.1		138.7	138.7	(0.1)	194.7	41.9		105.8	105.8	0.1	147.8

3 Tangible fixed assets by service as at 31 March 1992

	Water Supply £m	Sewerage £m	Sewage Treatment & Disposal £m	Total £m
Gross replacement cost				
At 1 April 1991	6,779.5	26,746.8	2,546.4	36,072.7
AMP/SIR adjustment	(29.9)	(4.9)	(22.3)	(57.1)
RPI adjustment	270.0	1,069.7	100.9	1,440.6
Disposals	(1.6)	(2.5)	(1.5)	(5.6)
Additions	181.9	59.0	153.5	394.4
At 31 March 1992	<u>7,199.9</u>	<u>27,868.1</u>	<u>2,777.0</u>	<u>37,845.0</u>
Depreciation				
At 1 April 1991	775.3	171.0	1,259.8	2,206.1
SIR adjustment	(14.1)	(3.1)	(22.8)	(40.0)
RPI adjustment	30.4	6.7	49.5	86.6
Disposals	(0.4)	(1.5)	(0.2)	(2.1)
Charge for year	32.5	8.0	63.7	104.2
At 31 March 1992	<u>823.7</u>	<u>181.1</u>	<u>1,350.0</u>	<u>2,354.8</u>
Net book amount at 31 March 1992	<u><u>6,376.2</u></u>	<u><u>27,687.0</u></u>	<u><u>1,427.0</u></u>	<u><u>35,490.2</u></u>
Net book amount at 31 March 1991	<u><u>6,004.2</u></u>	<u><u>26,575.8</u></u>	<u><u>1,286.6</u></u>	<u><u>33,866.6</u></u>

Assets which are not directly attributable to any one service have been allocated between water supply, sewerage and sewage treatment and disposal on the basis of their estimated usage in the provision of each service.

4 Tangible fixed assets by asset type as at 31 March 1992

	Specialised Operational Assets £m	Non- Specialised Operational Properties £m	Infra- structure Assets £m	Other Tangible Assets £m	Total £m
Gross replacement cost					
At 1 April 1991	3,771.8	248.1	31,727.3	325.5	36,072.7
AMP/SIR adjustment	49.5	(74.5)	0.1	(32.2)	(57.1)
RPI adjustment	153.0	6.9	1,269.1	11.6	1,440.6
Disposals	-	(5.1)	-	(0.5)	(5.6)
Additions	221.8	16.8	121.5	34.3	394.4
At 31 March 1992	4,196.1	192.2	33,118.0	338.7	37,845.0
Depreciation					
At 1 April 1991	1,967.7	98.4	-	140.0	2,206.1
SIR adjustment	21.6	(40.0)	-	(21.6)	(40.0)
RPI adjustment	79.6	2.3	-	4.7	86.6
Disposals	-	(2.1)	-	-	(2.1)
Charge for year	72.9	3.2	-	28.1	104.2
At 31 March 1992	2,141.8	61.8	-	151.2	2,354.8
Net book amount at 31 March 1992	2,054.3	130.4	33,118.0	187.5	35,490.2
Net book amount at 31 March 1991	1,804.1	149.7	31,727.3	185.5	33,866.6

Included in the gross replacement cost of Infrastructure Assets are £4,326m (1991 - £4,160m) of Section 24 sewers (see note 1a(i)). The AMP/SIR adjustment includes reclassifications between asset types.

5 Net book values of fixed assets by service and by asset type

	Specialised Operational Assets £m	Non- Specialised Operational Properties £m	Infra- structure Assets £m	Other Tangible Assets £m	Total £m
Water supply	666.1	42.3	5,607.0	60.8	6,376.2
Sewerage	152.4	9.7	27,511.0	13.9	27,687.0
Sewage treatment and disposal	1,235.8	78.4	-	112.8	1,427.0
Total	2,054.3	130.4	33,118.0	187.5	35,490.2

6 Working capital

	1992 £'m	1991 £'m
Stocks	20.6	23.3
Trade debtors	86.6	72.2
Trade creditors	(36.1)	(37.9)
Short term capital creditors	(121.1)	(119.4)
Infrastructure renewals prepayment	5.7	1.1
Accruals	(51.4)	(45.6)
Payments in advance	(43.2)	(41.8)
Tax and social security	(4.5)	(3.2)
Net group trade creditors	(16.5)	(6.1)
Prepayments	42.9	36.9
	<u>(117.0)</u>	<u>(120.5)</u>

7 Current cost reserve

	1992 £'m	1991 £'m
Balance at 1 April 1991	32,663.7	5,434.2
AMP/SIR adjustment	(17.1)	24,691.9
RPI adjustments		
- Fixed assets	1,354.0	2,545.2
- Capital contributions	(0.8)	-
- Working capital	(4.9)	(3.3)
- Financing	(6.5)	(3.6)
- Other	-	(0.7)
Balance at 31 March 1992	<u>33,988.4</u>	<u>32,663.7</u>

8 Profit and loss account

	1992 £'m	1991 £'m
Balance at 1 April 1991	538.8	468.4
Current cost profit retained	85.7	70.4
Balance at 31 March 1992	<u>624.5</u>	<u>538.8</u>

Rolling two-year summary

Current cost profit and loss account
for the year ended 31 March 1992
with corresponding amounts at 1992 prices

	1992 £m	1991 @ 1992 prices £m
Turnover	753.7	703.5
Current cost operating costs	(573.1)	(563.5)
Operating income	9.2	10.3
	<hr/>	<hr/>
Working capital adjustment	189.8 4.9	150.3 3.4
	<hr/>	<hr/>
Current cost operating profit	194.7	153.7
Interest (payable)/receivable	(15.1)	4.9
Financing adjustment	6.5	3.7
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Current cost profit on ordinary activities before taxation	186.1	162.3
Consideration (payable)/receivable for surrender of tax losses	(1.5)	1.7
	<hr/>	<hr/>
Current cost profit on ordinary activities after taxation	184.6	164.0
Extraordinary income	-	0.7
	<hr/>	<hr/>
Current cost profit attributable to shareholders	184.6	164.7
Dividends	(98.9)	(91.5)
	<hr/>	<hr/>
Current cost profit retained	<u>85.7</u>	<u>73.2</u>

Corresponding amounts have been restated at current year prices using movements in the RPI.

Rolling two-year summary

Current cost balance sheet as at 31 March 1992
with corresponding amounts at 1992 prices

	1992	1991 @ 1992 prices £m
	£m	£m
Assets employed		
Fixed assets:		
Tangible assets	35,490.2	35,221.3
Third party contributions since 1989/90	(41.9)	(21.0)
	<u>35,448.3</u>	<u>35,200.3</u>
Working capital	(117.0)	(125.3)
	<u>35,331.3</u>	<u>35,075.0</u>
Net operating assets		
Cash and investments	81.6	58.7
Non-trade debtors due within one year	5.3	12.8
Non-trade creditors due within one year	(47.0)	(101.6)
Creditors due after more than one year	(398.3)	(139.9)
	<u>34,972.9</u>	<u>34,905.0</u>
Net assets employed		
	<u><u>34,972.9</u></u>	<u><u>34,905.0</u></u>
FINANCED BY		
Capital and reserves		
Called up share capital	360.0	374.4
Current cost reserve	33,988.4	33,970.2
Profit and loss account	624.5	560.4
	<u>34,972.9</u>	<u>34,905.0</u>
	<u><u>34,972.9</u></u>	<u><u>34,905.0</u></u>

Corresponding amounts have been restated at current year prices using movements in the RPI.

**Statement of cash flows
for the year ended 31 March 1992**

	1992 £m	1991 £m
<i>Net cash inflow from operating activities</i>	281.6	245.9
Extraordinary credit received	-	0.7
<i>Returns on investments and servicing of finance</i>		
Interest received		16.3
Interest paid	11.0	(9.7)
Interest element of finance lease rental payments	(14.3)	(0.9)
Dividend paid to parent company	(0.5)	(31.0)
	<u>(155.9)</u>	<u>(31.0)</u>
<i>Net cash outflow from returns on investments and servicing of finance</i>	<u>(159.7)</u>	<u>(25.3)</u>
<i>Investing activities</i>		
Purchase of tangible fixed assets	(334.8)	(324.2)
Capital contributions	24.6	20.2
Sale of tangible fixed assets	11.6	13.8
	<u>(298.6)</u>	<u>(290.2)</u>
<i>Net cash outflow from investing activities</i>	<u>(298.6)</u>	<u>(290.2)</u>
<i>Net cash outflow before financing</i>	<u>(176.7)</u>	<u>(68.9)</u>
<i>Financing</i>		
Long term loans	55.0	35.0
Repayment of long term loans	(3.5)	(8.5)
Loan from subsidiary undertaking	149.1	-
Repayment of short term loans	(0.8)	-
Short term borrowings of greater than 3 months maturity	(27.1)	35.4
Capital element of finance lease rental payments	(5.5)	(2.2)
	<u>177.2</u>	<u>59.7</u>
<i>Net cash inflow from financing</i>	<u>177.2</u>	<u>59.7</u>
<i>Increase/(decrease) in cash and cash equivalents (notes b & c)</i>	<u><u>0.5</u></u>	<u><u>(9.2)</u></u>

Notes to the cash flow statement

(a) Reconciliation of current cost operating profit to net cash inflow from operating activities

	1992 £m	1991 £m
Current cost operating profit, excluding profit on asset sales	185.5	137.9
Depreciation	104.2	101.2
Working capital adjustment	(4.9)	(3.3)
Decrease/(increase) in stocks and work in progress	2.7	(2.6)
Increase in debtors	(19.1)	(21.2)
Increase in creditors	13.2	33.9
	<u>281.6</u>	<u>245.9</u>
Net cash inflow from operating activities	<u><u>281.6</u></u>	<u><u>245.9</u></u>

(b) Analysis of changes in cash and cash equivalents during the year

	1992 £m	1991 £m
Balance at 1 April 1991	33.9	43.1
Net cash inflow/(outflow)	0.5	(9.2)
	<u>34.4</u>	<u>33.9</u>
Balance at 31 March 1992	<u><u>34.4</u></u>	<u><u>33.9</u></u>

(c) Analysis of the balances of cash and cash equivalents as shown in the balance sheet

	1992 £'m	1991 £'m	Change in year £'m
Current asset investments	49.4	51.4	(2.0)
Bank overdraft	(15.0)	(17.5)	2.5
	<u>34.4</u>	<u>33.9</u>	<u>0.5</u>
	<u><u>34.4</u></u>	<u><u>33.9</u></u>	<u><u>0.5</u></u>

(d) Analysis of changes in financing during the year

	Loan from subsidiary undertaking £'m	Loans and finance lease obligations £'m	Current asset investments £'m	Total £'m
Balance at 1 April 1991	-	(125.0)	5.0	(120.0)
Cash inflow from financing	(149.1)	(55.2)	27.1	(177.2)
Finance leases raised during the year	-	(57.9)	-	(57.9)
Balance at 31 March 1992	<u>(149.1)</u>	<u>(238.1)</u>	<u>32.1</u>	<u>(355.1)</u>

Finance leases amounting to £57.9m were raised during the year to fund capital plant, equipment and vehicles.

Report of the auditor to the Director General of Water Services

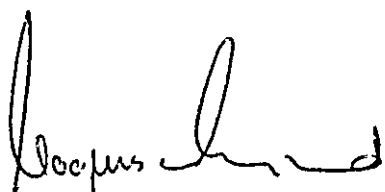
We have audited the financial statements on pages 8 to 26 and 29 to 43 in accordance with Auditing Standards.

In our opinion, the financial statements contain the information for the year ended 31 March 1992 required to be published and submitted to you by Thames Water Utilities Limited to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1989.

In respect of this information, we report that in our opinion:-

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- (c) the financial statements on pages 8 to 26 give, under the historical cost convention, a true and fair view of the revenues, costs, assets and liabilities of the Appointee and its Appointed Business; and
- (d) the current cost financial information on pages 29 to 43 has been properly prepared in accordance with the Regulatory Accounting Guideline 1, Accounting for Current Costs issued in May 1992 by the Office of Water Services.

Without qualifying our opinion in sub-paragraph (d) above, we draw attention to the basis of valuation of Section 24 sewers included in infrastructure assets, which is disclosed in note 1(a)(i) on page 32 of the current cost accounting statements.



Coopers & Lybrand

Chartered Accountants and Registered Auditor
Reading

18 June 1992

SUPPLEMENTARY REGULATORY INFORMATION - 1991/92
(Unpublished)

	Pages
Bases of allocations and apportionments	46 - 47
Transactions entered into by the company with or for the benefit of other group or related companies	48 - 49
Report of the auditor to the Director General of Water Services	50

Supplementary Regulatory Information - Unpublished Year ended 31 March 1992

Bases of allocations and apportionments

(a) Revenues

Revenues are allocated to each service or the non-appointed businesses on an actual basis.

(b) Operating costs

Operating costs are initially captured within the computerised accounting system by cost centre. Allocation from these cost centres to services (including non-appointed businesses) are made as follows:-

- (i) Costs incurred in relation to single service operational cost centres are directly attributed to the relevant service (eg Water Treatment Works, Sewage Treatment Works) or non-appointed business.
- (ii) Costs arising in multi-functional operational cost centres are apportioned to services on the basis of managerial assessments having regard to the functions undertaken.
- (iii) Support cost centres such as transport, computing and accommodation are recharged to services based on actual usage.
- (iv) Other non-operational cost centres (ie central administration and management) are recharged to services based on managerial assessments, having regard to estimated aggregate costs of operational and service cost centres plus capital expenditure by service.
- (v) Depreciation is directly allocated to service by reference to the assets to which the charge relates. Depreciation on 'general' assets is apportioned to services pro-rata to the above direct allocation.
- (vi) The infrastructure renewals charge has been apportioned on the basis of the cumulative future spend by service estimated in the Underground Asset Management Plan.

(c) Assets

Allocations of expenditure on tangible fixed assets to services are made on an actual basis, except for the following:-

- (i) Transport assets are apportioned to services on the basis of vehicle usage.
- (ii) Administrative buildings, computers and other similar assets are allocated to services proportionately to accumulated direct service expenditure on depreciable assets.

Assets are not held by non-appointed businesses. These businesses are charged for usage by the appointed business where appropriate.

(d) Liabilities

Liabilities attributable to non-appointed businesses are not material and are therefore not separately recorded.

Transactions entered into by the company with or for the benefit of other group or related companies

To the best of the directors' knowledge, all appropriate transactions with associated companies have been disclosed below.

(a) Transfers of assets

The following assets have been transferred to Kennet Properties Limited during the year:

	Consideration £'m	Net book value £'m
Tangible fixed assets	1.9	0.2

(b) Supply of services

The following services have been provided during the year:

	1992 £'m	1991 £'m
Services provided to Thames Water Group Companies:		
Computing, transport, accommodation, research and development, and other services	<u>2.2</u>	<u>1.7</u>

Services provided to other companies within Thames Water group are based on estimated market rates and substantially relate to recharges made in respect of the use made of discrete profit centres operated by the company. Income from research and development services represents a proportional recharge of costs incurred on specific projects.

	1992 £'m	1991 £'m
Services provided by Thames Water Group Companies:		
Revenue expenditure		
By Thames Water Plc:		
Management services	8.2	6.2
By Isis Insurance Company Limited:		
Insurance premium	9.2	8.4
By other companies within the group:		
Hired and contracted services	<u>1.3</u>	<u>0.1</u>
	<u>18.7</u>	<u>14.7</u>
Capital expenditure		
By PWT Projects Limited:		
Engineering work	12.8	9.7
By other companies within the group:		
Hired and contracted services	1.8	2.3

In addition to the above, £2.3m has been included within hired and contracted services in respect of grounds maintenance services provided by Brophy Plc, a company 50% owned by the Thames Water group.

The management services supplied by Thames Water Plc represent shareholder registration and liaison, corporate administration and finance expenses. These have been recharged on a combination of bases including net asset values, operating profits, cash flows and time apportionment.

The insurance premium charged by Isis Insurance Company Limited is based on an assessment of market conditions by independent brokers.

The engineering work undertaken by PWT Projects Limited is charged on the basis of negotiated agreements.

Hired and contracted services provided to the company by other companies within the Thames Water group are negotiated at normal commercial rates on an arms length basis.

(c) Loans and guarantees

During the year Thames Water Utilities Finance Plc, a subsidiary undertaking, issued £150 million 10½% Guaranteed Bonds due 2001 to finance capital investment in the company. The net proceeds arising from the issue were loaned to the company under the same interest terms and £149.1 million is included in amounts due to the subsidiary undertaking in respect of this loan. Accrued interest of £5.7 million and bond issue costs of £0.3 million were recharged to the company during the year. The company has guaranteed the principal and interest payments of its subsidiary undertaking due under the terms of the bond.

During the year a number of short term loans of up to a maximum value of £38.5 million, were made to the company by Thames Water Plc. Interest was charged at market rates of between 9.625% and 12.875%.

(d) Dividends

An amount of £57.0 million due in respect of the second interim 1991 dividend was paid to Thames Water Plc in two instalments in May 1991.

During the year the company declared interim dividends of £98.9 million to Thames Water Plc. £33.0 million was paid on 1 December 1991 and a further £65.9 million on 31 March 1992.

(e) Taxation

The tax credit in 1990/91 comprised the expected consideration receivable in respect of tax losses surrendered to other group companies.

The current year charge is an adjustment to the previous year to reflect the current anticipated consideration receivable.

Report of the auditor to the Director General of Water Services

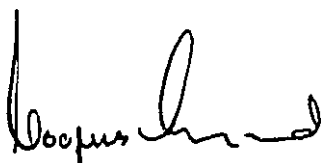
We have audited the financial statements on pages 29 to 43 and 46 to 49 in accordance with Auditing Standards.

In our opinion the financial statements contain the information for the year to 31 March 1992, required to be submitted to you by Thames Water Utilities Limited to comply with paragraphs 6 and 7 (and paragraph 5.2) of Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water and sewerage undertaker under the Water Act 1989.

In respect of this information, we report that in our opinion:

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records, complies with the requirements of Condition F of the Instrument and has been properly prepared in accordance with the Regulatory Accounting Guidelines issued by the Office of Water Services;
- (c) the bases used for the allocation and apportionment of revenues, costs, assets and liabilities between:
 - sewerage and sewage treatment and disposal;
 - the Appointed Business and any other business or activity of the Appointee;
 - the Appointee and any associated company;

are as described on pages 46 and 47 and are reasonable.



Coopers & Lybrand

Chartered Accountants and Registered Auditor
Reading

18 June

1992