

Thames Water Utilities Limited
Annual report and accounts

for the year ended 31 March 1994

Registered no: 2366661



Thames Water Utilities Limited

Annual report for the year ended 31 March 1994

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Directors and secretary

Executive directors

M R Hoffman (Chairman)
W J Alexander (Managing Director)
W R Harper
D Badcock
J K Boudier
J G Hurcom
D J Luffrum
R J Marshall
M G Ribbins
J R Sexton

Secretary and registered office

D Badcock
Nugent House
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report for the year ended 31 March 1994

The directors present their report and the audited financial statements for the year ended 31 March 1994.

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 1993/94 it put into supply an average of 2,577 megalitres per day of water and treated an average of 3,184 megalitres per day of sewage. It also undertook significant statutory duties relating to the environment. The following paragraphs show how these activities are carried out in the spirit of Thames Water's Four Principles:

- Seek to excel
- Put the customer first
- Respect the employee as an individual
- Caring for the environment

In 1993/94 the company had the lowest combined water and sewerage services average bill of all Water Services Plcs for unmeasured households. Our capital programme amounted to £390.9 million gross in 1993/94.

Water resources, treatment and supply

Two successive winters of above average rainfall have boosted our water resources to their healthiest state for at least six years. Slow recovery from economic recession and a successful leakage control programme have put back the need for a new reservoir by at least 5 years. We will be continuing our programme of leakage control and targeted resource development to ensure we meet our customers' needs for water.

Considerable progress was made on the drinking water quality improvement programme with investment in advanced water treatment (AWT) processes at many of our plants. Major projects at Ashford Common, Walton and Farmoor are progressing well.

The London Water Ring Main, our largest single capital project, is on course for completion in 1994. All tunnels are now in use, the 'ring' is complete and the final 2 of the 12 pumping stations are being commissioned. It is already supplying water to over 1.5 million customers and this will increase to 2.5 million customers as the system is optimised.

Three new service reservoirs were commissioned in the London area - Ealing, Farningham Hill and Hoddesdon. Good progress was maintained on improved water treatment with granular activated carbon (GAC) 'Superfilters' substantially completed at Hampton and Fobney and commenced at Ashford and Coppermills.

Sewerage and sewage treatment

The sewage treatment programme has focused on improvement and refurbishment to improve reliability and effluent quality.

A significant effort has been made over the last year to reduce the risk of sewage flooding in the region. Additional sewers have been constructed and existing sewers improved to reduce flooding risk for 1150 properties.

The sewage sludge incineration plants for Beckton and Crossness to provide a new disposal method when the North Sea route is lost in 1998 are now in detailed design, the construction contracts awarded and construction is planned to start in January 1995.

Quality

Quality systems are now established in all parts of the business as a basis for steadily improving performance. Our scientific and engineering laboratories have NAMAS accreditation and our Engineering Department has BS5750 part 1.

The third annual report for calendar year 1992 (published July 1993) from the Government's Drinking Water Inspectorate confirmed that the drinking water supplied to customers continues to be of very high quality. Pesticides continue to be a problem but present no known health risk. A continual improvement is anticipated as our AWT programme comes on stream.

Customers

The new Customer Centre at Swindon became fully operational in July of 1993 as planned, providing a single point of contact for over 11 million customers. During the year we dealt with 3.6 million enquiries. Two-thirds were by telephone: in the first quarter of 1994 it took us an average of 11 seconds to answer. The Centre is now equipped to provide further improvements in levels of service to our customers. Early problems with the computer system brought into operation in July are now being overcome.

Environment

This year's annual report on conservation, access and recreation will show we have completed 25 new conservation schemes and made a start on a further 27. Included is a Creek Trail at Beckton Sewage Treatment Works (STW) and improved facilities for the disabled at our Maple Lodge Nature Reserve. Many schemes were in partnership with other organisations. Our joint venture with the NRA, Pinkhill Nature Reserve at Farmoor, won the Oxfordshire Special Conservation Award. We are including plans for a wildfowl centre in development proposals at Barn Elms and have improved the sewerage system at Avebury without damaging this world heritage site. The Trusts at Kew and Crossness will shortly be joined by one at Kempton allowing more public access to the superb beam engines at these sites.

The Power Plan at all 11 works included in the 1991 "Non Fossil Fuel Obligation" are now fully operational. Our focus will now be on maximising the output from these plants which this year brought in an income of £5.5m.

Regulation

The company's Annual Return, including the full current cost accounts required for regulatory purposes for the year ended 31 March 1993, was sent to the Director General of Water Services in June 1993. The company agreed a 2 year price deal (K at 4.1% in 1993/94 and 1994/95) and successfully negotiated changes to its licence to enable the business to be managed with greater medium term certainty.

Preparation of our fourth annual report (for the calendar year 1993) 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 1994. The DoE Drinking Water Inspectorate undertook a drinking water audit for calendar year 1993; its final report is awaited.

During the year the NRA prosecuted us successfully on five occasions. One was for a breach of discharge consent quality condition at Chinnor sewage treatment works; two were accidental escapes of sewage sludge at Henley and Fleet STW and two were for escapes of sewage caused by a blockage in the sewerage system at Barnet and Welwyn Garden City.

The Strategic Business Plan (SBP), which sets out our requirements and targets for the next twenty years, was submitted to the Director General of Water Services on 31 March 1994. The Director General's determination of K for the ten years from 1 April 1995 will be based on the SBP and is due in July 1994.

Capital

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

Profit and dividend

The profit for the year as contribution to the group was £283.3 million (1993: £251.6 million). Total dividends of £122.0 million (1993: £109.8 million) were paid to the ultimate holding company, Thames Water Plc, leaving retained profits to be transferred to reserves of £161.3 million (1993: £141.8 million).

Fixed assets

Note 9 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 is not less than 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 1994.

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 directors of the company who served in 1993/94 are:-

M R Hoffman (Chairman)	J G Hurcom
W J Alexander (Managing Director)	D J Luffrum
W R Harper	R J Marshall
D Badcock	M G Ribbins
J K Boudier	J R Sexton

S Tebbett left the company on 15 October 1993.

W R Harper resigned as a director on 10 May 1994.

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 been implemented and significant improvements are being made in productivity, through increasing flexibility in working practices and the skills of employees.

Employee communication continued through the company's newsletter and video. Line managers' commitment to communication was reinforced. Matters affecting employees' interests are discussed in the company council.

The company continues to be committed to the recruitment and training of young people and has been successful in developing high quality technical skills amongst school leavers and general management competence in graduate recruits. This is complemented by our ongoing programme of activities with schools in the region.

Pay for all employees is now linked to performance and the continuation of the profit sharing scheme provides a further link to company profitability. Sharesave schemes, to encourage employee ownership in Thames Water Plc shares, continue in operation.

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. The company places great emphasis on the training of staff at all levels in the organisation in order that health and safety obligations are effectively discharged. Specialist assistance in health, safety, medical and emergency planning matters is provided by an integrated Health and Safety Group under the control of a Senior Manager. The company also places great emphasis on the safety of contractors undertaking capital works, and the health and safety performance of such contractors is closely monitored.

Employment of the disabled

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

Research and development

The key projects conducted in 1993/94 were:-

- A novel method of installing GAC in existing biological slow sand filters has been developed and implemented at Hampton.
- The Fyfe Process, a non-chemical water treatment process which removes organic material from water using nanofiltration membranes, has been developed.

- Research teams have produced an integrated biological solution to meet the European Urban Wastewater Directive for phosphorus and nitrogen removal.
- An inductive reading system capable of interrogating coded domestic meters from major international meter manufacturers has been developed.
- A high precision surveying grid network has been established across the Thames Water operational area based on the US military satellite Global Position System (GPS).
- The countercurrent dissolved air flotation and filtration process (COCODAFF) has been further developed and enables filters to be three times more productive during algal blooms compared to conventional filters.
- The world's longest (1.4 km) experimental, one pass, pipe distribution system has successfully been commissioned at Kempton.

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company as at the end of the financial year and of the profit of the company for that year.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1994. The directors also confirm that applicable Accounting Standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the company and to prevent and detect fraud and other irregularities.

Auditors

A resolution to reappoint Coopers & Lybrand as the company's auditors and to authorise the directors to determine their remuneration will be proposed at the annual general meeting.

By order of the Board



David Badcock
Secretary and Legal Director

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

We have audited the financial statements on pages 9 to 27.

Respective responsibilities of directors and auditors

As described on page 7 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1994 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 Auditors
Reading

Date: 17 June 1994

**Profit and loss account
for the year ended 31 March 1994**

	Notes	1994 £m	1993 (restated) £m
Turnover	3	872.1	811.3
Operating costs	4	(554.8)	(537.7)
Operating profit		<u>317.3</u>	<u>273.6</u>
Profit on sale of fixed assets		10.2	10.4
Interest	6	(43.9)	(33.1)
Profit on ordinary activities before taxation	3	<u>283.6</u>	<u>250.9</u>
Tax on profit on ordinary activities	7	(0.3)	0.7
Profit for the financial year		<u>283.3</u>	<u>251.6</u>
Dividends	8	(122.0)	(109.8)
Retained profit transferred to reserves	20	<u><u>161.3</u></u>	<u><u>141.8</u></u>

All amounts above relate to continuing operations.

The company has no recognised gains and losses other than the profits above and therefore no separate statement of total recognised gains and losses has been presented.

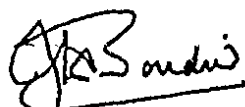
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet at 31 March 1994

	Notes	1994 £m	1993 £m
Fixed assets			
Tangible assets	9	2,629.3	2,354.5
Investments	10	0.1	0.1
		<u>2,629.4</u>	<u>2,354.6</u>
Current assets			
Stocks and work in progress	11	15.9	16.5
Debtors	12	179.6	163.8
Investments	13	1.2	13.8
Cash at bank and in hand		1.1	1.5
		<u>197.8</u>	<u>195.6</u>
Creditors: amounts falling due within one year	14	<u>(378.1)</u>	<u>(340.7)</u>
Net current liabilities		<u>(180.3)</u>	<u>(145.1)</u>
Total assets less current liabilities		2,449.1	2,209.5
Creditors: amounts falling due after more than one year	15	<u>(558.9)</u>	<u>(480.6)</u>
		<u>1,890.2</u>	<u>1,728.9</u>
Capital and reserves			
Called up share capital	19	360.0	360.0
Reserves and retained profits	20	1,530.2	1,368.9
		<u>1,890.2</u>	<u>1,728.9</u>

The notes on pages 11 to 27 form part of these accounts.

The accounts were approved by the board of directors on 7 June 1994 and were signed on its behalf by:



J K Boudier
Director

**Notes to the financial statements
for the year ended 31 March 1994****1 Introduction**

These accounts present the financial results of Thames Water Utilities Limited for the year ended 31 March 1994.

2 Principal accounting policies

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

Accounting convention

The accounts have been prepared in accordance with the historical cost convention and in accordance with applicable Accounting Standards in the United Kingdom. Group accounts have not been prepared as the company is a wholly owned subsidiary of Thames Water Plc.

The new Accounting Standard, FRS 3, requires the adoption of accounting policies which differ from those previously adopted by the company. The principal change reflects the restatement of profits on sale of fixed assets which were previously treated as part of operating profit. These are now disclosed separately after operating profit.

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.

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.

(ii) Other assets:

Other assets are included at cost less accumulated depreciation.

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

Capital contributions

Capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with the Companies Act 1985 which requires fixed assets to be stated at their purchase price without deduction of contributions which are accordingly accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the directors, necessary for the accounts to give a true and fair view because infrastructure assets do not have a finite life and are not depreciated. Accordingly related capital contributions would not be recognised in the profit and loss account. The effect of the departure on the value of tangible fixed assets is disclosed in note 9.

Where material, 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.

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 provisions for permanent diminution in value.

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 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 to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any difference between the cost charged and the amounts paid by the company is treated as a prepayment or accrual.

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 are translated into sterling at the actual rate of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account.

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 or credit for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items.

Tax deferred or accelerated is accounted for in respect of all material timing differences 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.

Consideration receivable for tax losses surrendered by way of group relief is credited to the profit and loss account.

Cash flow

In accordance with the provisions of Financial Reporting Standard No. 1 (FRS 1), no cash flow statement has been prepared. The information required under FRS 1 is included in the cash flow statement provided in the accounts of Thames Water Plc. However, to comply with Regulatory Accounting Guidelines, a current cost cash flow statement has been provided in the supplementary regulatory information.

3 Segmental analysis by class of business

	Water supply	Sewerage services	Other trading activities	Total 1994	Total 1993 (restated)
	£m	£m	£m	£m	£m
Unmeasured charges	246.0	387.9	-	633.9	589.0
Measured charges	79.6	88.2	-	167.8	156.4
Trade effluent charges	-	23.2	-	23.2	21.7
Rechargeable works	13.9	3.9	-	17.8	20.4
Other income	10.7	5.5	13.2	29.4	23.8
Turnover (1994)	350.2	508.7	13.2	872.1	
Turnover (1993)	335.0	469.5	6.8		811.3
Operating costs before depreciation and maintenance of infrastructure assets	(225.1)	(219.3)	(10.1)	(454.5)	(451.2)
Depreciation	(28.1)	(44.9)	(0.4)	(73.4)	(60.1)
Infrastructure renewals charge	(8.8)	(18.1)	-	(26.9)	(26.4)
Operating costs	(262.0)	(282.3)	(10.5)	(554.8)	(537.7)
Operating profit	88.2	226.4	2.7	317.3	273.6
Profit on sale of fixed assets	8.5	1.7	-	10.2	10.4
Interest	(12.1)	(31.8)	-	(43.9)	(33.1)
Profit on ordinary activities before taxation (1994)	84.6	196.3	2.7	283.6	
Profit on ordinary activities before taxation (1993)	71.6	178.2	1.1		250.9

Turnover derives wholly from within the United Kingdom.

	1994 £m	1993 £m
Net assets		
Water supply	1,105.5	937.5
Sewerage services	1,429.2	1,296.5
Net operating assets	2,535.7	2,234.0
Net interest bearing liabilities	(644.5)	(505.1)
	1,890.2	1,728.9

4 Operating costs

Analysis of operating costs by type of expense:

	1994 £m	1993 £m
Manpower costs	172.5	179.9
Other external charges	227.9	208.7
Materials and consumables	26.7	25.0
Other operating charges	40.3	44.8
Infrastructure renewals charge	26.9	26.4
Depreciation:		
own assets	66.3	51.5
assets held under finance leases	7.2	8.6
Rentals under operating leases:		
hire of plant and machinery	2.0	1.7
other	1.8	3.6
Auditors' remuneration:		
for audit work	0.2	0.2
for non audit work	0.1	0.1
Research and development	5.9	5.9
	<u>577.8</u>	<u>556.4</u>
Own work capitalised	(23.0)	(18.7)
	<u>554.8</u>	<u>537.7</u>

5 Information regarding directors and employees

Directors' emoluments

	1994 £'000	1993 £'000
Executive directors:		
Salary	578	519
Bonus	109	92
Other benefits	58	43
Pension contributions	165	142
	<u>910</u>	<u>796</u>

	1994 £'000	1993 £'000
Directors' emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985		
Chairman	Nil	Nil
Highest paid director:		
Salary	121	94
Bonus	23	19
Other benefits	7	5
Pension contributions	35	26
	186	144

The remuneration of the executive directors is determined by the non-executive directors of Thames Water Plc who comprise the Remuneration Committee of the Board of that company. A performance related bonus scheme for executive directors is in place based upon profit before tax exceeding a level stipulated by the non-executive directors.

The chairman and two directors (1993: the chairman and one director) are remunerated by Thames Water Plc 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.

Scale of directors' emoluments (excluding pension contributions)

	1994 Number	1993 Number
£Nil	3	2
£15,001 to £20,000	-	1
£20,001 to £25,000	-	1
£45,001 to £50,000	1	-
£55,001 to £60,000	-	1
£75,001 to £80,000	1	-
£80,001 to £85,000	-	2
£85,001 to £90,000	1	2
£90,001 to £95,000	2	-
£95,001 to £100,000	1	1
£100,001 to £105,000	1	-
£115,001 to £120,000	-	1
£150,001 to £155,000	1	-

Shares of Thames Water Plc held by directors

Beneficial owner	Shares held as at 31 March 1994	Shares held as at 1 April 1993 or date of appointment if later	Share options held at 31 March 1994	Share options held at 1 April 1993 or date of appointment if later
W J Alexander	14,055	20,108	49,000	49,000
D Badcock	1,498	1,380	19,637	15,000
J K Boudier	10,229	10,044	24,692	24,692
J G Hurcom	12,660	17,869	22,090	22,090
R J Marshall	8,939	8,503	24,872	22,090
M G Ribbins	253	198	21,944	76,090
J R Sexton	1,155	4,568	43,669	43,669

During the year the directors listed above exercised 56,000 share options at the option price of 278p. The exercise price of the outstanding options under the Thames Water Executive Share Option Scheme range from 347p to 480p and from 176p to 372p under the Thames Water Sharesave Scheme. 9,273 additional share options were granted during the year.

M R Hoffman, W R Harper and D J Luffrum were also directors of Thames Water Plc at 31 March 1994 and their share interests are shown in the accounts of that company.

None of the directors has any interest in the shares of Thames Water Plc's subsidiary companies.

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

Average number of persons employed by the company, including executive directors, analysed by class of business:

	1994 Number	1993 Number
Water supply	3,940	4,229
Sewerage services	2,953	3,152
Total	<u>6,893</u>	<u>7,381</u>

	1994 £m	1993 £m
Employment costs including executive directors' emoluments were:		
Salaries and wages	145.9	153.2
Social security costs	12.4	12.0
Pension contributions	15.6	16.0
Total	<u>173.9</u>	<u>181.2</u>

Total employment costs contain £1.4m (1993: £1.3m) which is included in the infrastructure renewals charge in note 4.

6 Interest

	1994 £m	1993 £m
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments		
- third parties	(4.3)	(3.8)
- group companies	(0.3)	(0.3)
Not wholly repayable within five years		
- third parties	(17.4)	(15.1)
- group companies	(15.7)	(15.7)
Finance charges in respect of finance leases	(9.4)	(7.2)
Interest payable and similar charges	<u>(47.1)</u>	<u>(42.1)</u>
Interest receivable	<u>3.2</u>	<u>9.0</u>
Total	<u>(43.9)</u>	<u>(33.1)</u>

7 Taxation

No liability to UK corporation tax arises on the result for the year due to the availability of capital allowances and the tax losses brought forward.

	1994 £m	1993 £m
Group relief		
- current year	-	0.7
- adjustment in respect of prior years	(0.3)	-
	<u>(0.3)</u>	<u>-</u>
	<u>(0.3)</u>	<u>0.7</u>

Group relief comprises expected consideration receivable in respect of tax losses surrendered to other group companies.

8 Dividends

	1994		1993	
	pence per share	£m	pence per share	£m
Interim	11.1	40.0	10.0	36.0
Final	22.8	82.0	20.5	73.8
	<u>33.9</u>	<u>122.0</u>	<u>30.5</u>	<u>109.8</u>

9 Tangible fixed assets

	Freehold land and buildings £m	Short leaseholds £m	Plant and equipment £m	Infra- structure assets £m	Total £m
Net cost					
At 1 April 1993	1,005.0	0.2	780.8	963.3	2,749.3
Additions	93.2	1.7	186.0	85.5	366.4
Disposals	(11.6)	-	(40.4)	-	(52.0)
Capital contributions	-	-	-	(16.4)	(16.4)
Transfer	(2.6)	2.6	-	-	-
	<u>1,084.0</u>	<u>4.5</u>	<u>926.4</u>	<u>1,032.4</u>	<u>3,047.3</u>
Net cost at					
31 March 1994	<u>1,084.0</u>	<u>4.5</u>	<u>926.4</u>	<u>1,032.4</u>	<u>3,047.3</u>
Depreciation					
At 1 April 1993	192.3	-	202.5	-	394.8
Provided during the year	18.7	0.1	54.7	-	73.5
Disposals	(11.0)	-	(39.3)	-	(50.3)
	<u>200.0</u>	<u>0.1</u>	<u>217.9</u>	<u>-</u>	<u>418.0</u>
At 31 March 1994	<u>200.0</u>	<u>0.1</u>	<u>217.9</u>	<u>-</u>	<u>418.0</u>
Net book value					
At 31 March 1994	<u>884.0</u>	<u>4.4</u>	<u>708.5</u>	<u>1,032.4</u>	<u>2,629.3</u>
At 31 March 1993	<u>812.7</u>	<u>0.2</u>	<u>578.3</u>	<u>963.3</u>	<u>2,354.5</u>

In order to give a true and fair view the cost of infrastructure assets is stated after the deduction of capital contributions amounting to £78.6 million (1993: £62.2 million).

No depreciation has been charged on freehold land included above at £3.9m (1993: £2.5m).

Tangible fixed assets at 31 March 1994 include £378m (1993: £407m) of assets in the course of construction.

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

	Cost		Net book value	
	1994 £m	1993 £m	1994 £m	1993 £m
Plant and equipment	<u>150.7</u>	<u>119.5</u>	<u>124.3</u>	<u>100.3</u>

10 Fixed asset investments

	1994 £m	1993 £m
Cost of shares in group companies	0.1	0.1
	<u>0.1</u>	<u>0.1</u>

At 31 March 1994 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

At 31 March 1994 the net asset value of Thames Water Utilities Finance Plc was £50,000 (1993: £50,000), no profits or losses having been made in either of the years concerned.

11 Stocks and work in progress

	1994 £m	1993 £m
Raw materials and consumables	13.8	13.9
Work in progress	2.1	2.6
	<u>15.9</u>	<u>16.5</u>

12 Debtors

	1994 £m	1993 £m
Amounts falling due within one year		
Trade debtors	113.7	97.2
Amounts owed by parent and fellow subsidiary undertakings	6.3	3.2
Amount receivable in respect of group relief	0.2	0.7
Other debtors	5.3	8.6
Prepayments and accrued income	50.2	47.5
Infrastructure renewals expenditure	3.6	6.0
	<u>179.3</u>	<u>163.2</u>
Due after more than one year		
Other debtors	0.3	0.6
	<u>0.3</u>	<u>0.6</u>
	<u>179.6</u>	<u>163.8</u>

13 Current asset investments

	1994 £m	1993 £m
Government and Local Authority loans	-	2.5
Fixed and floating interest rate securities	1.2	11.3
	<u>1.2</u>	<u>13.8</u>

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

14 Creditors: amounts falling due within one year

	1994 £m	1993 £m
Bank overdraft	2.4	8.9
Other loans (note 16)	0.8	10.8
Obligations under finance leases (note 17)	5.4	8.0
Progress claims and advance payments	54.6	53.8
Trade creditors:		
Operating	31.7	41.8
Capital	98.7	117.4
Bill of exchange payable	20.0	-
Amounts owed to parent and fellow subsidiary undertakings	88.5	31.4
Amounts owed to subsidiary undertaking	5.7	5.7
Other creditors	6.0	4.8
Accruals and deferred income	59.9	53.9
Taxation and social security payable	4.4	4.2
	<u>378.1</u>	<u>340.7</u>

15 Creditors: amounts falling due after more than one year

	1994 £m	1993 £m
Bank loans (note 16)	225.0	180.0
Other loans (note 16)	47.0	47.6
Obligations under finance leases (note 17)	115.2	90.1
Amounts owed to subsidiary undertaking (see below)	149.6	149.3
Other creditors	7.2	7.6
Deferred income	14.9	6.0
	<u>558.9</u>	<u>480.6</u>

The subsidiary undertaking, Thames Water Utilities Finance Plc, has in issue £150 million 10½% Guaranteed Bonds due 2001. The net proceeds were loaned to the company under the same interest terms and £149.6 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.

16 Loans

Loans outstanding are repayable as follows:

	1994 £m	1993 £m
Bank loans:		
Between two and five years	34.5	16.5
After more than five years	190.5	163.5
	<u>225.0</u>	<u>180.0</u>
Other loans:		
Within one year	0.8	10.8
Between one and two years	0.6	0.6
Between two and five years	1.8	1.8
After more than five years	44.6	45.2
	<u>47.8</u>	<u>58.4</u>

Notes

- 1 All loans are repayable between 1994 and 2030.
- 2 Of the loans repayable after more than five years hence, £25.0m (1993 £Nil) is in respect of bank loans and £32.4m (1993 £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 falls due for repayment more than five years hence is £15.4m (1993: £15.9m) and £225m (1993: £180.0m) for other loans and bank loans respectively.
- 4 The range of interest rates on bank loans is 6.6% to 11.5% (1993: 8.25% to 11.5%) and other loans is 3% to 9.5% (1993: 3% to 11%). These interest rates are those contracted on the underlying borrowings before taking account of the following interest rate protection. The company has arranged various long dated interest rate swaps which have the effect of fixing the rate of interest at an average of 9.33% on sterling borrowing of £15m for a term of 15 years. The remaining term is 14 years. In addition the company has arranged interest rate swaps which convert £35m of sterling borrowings from an average fixed rate of 10.4% to floating rates for a weighted average term of 6 years.
- 5 Other loans include loans totalling £32.4m (1993: £32.4m) which are secured on the revenues of the company.

17 Obligations under finance leases

	1994 £m	1993 £m
Amounts due under finance leases are payable as follows:		
Within one year	16.3	15.0
Between one and two years	9.8	7.9
Between two and five years	30.1	23.6
After more than five years	204.9	170.0
	<u>261.1</u>	<u>216.5</u>
Less finance charges allocated to future periods	(140.5)	(118.4)
Total	<u><u>120.6</u></u>	<u><u>98.1</u></u>

The aggregate amount of finance leases, any part of which falls due for repayment after more than five years hence is £113.3m (1993: £84.4m). In addition, the company is committed to outstanding lease facilities of £15.6m (1993: £44.5m) to fund capital investment.

18 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:

	1994 £m	1993 £m
Accelerated capital allowances:		
- Infrastructure assets	214.6	176.3
- Other assets	239.9	187.2
Other timing differences	(16.5)	(12.1)
Losses	(73.5)	(78.8)
	<u>364.5</u>	<u>272.6</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.

19 Share capital

	1994 £m	1993 £m
Authorised, allotted, called up and fully paid 360,050,000 ordinary shares of £1 each	<u>360.0</u>	<u>360.0</u>

20 Reserves and retained profits

	Profit and loss account £m
At 1 April 1993	1,368.9
Retained profit for the year	<u>161.3</u>
At 31 March 1994	<u>1,530.2</u>

21 Reconciliation of movements in shareholders' funds

	1994 £m	1993 £m
Profit for the financial year	283.3	251.6
Dividends	<u>(122.0)</u>	<u>(109.8)</u>
	161.3	141.8
Shareholders' funds at the beginning of the year	<u>1,728.9</u>	<u>1,587.1</u>
Shareholders' funds at the end of the year	<u>1,890.2</u>	<u>1,728.9</u>

22 Capital commitments

	1994 £m	1993 £m
Contracted for but not provided for	<u>244.7</u>	<u>188.8</u>
Authorised but not yet contracted for	<u>923.3</u>	<u>710.9</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. The review of the asset management plan in 1994/95 will identify whether those plans will require modification in order to meet future needs and performance requirements.

23 Operating leases

At 31 March 1994 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	1994		1993	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Leases which expire:				
Within one year	-	0.2	-	0.4
Between two and five years	0.1	0.6	0.1	1.0
After more than five years	1.6	0.9	3.4	-
	<u>1.7</u>	<u>1.7</u>	<u>3.5</u>	<u>1.4</u>

24 Pension schemes

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

The total ongoing pension cost for the company during the year ended 31 March 1994 was £15.6m (1993: £16.0m). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the consulting actuaries to the schemes. At the year end £0.1m (1993: £0.5m) was outstanding in respect of contributions to the schemes.

Details of the actuarial position of the group pension schemes are given in the financial statements of Thames Water Plc.

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 employer contributions to the schemes. In the year ended 31 March 1994 these payments amounted to £0.3m (1993: £1.2m).

25 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.