

Registered No: 2366661

Thames Water Utilities Limited

Annual report and financial statements
including regulatory information

for the year ended 31 March 1995



Thames Water Utilities Limited

Annual report for the year ended 31 March 1995

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Directors and secretary

Executive directors

M R Hoffman (Chairman)
W J Alexander (Managing Director)
W R Harper (resigned 10 May 1994)
D Badcock
J K Boudier
J G Hurcom
D J Luffrum
R J Marshall
M G Ribbins
J R Sexton
S C Walker (appointed 6 December 1994)

Secretary and registered office

D Badcock
Nugent House
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report for the year ended 31 March 1995

The directors present their report and the audited financial statements for the year ended 31 March 1995.

Principal activities and review of the year

Introduction

The company's principal activities are the supply of water to over 3.3 million premises in its area and the collection and treatment of sewage from almost 5.1 million premises. In 1994/95 it put into supply an average of 2,671 megalitres per day of water and treated an average of 4,083 megalitres per day of sewage. It also undertook significant statutory duties relating to the environment. The following statements 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
- Care for the environment

In 1994/95 the company had the lowest average combined water and sewerage services bill for unmeasured households of all the Water Service Companies. Our capital programme amounted to £ 331.5 million (gross) in 1994/95.

J May joined us as our new Head of Customer Services on 11 July 1994.

In July, we created a new Procurement Division, headed by P Jackson.

J Hurcom became Deputy Managing Director of Thames Water Utilities Limited, leading our new Business Development group in exploring ways to grow our business from our core skills. G Maxwell became Head of Operations.

Water resources, treatment and supply

The Thames Water Ring Main, our largest single capital project, was completed in September last year and officially opened by the Queen on 11 November 1994. The Ring Main is supplying water to some 2.5 million customers in London.

Considerable progress was made on the drinking water quality improvement programme with investment in advanced water treatment (AWT) processes at many of our plants. Projects at Farmoor and the groundwater sources at Great Bedwyn, Playhatch and Ladymead were completed with good progress at Ashford Common and Walton.

With a third successive winter of above-average rainfall, our water resources remain in a healthy state. The innovative Enfield/Haringey Artificial Recharge project is substantially complete and will be officially opened this summer providing additional resources for London. We will be continuing our programme of demand management (including leakage control) and feasibility studies for additional resources to ensure we meet our customers' needs for water.

Ten service reservoir remedial works projects were completed in advance of Drinking Water Inspectorate Undertakings together with a new service reservoir at Nunhead in London. Good progress was maintained on improved water treatment with the installation of granular activated carbon (GAC) 'Superfilters' continuing at Ashford Common and Coppermills.

Sewerage and sewage treatment

Sewerage

The programme to reduce the number of properties at risk of sewage flooding has continued. Additional sewers have been constructed and existing sewers improved to reduce the flooding risk for 884 properties.

The hydraulic computer modelling of the central London area is substantially complete. This tool will help us to resolve London's more complex flooding and pollution problems, and will allow impact analysis of future developments within the area.

Sewage treatment

Construction of the sewage sludge incineration plants for Beckton and Crossness, to replace sludge disposal to the North Sea route in 1998, started in December 1994 and is progressing well. Detailed design is expected to be substantially complete by late summer 1995.

The last year has seen further improvements in sewage treatment works performance, with the NRA recognising improvement in the quality of receiving watercourses in the Thames Region.

The sewage treatment programme has focused on improving reliability and effluent quality, with major project completions at Thame, Banbury, Cirencester, Rye Meads, Maidenhead and Beckton sewage treatment works. Refurbishment and improvements have started at Slough, Oxford and Windsor.

During the year major modifications to the sludge treatment plants at Long Reach and Deephams sewage treatment works commenced. Further improvements in effluent quality will be delivered during the next five years, enabling us to meet the requirements of the Urban Waste Water Directive, the National Environment Programme and the Fish Directive.

New ways of working

Market-testing has led to two changes in sewerage management:

- the Direct Labour Organisation won a one year contract to operate and maintain the London trunk sewer system (commencing 1 April 1995); and
- direct management of local authority areas in London has increased from eight to twelve.

In sewage treatment, we continue to invest in our people through skill enhancement programmes, including cross-skilling and the National Vocational Qualification (NVQ) programme.

Quality

The fourth annual report for calendar year 1993 (published July 1994) 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. Continuous improvement is expected as our AWT programme progresses towards completion.

Quality systems are becoming well-established in all parts of the business and provide the basis for a culture of continuous improvement in the workplace. Thames Water's internal Quality System made just under 50 awards in 1994/5.

Our Engineering Departments' ISO 9001 award has been re-affirmed this year, and our Customer Centre is working towards ISO 9000 certification.

Customers and the Community

Our new Customer Centre at Swindon provides a single point of contact for more than 11 million customers.

During 1994/95, the Customer Centre handled 2.0 million enquiries, of which two-thirds were by telephone. On average, each call was answered within 12 seconds.

Response to customer letters has improved greatly. Our rating against the OFWAT measures is "good" for 1994/5 compared with "very poor" for 1993/4.

Investment in systems and people has greatly enhanced customer service and the Centre is now well placed for continuous improvement.

Plans for our 2 day "Make Time for Customers" programme, which all employees will attend during 1995/96, were substantially completed at the end of March 1995.

The company continues to run a £100,000 per annum programme to support local community activity in its area and has active links with local schools. Two computer simulations were completed for use in schools: "James Pond, Underwater Agent" simulates water treatment and supply; "Running Water" simulates the control and distribution of water.

Environment

Thames Water Plc will publish an environmental review and Thames Water Utilities Limited its annual Conservation Access and Recreation report in July. Both documents will cover 1994/95 and provide detailed coverage of the company's environmental work in the year. They are available free of charge from the Customer Centre.

Thames Water won the 1994 Premier Award for environmental performance made by Mars and the Royal County of Berkshire and a Major Commendation from Business Commitment to the Environment for its restoration of parts of the New River Path. We have also completed 32 schemes covering a wide range of conservation and access initiatives.

We have continued to develop the recreation function and gave particular attention during the year to publicising the facilities on offer and to making them more attractive to visitors. There were 25,800 visits to our reservoirs by anglers and over 2,000 customers bought bird watching permits.

The company has focused on maximising the output of power from the eleven works included in the 1991 "Non Fossil Fuel Obligations" and income rose to £6.8 million this year from £5.5 million in 1993/94.

Regulation

The company's Annual Return, including the full current cost financial statements required for regulatory purposes for the year ended 31 March 1994, was sent to the Director General of Water Services in September 1994.

Following the submission of our Strategic Business Plan to OFWAT on 31 March 1994, the Director General's determination of "K" was announced on 28 July 1994. The company did not challenge the 10 year price deal with "K" set at 0.5% from 1 April 1995.

The company also published its Customer Document in December 1994, ahead of the rest of the Water Companies. This document sets out and explains the company's planned expenditure and outputs for the next 5 years.

Preparation of our fifth annual report (for the calendar year 1994) 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 1995. The DoE Drinking Water Inspectorate undertook a drinking water audit for calendar year 1994; its final report is awaited.

During the year the NRA prosecuted us successfully on three occasions. One was for a breach of discharge consent quality condition at Hambleton Sewage Treatment Works; one was in respect of the escape of sewage sludge from Brentwood and one was for the escape of sewage from Park Farm Pumping Station in Havering.

Profit and dividend

The profit for the year as contribution to the group was £317.1 million (1994: £283.3 million). Total dividends of £133.0 million (1994: £122.0 million) were paid to the ultimate holding company, Thames Water Plc, leaving retained profits to be transferred to reserves of £184.1 million (1994: £161.3 million).

Fixed assets

Note 8 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 1995.

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 1994/95 are:-

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

Dr S C Walker was appointed a director on 6 December 1994.

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

Directors' interests

Note 4 to the financial statements details the interests of the directors in the shares of Thames Water Plc. 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

Organisational changes have taken place to further improve the customer focus of our operating units and to clearly identify the roles and accountabilities of business support functions.

An Employee survey ("Viewfinder") was carried out covering the whole workforce in order to gauge employee opinion on a wide range of work related issues. As a result of the feedback received, a number of measures have been carried out to enhance employee communications.

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 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 to operate.

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.

This approach will enable the requirements of the new Construction (Design & Management) Regulations to be smoothly implemented during 1995.

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 1994/95 were:-

- Fundamental research has been carried out into improving water quality through management and control of changes occurring in water distribution systems. Understanding the key factors responsible for fractured mains is leading to the development of sophisticated prediction and control measures.
- Development and implementation of advanced water treatment technologies (such as the GAC sandwich) have resulted in improvements to drinking water quality for our customers.
- Recent technological developments in sewage treatment have given the company the opportunity to upgrade existing works and reduce the need for new treatment capacity, meeting new exacting environmental standards more cost effectively.
- Development of a combined sewer overflow monitoring system is providing the company with economical solutions to meeting challenging environmental goals.
- New sludge treatment techniques are being developed (such as coppicing, gasification and co-digestion of municipal and sludge wastes) to improve energy generation and recovery.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the company and of the profit of the company for that period. In preparing those financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business.

The directors confirm that the financial statements comply with the above requirements.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

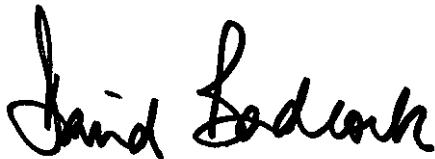
Corporate Governance

A full statement on the Group's compliance with the provisions of the Code of Best Practice is set out in the Annual Report of Thames Water Plc.

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 11 to 29.

Respective responsibilities of directors and auditors

As described on page 8 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 1995 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

Coopers Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors

Reading

16 June 1995

**Profit and loss account
for the year ended 31 March 1995**

	Notes	1995 £m	1994 £m
Turnover	2	919.1	872.1
Operating costs	3	(562.3)	(554.8)
Operating profit		356.8	317.3
Profit on sale of fixed assets		9.5	10.2
Interest	5	(48.9)	(43.9)
Profit on ordinary activities before taxation	2	317.4	283.6
Tax on profit on ordinary activities	6	(0.3)	(0.3)
Profit for the financial year		317.1	283.3
Dividends	7	(133.0)	(122.0)
Retained profit transferred to reserves	19	184.1	161.3

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.

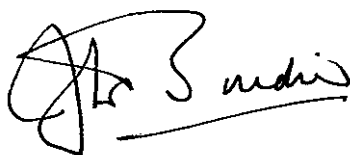
There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above, and their historical cost equivalents.

Balance sheet at 31 March 1995

	Notes	1995 £m	1994 £m
Fixed assets			
Tangible assets	8	2,828.6	2,629.3
Investments	9	0.1	0.1
		<u>2,828.7</u>	<u>2,629.4</u>
Current assets			
Stocks and work in progress	10	15.2	15.9
Debtors	11	171.0	179.6
Investments	12	-	1.2
Cash at bank and in hand		5.1	1.1
		<u>191.3</u>	<u>197.8</u>
Creditors: amounts falling due within one year	13	<u>(333.5)</u>	<u>(378.1)</u>
Net current liabilities		<u>(142.2)</u>	<u>(180.3)</u>
Total assets less current liabilities		<u>2,686.5</u>	<u>2,449.1</u>
Creditors: amounts falling due after more than one year	14	<u>(612.2)</u>	<u>(558.9)</u>
Net assets		<u>2,074.3</u>	<u>1,890.2</u>
Capital and reserves			
Called up share capital	18	360.0	360.0
Reserves and retained profits	19	1,714.3	1,530.2
		<u>2,074.3</u>	<u>1,890.2</u>
Equity shareholders' funds		<u>2,074.3</u>	<u>1,890.2</u>

The notes on pages 13 to 29 form part of these financial statements.

The financial statements were approved by the board of directors on 6 June 1995 and were signed on its behalf by:



J K Boudier
Director

Notes to the financial statements for the year ended 31 March 1995

1 Principal accounting policies

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

(a) Basis of preparation

The financial statements have been prepared in accordance with the historical cost convention and with applicable Accounting Standards in the United Kingdom and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of the departure from the requirements of the Act is given in note 1(d) below. Group financial statements have not been prepared as the company is a wholly owned subsidiary of Thames Water Plc.

(b) Turnover

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

(c) Tangible fixed assets

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.

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.

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

(d) **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 Schedule 4 to 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 financial statements 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 8.

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.

(e) **Leased assets**

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

(f) 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.

(g) Stocks and work in progress

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

(h) Pension costs

The majority of the company's employees belong to pension schemes which are funded by both employer's and employees' contributions and which are of the defined benefit type. The pension cost is assessed in accordance with the advice of an independent, qualified actuary 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.

(i) Foreign currencies

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

(j) Research and development

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

(k) Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable 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.

(1) 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 financial statements 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.

2 Segmental analysis by class of business

	Water supply	Sewerage services	Other trading activities	Total 1995	Total 1994
	£m	£m	£m	£m	£m
Unmeasured charges	252.8	402.5	-	655.3	633.9
Measured charges	89.5	96.6	-	186.1	167.8
Trade effluent charges	-	24.9	-	24.9	23.2
Rechargeable works	16.9	4.3	-	21.2	17.8
Other income	7.7	6.7	17.2	31.6	29.4
Turnover (1995)	366.9	535.0	17.2	919.1	
Turnover (1994)	350.2	508.7	13.2		872.1
Operating costs before depreciation and maintenance of infrastructure assets	(224.9)	(217.1)	(13.4)	(455.4)	(454.5)
Depreciation	(36.1)	(42.6)	(0.5)	(79.2)	(73.4)
Infrastructure renewals charge	(9.0)	(18.7)	-	(27.7)	(26.9)
Operating costs	(270.0)	(278.4)	(13.9)	(562.3)	(554.8)
Operating profit	96.9	256.6	3.3	356.8	317.3
Profit on sale of fixed assets	6.3	3.2	-	9.5	10.2
Interest	(15.0)	(33.9)	-	(48.9)	(43.9)
Profit on ordinary activities before taxation (1995)	88.2	225.9	3.3	317.4	
Profit on ordinary activities before taxation (1994)	84.6	196.3	2.7		283.6

Turnover derives wholly from within the United Kingdom.

	1995 £m	1994 £m
Net assets		
Water supply	1,223.9	1,105.5
Sewerage services	1,465.0	1,429.2
	<hr/>	<hr/>
Net operating assets	2,688.9	2,534.7
Net interest bearing liabilities	(614.6)	(644.5)
	<hr/>	<hr/>
	2,074.3	1,890.2
	<hr/> <hr/>	<hr/> <hr/>

3 Operating costs

Analysis of operating costs by type of expense:

	1995 £m	1994 £m
Manpower costs	165.0	172.5
Other external charges	207.0	227.9
Materials and consumables	28.5	26.7
Other operating charges	64.2	40.3
Infrastructure renewals charge	27.7	26.9
Depreciation:		
• own assets	69.8	66.3
• assets held under finance leases	9.4	7.2
Rentals under operating leases:		
• hire of plant and machinery	2.1	2.0
• other	1.9	1.8
Auditors' remuneration:		
• for audit work	0.2	0.2
• for non audit work	0.1	0.1
Research and development	6.7	5.9
	<hr/>	<hr/>
	582.6	577.8
Own work capitalised	(20.3)	(23.0)
	<hr/>	<hr/>
	562.3	554.8
	<hr/> <hr/>	<hr/> <hr/>

4 Information regarding Directors and employees

Directors' remuneration

	1995 £'000	1994 £'000
Executive Directors:		
Salary	640	578
Bonus	106	109
Other benefits	65	58
Pension contributions	193	165
	<u>1,004</u>	<u>910</u>
	1995	1994
Directors' remuneration disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985	£'000	£'000
Chairman	<u>Nil</u>	<u>Nil</u>

Highest paid Director

	1995 £'000	1994 £'000
Salary	138	121
Bonus	24	23
Other benefits	7	7
	<u>169</u>	<u>151</u>

Pension benefits are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. Contributions to the schemes in 1995 were £41,723 (1994: £34,953). In addition, provision is made by way of an unfunded commitment to ensure a pension entitlement on retirement at age 60 of 58% of the highest paid Director's basic salary in the last fiscal year prior to retirement less benefits in his previous employer's pension schemes. The charge to the profit and loss account in respect of this was £21,000 in 1995. The total provision to date is £69,000.

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 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' remuneration (excluding pension contributions)

	1995 Number	1994 Number
£Nil	3	3
£45,001 to £50,000	-	1
£55,001 to £60,000	-	-
£65,001 to £70,000	-	-
£75,001 to £80,000	2	1
£80,001 to £85,000	-	-
£85,001 to £90,000	1	1
£90,001 to £95,000	2	2
£95,001 to £100,000	-	1
£100,001 to £105,000	1	1
£105,001 to £110,000	1	-
£150,001 to £155,000	-	1
£165,001 to £170,000	1	-

Directors' interests in the share capital of Thames Water Plc

Beneficial owner	Shares held as at 31 March 1995	Shares held as at 1 April 1994 or date of appointment if later
D Badcock	1,575	1,498
J K Boudier	10,460	10,229
J G Hurcom	16,750	12,660
R J Marshall	8,535	8,939
M G Ribbins	4,408	253
J R Sexton	3,802	1,155
S C Walker	126	126

M R Hoffman, D J Luffrum, W J Alexander and W R Harper were also Directors of Thames Water Plc at 31 March 1995 and their share interests are shown in the financial statements of that company. None of the Directors has any interest in the shares of Thames Water Plc's subsidiary companies.

Directors' share options

Directors	Number of options			Exercise price	Market price at date of exercise	Date from which exercisable	Expiry date
	At 01.04.94	Granted	Exercised				
D Badcock	15,000 4,637	10,000		15,000 4,637 10,000	347p 372p 453p	02.07.94 01.10.98 08.12.97	02.07.01 31.03.99 07.12.04
J K Boudier	7,159 15,000 2,533	10,000		7,159 15,000 2,533 10,000	176p 347p 296p 453p	01.02.97 02.07.94 01.02.97 08.12.97	31.07.97 02.07.01 31.07.97 07.12.04
J G Hurcom	4,090 18,000	11,000	4,090	- 18,000 11,000	176p 347p 453p	488p 01.02.95 02.07.94 08.12.97	31.07.95 02.07.01 07.12.04
R J Marshall	4,090 18,000 2,782	12,000 1,638	4,090	- 18,000 2,782 12,000 1,638	176p 347p 372p 453p 421p	488p 01.02.95 02.07.94 01.10.98 08.12.97 02.02.00	31.07.95 02.07.01 31.03.99 07.12.04 01.08.00
M G Ribbins	4,090 16,000 1,854	9,000	4,090	- 16,000 1,854 9,000	176p 347p 372p 453p	488p 01.02.95 02.07.94 01.10.98 08.12.97	31.07.95 02.07.01 31.03.99 07.12.04
J R Sexton	6,136 12,000 2,533 11,000 12,000	6,000 2,458	6,136 12,000	- - 2,533 11,000 12,000 6,000 2,458	176p 347p 296p 418p 480p 453p 421p	463p 01.02.95 02.07.94 01.02.97 24.06.95 01.12.95 08.12.97 02.02.00	31.07.95 02.07.01 31.07.97 24.06.02 01.12.02 07.12.04 01.08.00
S C Walker	3,906 23,000	14,000		3,906 23,000 14,000	288p 418p 453p	01.10.96 24.06.95 08.12.97	31.03.97 24.06.02 07.12.04

No options lapsed during the year.

The market price of the shares at 31 March 1995 was 481p and the range during the period 1 April 1994 to 31 March 1995 was 434p to 555p.

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:

	1995 Number	1994 Number
Water supply	3,586	3,940
Sewerage services	3,087	2,953
	<u>6,673</u>	<u>6,893</u>
	<u><u>6,673</u></u>	<u><u>6,893</u></u>
	1995 £m	1994 £m
Employment costs including Executive Directors' remuneration were:		
Salaries and wages	141.1	145.9
Social security costs	11.9	12.4
Pension contributions (note 23)	15.3	15.6
	<u>168.3</u>	<u>173.9</u>
Total	<u><u>168.3</u></u>	<u><u>173.9</u></u>

Total employment costs contain £1.7m (1994: £1.4m) which is included in the infrastructure renewals charge and £1.6m (1994: Nil) which is included in research and development in note 3.

5 Interest

	1995 £m	1994 (restated) £m
Bank loans, overdrafts and other loans:		
Repayable within five years otherwise than by instalments		
- third parties	(0.8)	(4.1)
- group companies	(1.0)	(0.3)
Not wholly repayable within five years		
- third parties	(23.0)	(17.4)
- group companies	(16.0)	(15.7)
Finance charges in respect of finance leases	(12.3)	(9.4)
Other finance charges	(0.2)	(0.2)
	<u>(53.3)</u>	<u>(47.1)</u>
Interest payable and similar charges	4.4	3.2
	<u>(48.9)</u>	<u>(43.9)</u>
Total	<u><u>(48.9)</u></u>	<u><u>(43.9)</u></u>

In order to conform with FRS 4 comparatives have been restated to include in other finance charges bond issue costs of £226,000 that were previously included in third party interest repayable within five years.

6 Taxation

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

	1995 £m	1994 £m
Group relief		
- adjustment in respect of prior years	(0.3)	(0.3)
	<u> </u>	<u> </u>

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

7 Dividends

	1995		1994	
	pence per share	£m	pence per share	£m
Interim	12.2	44.0	11.1	40.0
Final	24.7	89.0	22.8	82.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	36.9	133.0	33.9	122.0
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

8 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 1994	1,084.0	4.5	926.4	1,032.4	3,047.3
Additions	84.5	0.2	148.1	73.2	306.0
Disposals	(0.9)	-	(17.6)	-	(18.5)
Capital contributions	-	-	-	(26.3)	(26.3)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1995	1,167.6	4.7	1,056.9	1,079.3	3,308.5
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Depreciation					
At 1 April 1994	200.0	0.1	217.9	-	418.0
Provided during the year	16.1	0.2	62.9	-	79.2
Disposals	(0.2)	-	(17.1)	-	(17.3)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1995	215.9	0.3	263.7	-	479.9
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Net book value					
At 31 March 1995	951.7	4.4	793.2	1,079.3	2,828.6
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1994	884.0	4.4	708.5	1,032.4	2,629.3
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

In order to give a true and fair view (note 1(d)) the cost of infrastructure assets is stated after the deduction of capital contributions amounting to £104.9m (1994: £78.6m).

No depreciation has been charged on freehold land included above at £4.2m (1994: £3.9m).

Tangible fixed assets at 31 March 1995 include £344.8m (1994: £378.4m) 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	
	1995 £m	1994 £m	1995 £m	1994 £m
Plant and equipment	190.1	150.7	158.5	124.3

9 Fixed asset investments

	1995 £m	1994 £m
Cost of shares in subsidiary	0.1	0.1

At 31 March 1995 the company held more than 10% of the allotted share capital of the following undertaking:

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

At 31 March 1995 the net asset value of Thames Water Utilities Finance Plc was £50,000 (1994: £50,000), no profits or losses having been made in either of the years concerned. Manor Farm Management Company Limited was struck off the Register of Companies on 10 February 1993.

10 Stocks and work in progress

	1995 £m	1994 £m
Raw materials and consumables	12.7	13.8
Work in progress	2.5	2.1
Total	15.2	15.9

11 Debtors

	1995 £m	1994 £m
Due within one year		
Trade debtors	107.9	113.7
Amounts owed by parent and fellow subsidiary undertakings	5.1	6.3
Amount receivable in respect of group relief	-	0.2
Other debtors	5.9	5.3
Prepayments and accrued income	50.4	50.2
Infrastructure renewals expenditure	1.4	3.6
	<hr/>	<hr/>
	170.7	179.3
Due after more than one year		
Other debtors	0.3	0.3
	<hr/>	<hr/>
Total	171.0	179.6
	<hr/> <hr/>	<hr/> <hr/>

12 Current asset investments

	1995 £m	1994 £m
Fixed and floating interest rate securities	-	1.2
	<hr/>	<hr/>

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

13 Creditors: amounts falling due within one year

	1995 £m	1994 £m
Bank loans (note 15)	1.4	-
Bank overdraft	-	2.4
Other loans (note 15)	0.8	0.8
Obligations under finance leases (note 16)	5.2	5.4
Progress claims and advance payments	65.3	54.6
Trade creditors:		
• Operating	35.7	31.7
• Capital	85.1	98.7
Bill of exchange payable	-	20.0
Amounts owed to parent and fellow subsidiary undertakings	46.4	88.5
Amounts owed to subsidiary undertaking	5.7	5.7
Taxation and social security payable	4.1	4.4
Accruals and deferred income	83.8	59.9
Other creditors	-	6.0
	<hr/>	<hr/>
Total	333.5	378.1
	<hr/> <hr/>	<hr/> <hr/>

14 Creditors: amounts falling due after more than one year

	1995 £m	1994 £m
Bank loans (note 15)	223.6	225.0
Other loans (note 15)	46.5	47.0
Obligations under finance leases (note 16)	154.7	115.2
Amounts owed to subsidiary undertaking (see below)	149.8	149.6
Other creditors	7.6	7.2
Deferred income	30.0	14.9
	<hr/>	<hr/>
Total	<u>612.2</u>	<u>558.9</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 £149.8 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.

15 Loans

Loans outstanding are repayable as follows:

	1995 £m	1994 £m
Bank loans:		
Within one year	1.4	-
Between one and two years	2.6	-
Between two and five years	39.0	34.5
After more than five years	182.0	190.5
	<hr/>	<hr/>
	225.0	225.0
	<hr/>	<hr/>
Other loans:		
Within one year	0.8	0.8
Between one and two years	0.5	0.6
Between two and five years	1.7	1.8
After more than five years	44.3	44.6
	<hr/>	<hr/>
	47.3	47.8
	<hr/>	<hr/>

Notes

- All loans are repayable between 1995 and 2030.
- Of the loans repayable after more than five years hence, £50.0m (1994 £25.0m) is in respect of bank loans and £32.4m (1994 £32.4m) is in respect of other loans wholly repayable after that date.

17 Deferred taxation

The company's medium and long term plans for capital investment, together with the capital allowances available in respect of 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 is required in these financial statements.

An analysis of amounts unprovided is as follows:

	1995 £m	1994 £m
Accelerated capital allowances:		
- Infrastructure assets	245.2	214.6
- Other assets	283.0	239.9
Other timing differences	(18.3)	(16.5)
Losses	(44.2)	(73.5)
	<u>465.7</u>	<u>364.5</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.

18 Share capital

	1995 £m	1994 £m
Authorised, allotted, called up and fully paid 360,050,000 ordinary shares of £1 each	<u>360.0</u>	<u>360.0</u>

19 Reserves and retained profits

	Profit and loss account £m
At 1 April 1994	1,530.2
Retained profit for the year	<u>184.1</u>
At 31 March 1995	<u>1,714.3</u>

20 Reconciliation of movements in shareholders' funds

	1995 £m	1994 £m
Profit for the financial year	317.1	283.3
Dividends	(133.0)	(122.0)
	<u>184.1</u>	<u>161.3</u>
Shareholders' funds at the beginning of the year	1,890.2	1,728.9
	<u>2,074.3</u>	<u>1,890.2</u>

21 Capital commitments

	1995 £m	1994 £m
Contracted for but not provided for	<u>231.0</u>	<u>244.7</u>
Authorised but not yet contracted for	<u>447.9</u>	<u>923.3</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.

22 Operating leases

At 31 March 1995 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	1995		1994	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Leases which expire:				
Within one year	-	0.3	-	0.2
Between two and five years	0.1	1.5	0.1	0.6
After more than five years	1.6	-	1.6	0.9
	<u>1.7</u>	<u>1.8</u>	<u>1.7</u>	<u>1.7</u>

23 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 the Thames Water group 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 1995 was £15.3m (1994: £15.6m). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the consulting actuaries to the schemes. At the year end there were no contributions outstanding in respect of the schemes (1994: £0.1m).

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 1995 there were no payments (1994: £0.3m).

24 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 - 1994/95

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Report of the auditors to the Director General of Water Services	49 - 50

Current Cost Accounting Statements - 1994/95**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), Regulatory Accounting Guideline 3.02 (Contents of Regulatory Financial statements), and Regulatory Accounting Guideline 4.01 (Analysis of Operating Costs and Assets). The presentation of the supplementary regulatory information differs from the financial information presented on pages 11 to 29 with respect to the treatment required under FRS 3.

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. In particular, an updated modern equivalent asset valuation has been prepared as part of the Asset Management Plan 2 (AMP 2) submission and in accordance with OFWAT requirements, this will be incorporated into the 1995/96 regulatory statements.

The auditors' 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.

As the non-appointed business, as defined by Regulatory Accounting Guidelines, has generated turnover in excess of 1% of total turnover, further profit and loss information has been provided for both years in accordance with RAG 3.02. Non-appointed business includes the provision of rechargeable works for which the company is not a monopoly supplier, Green Energy, plumbing services and other services to third parties.

Supplementary historical cost profit and loss account

	1995		Total	1994		Total
	Appointed business	Non-appointed business		Appointed business	Non-appointed business	
	£m	£m		£m	£m	
Turnover	901.9	17.2	919.1	858.9	13.2	872.1
Operating costs	(548.4)	(13.9)	(562.3)	(544.3)	(10.5)	(554.8)
	<u>353.5</u>	<u>3.3</u>	<u>356.8</u>	<u>314.6</u>	<u>2.7</u>	<u>317.3</u>
Operating income	9.5	-	9.5	10.2	-	10.2
	<u>363.0</u>	<u>3.3</u>	<u>366.3</u>	<u>324.8</u>	<u>2.7</u>	<u>327.5</u>
Operating profit	363.0	3.3	366.3	324.8	2.7	327.5
Interest	(48.9)	-	(48.9)	(43.9)	-	(43.9)
	<u>314.1</u>	<u>3.3</u>	<u>317.4</u>	<u>280.9</u>	<u>2.7</u>	<u>283.6</u>
Profit on ordinary activities before taxation	314.1	3.3	317.4	280.9	2.7	283.6
Taxation on profit on ordinary activities	(0.3)	-	(0.3)	(0.3)	-	(0.3)
	<u>313.8</u>	<u>3.3</u>	<u>317.1</u>	<u>280.6</u>	<u>2.7</u>	<u>283.3</u>
Profit for the financial year	313.8	3.3	317.1	280.6	2.7	283.3
Dividends	(131.6)	(1.4)	(133.0)	(120.8)	(1.2)	(122.0)
	<u>182.2</u>	<u>1.9</u>	<u>184.1</u>	<u>159.8</u>	<u>1.5</u>	<u>161.3</u>
Retained profit transferred to reserves	182.2	1.9	184.1	159.8	1.5	161.3

Current cost accounting statements

Profit and loss account
for the year ended 31 March 1995

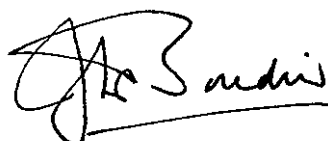
	Notes	Appointed business	1995 Non- appointed business	Total	Appointed business	1994 Non- appointed business	Total
		£m	£m	£m	£m	£m	£m
Turnover		901.9	17.2	919.1	858.9	13.2	872.1
Current cost operating costs	2	(623.7)	(13.9)	(637.6)	(609.4)	(10.5)	(619.9)
Operating income		5.5	-	5.5	(2.2)	-	(2.2)
		<u>283.7</u>	<u>3.3</u>	<u>287.0</u>	<u>247.3</u>	<u>2.7</u>	<u>250.0</u>
Working capital adjustment		2.5	-	2.5	2.6	-	2.6
		<u>286.2</u>	<u>3.3</u>	<u>289.5</u>	<u>249.9</u>	<u>2.7</u>	<u>252.6</u>
Interest		(48.9)	-	(48.9)	(43.9)	-	(43.9)
Financing adjustment		23.3	-	23.3	11.8	-	11.8
		<u>260.6</u>	<u>3.3</u>	<u>263.9</u>	<u>217.8</u>	<u>2.7</u>	<u>220.5</u>
Current cost profit on ordinary activities before taxation		260.6	3.3	263.9	217.8	2.7	220.5
Taxation		(0.3)	-	(0.3)	(0.3)	-	(0.3)
		<u>260.3</u>	<u>3.3</u>	<u>263.6</u>	<u>217.5</u>	<u>2.7</u>	<u>220.2</u>
Current cost profit attributable to shareholders		260.3	3.3	263.6	217.5	2.7	220.2
Dividends		(131.6)	(1.4)	(133.0)	(120.8)	(1.2)	(122.0)
		<u>128.7</u>	<u>1.9</u>	<u>130.6</u>	<u>96.7</u>	<u>1.5</u>	<u>98.2</u>
Current cost profit retained	8	128.7	1.9	130.6	96.7	1.5	98.2

Current cost accounting statements

Balance sheet
as at 31 March 1995

	Notes	1995 £m	1994 £m
Fixed assets			
Tangible assets	3 - 5	38,893.6	37,439.1
Third party contributions since 1989/90		(111.1)	(81.9)
		<u>38,782.5</u>	<u>37,357.2</u>
Working capital	6	(108.4)	(72.2)
Net operating assets		<u>38,674.1</u>	<u>37,285.0</u>
Cash and investments		5.2	2.4
Non-trade debtors		6.2	5.6
Non-trade creditors due within one year		(45.1)	(116.0)
Creditors due after more than one year		(612.2)	(558.9)
Net assets employed		<u>38,028.2</u>	<u>36,618.1</u>
Financed by			
Capital and reserves			
Called up share capital		360.0	360.0
Current cost reserve	7	36,724.5	35,445.0
Profit and loss account	8	943.7	813.1
		<u>38,028.2</u>	<u>36,618.1</u>

The accounting statements on pages 32 to 48 were approved by the Board of Directors on 6 June 1995 and were signed on its behalf by:



J K Boudier
Director

Notes to the supplementary regulatory financial statements for the year ended 31 March 1995**1 Accounting policies**

These financial statements 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 date of the new regulatory regime.

These financial statements have been prepared in accordance with applicable Regulatory Accounting Guidelines (RAG's) except for the treatment of certain capital contributions as set out in (a) (ii) below. In respect of cost allocations the company has continued to allocate costs as in previous years rather than on an activity based method, which is the preferred system under RAG 5.

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 1995 and which are in operational use are valued at the replacement cost of their operating capability. The depreciation policy used is the same as that adopted for the historic statements ie straight-line depreciation using expected life. Infrastructure assets are not depreciated.

The capital contributions for above-ground assets are amortised over the life of the asset. Capital contributions for below-ground assets are not amortised.

Disposed assets are shown at the written-down value of their replacement cost.

• 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 the Retail Price Index (RPI), except for certain properties which have been valued as at 31 March 1995 by professionally qualified employees of the company.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually between periodic reviews of replacement costs by adjusting for inflation as measured by changes in the RPI.

- **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 original Asset Management Plan (AMP) prepared for privatisation. 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 £4,667m (1994: £4,509m) at which these sewers are included in these financial statements. Adjustments may be required to these estimates in future years, when more accurate information becomes available.

- **Other fixed assets**

All other fixed assets are valued periodically at depreciated replacement cost. Values are restated for inflation as measured by changes in the RPI.

- **Review of asset valuations**

A review of the "modern equivalent asset" values has been undertaken as part of the Periodic Review. Revised values will be included in the 1995/96 financial statements in accordance with Ofwat requirements.

- **Surplus land**

Surplus land is valued at recoverable amounts 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. This treatment is explained in full in notes 1(d) and 8 to the statutory financial statements. 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

The following adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

- (i) Depreciation adjustment - this is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.
- (ii) 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.
- (iii) Disposal of fixed assets adjustment - this is the difference between the book values of realised assets in the current cost financial statements and in the historical cost financial statements.
- (iv) 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.

(c) Turnover

The analysis of turnover by service is included within the segmental analysis on page 16 of the financial statements.

(d) Operating income

Operating income comprises profit or loss on the sale of fixed assets, as required by RAG 1.02. This differs from the treatment required under FRS 3.

2(a) Operating costs and associated fixed asset book values (year ended 31 March 1995)

Operating costs for the year ended 31 March 1995	Water supply			Service analysis			Sewerage services			Business analysis		
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewage T & D subtotal £m	Sewerage services subtotal £m	Customer services £m	Scientific services £m	Cost of regulation £m		
Direct costs												
Employment costs	14.6	36.3	50.9	6.5	21.3	10.1	31.4	37.9				
Power	4.6	15.1	19.7	3.3	7.8	4.8	12.6	15.9				
Hired and contracted services	0.9	10.5	11.4	18.5	4.5	4.6	9.1	27.6				
Associated companies	0.3	3.9	4.2	6.9	1.6	1.7	3.3	10.2				
Materials and consumables	2.9	7.1	10.0	0.6	3.1	2.2	5.3	5.9				
Service charges	5.1	-	5.1	-	2.8	-	2.8	2.8				
Other direct costs	3.2	6.8	10.0	4.9	9.5	1.0	10.5	15.4				
Total direct costs	31.6	79.7	111.3	40.7	50.6	24.4	75.0	115.7		0.3		
General and support expenditure	11.5	23.2	34.7	13.6	22.0	8.0	30.0	43.6		2.9		
Functional expenditure	43.1	102.9	146.0	54.3	72.6	32.4	105.0	159.3		3.2		
Capital costs												
CC depreciation	30.7	5.9	36.6	6.1	49.3	9.5	58.8	64.9				
Infrastructure renewal expenditure	2.8	5.5	8.3	6.5	7.2	3.4	10.6	17.1				
Infrastructure renewals accrual / prepayment	0.2	0.5	0.7	0.6	0.6	0.3	0.9	1.5				
Functional cost	76.8	114.8	191.6	67.5	129.7	45.6	175.3	242.8				
Total including business analysis			222.0					267.5				
Rates			23.1					18.5				
Doubtful debts			4.2					7.8				
Business activities capital costs			19.9					30.6				
Service costs			269.2					324.4				
Services for third parties			23.2					6.9				
Total cost			292.4					331.3				
Fixed asset book values at 31 March 1995												
Service activities	1,186.1	5,948.9	7,135.0	29,988.1	1,146.7	218.4	1,365.1	31,353.2				
Business activities			159.7	24.7			221.0	245.7				
Service totals			7,294.7	30,012.8			1,586.1	31,598.9				
Total CCA values			7,294.7					31,598.9				

2(b) Operating costs and associated fixed asset book values (year ended 31 March 1994)

Operating costs for the year ended 31 March 1994	Water supply			Service analysis			Business analysis			
	Resources and treatment	Distribution	Water supply subtotal	Sewerage	Sewerage treatment and disposal	Sewerage T & D subtotal	Sewerage services subtotal	Customer services	Scientific services	Cost of regulation
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Direct costs										
Employment costs	15.2	39.8	55.0	10.6	20.9	30.6	41.2			
Power	4.5	17.6	22.1	4.6	11.1	16.2	20.8			
Hired and contracted services	2.4	13.1	15.5	22.4	8.4	16.1	38.5			
Associated companies	0.6	3.0	3.6	5.4	2.0	3.8	9.2			
Materials and consumables	3.0	7.1	10.1	0.8	3.7	5.9	6.7			
Service charges	4.3	3.0	7.3	2.7	-	-	2.7			
Other direct costs	2.4	8.1	10.5	3.6	8.9	9.8	13.4			
Total direct costs	32.4	91.7	124.1	50.1	55.0	82.4	132.5	16.1	7.9	-
General and support expenditure	13.2	24.6	37.8	14.4	19.5	27.7	42.1	9.0	1.5	3.1
Functional expenditure	45.6	116.3	161.9	64.5	74.5	110.1	174.6	25.1	9.4	3.1
Capital costs										
CC depreciation	25.9	5.7	31.6	7.9	50.0	59.6	67.5			
Infrastructure renewal expenditure	1.3	6.7	8.0	16.5	-	-	16.5			
Infrastructure renewals accrual / prepayment	0.1	0.7	0.8	1.6	-	-	1.6			
Functional cost	72.9	129.4	202.3	90.5	124.5	169.7	260.2			
Total including business analysis			224.1				276.0			
Rates			22.8				17.4			
Doubtful debts			5.9				7.8			
Business activities capital costs			14.5				24.6			
Service costs			267.3				325.8			
Services for third parties			12.7				3.6			
Total cost			280.0				329.4			
Fixed asset book values at 31 March 1994										
Service activities	1,008.1	5,774.9	6,783.0	28,927.6	1,125.9	1,340.4	30,268.0			
Business activities			144.4	24.5		219.2	243.7			
Service totals			6,927.4	28,952.1		1,559.6	30,511.7			
Total CCA values			6,927.4				30,511.7			

3 Tangible fixed assets by service as at 31 March 1995

	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
Gross replacement cost				
At 1 April 1994	7,740.8	29,120.2	2,935.3	39,796.3
RPI adjustment	270.2	1,019.0	101.5	1,390.7
Disposals	(23.7)	(6.4)	(29.0)	(59.1)
Additions	185.9	57.2	62.9	306.0
At 31 March 1995	8,173.2	30,190.0	3,070.7	41,433.9
Depreciation				
At 1 April 1994	813.4	168.1	1,375.7	2,357.2
RPI adjustment	28.5	5.9	48.1	82.5
Disposals	(21.9)	(6.0)	(26.0)	(53.9)
Charge for year	58.5	9.2	86.8	154.5
At 31 March 1995	878.5	177.2	1,484.6	2,540.3
Net book amount				
At 31 March 1995	7,294.7	30,012.8	1,586.1	38,893.6
At 31 March 1994	6,927.4	28,952.1	1,559.6	37,439.1

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 1995

	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 1994	4,521.2	218.7	34,692.8	363.6	39,796.3
RPI adjustment	158.2	5.7	1,214.3	12.5	1,390.7
Disposals	(25.9)	(8.2)	-	(25.0)	(59.1)
Additions	199.0	5.3	73.2	28.5	306.0
At 31 March 1995	4,852.5	221.5	35,980.3	379.6	41,433.9
Depreciation					
At 1 April 1994	2,103.3	70.7	-	183.2	2,357.2
RPI adjustment	73.6	2.5	-	6.4	82.5
Disposals	(24.8)	(4.6)	-	(24.5)	(53.9)
Charge for year	103.7	5.8	-	45.0	154.5
At 31 March 1995	2,255.8	74.4	-	210.1	2,540.3
Net book amount at 31 March 1995	2,596.7	147.1	35,980.3	169.5	38,893.6
Net book amount at 31 March 1994	2,417.9	148.0	34,692.8	180.4	37,439.1

Included in the gross replacement cost of Infrastructure assets is £4,667m (1994: £4,509m) of Section 24 sewers (see note 1a(i)). The RPI adjustments include the effect of revaluations on certain land and buildings as discussed in note 1.

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	1,023.7	58.0	6,146.2	66.8	7,294.7
Sewerage	159.3	9.0	29,834.1	10.4	30,012.8
Sewage treatment and disposal	1,413.7	80.1	-	92.3	1,586.1
	2,596.7	147.1	35,980.3	169.5	38,893.6

6 Working capital

	1995 £m	1994 £m
Stocks	15.2	15.9
Trade debtors	107.9	113.7
Trade creditors	(35.7)	(31.7)
Short term capital creditors	(85.1)	(98.7)
Infrastructure renewals prepayment	1.4	3.6
Accruals	(83.8)	(59.9)
Payments in advance	(65.3)	(54.6)
Tax and social security	(4.1)	(4.4)
Net group creditors	(9.3)	(6.3)
Prepayments	50.4	50.2
	<u>(108.4)</u>	<u>(72.2)</u>

7 Current cost reserve

	1995 £m	1994 £m
Balance at 1 April 1994	35,445.0	34,637.7
RPI adjustments		
- Fixed assets	1,308.2	823.2
- Capital contributions	(2.9)	(1.5)
- Working capital	(2.5)	(2.6)
- Financing	(23.3)	(11.8)
	<u>36,724.5</u>	<u>35,445.0</u>

8 Profit and loss account

	1995 £m	1994 £m
Balance at 1 April 1994	813.1	714.9
Current cost profit retained	130.6	98.2
	<u>943.7</u>	<u>813.1</u>

Rolling five-year summary

**Current cost profit and loss account
for the year ended 31 March 1995
with corresponding amounts at 1995 prices**

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover	919.1	896.5	847.8	813.8	767.2
Current cost operating costs	(637.6)	(637.2)	(620.5)	(617.8)	(612.3)
Operating income/(cost)	5.5	(2.3)	6.4	8.6	8.4
	<u>287.0</u>	<u>257.0</u>	<u>233.7</u>	<u>204.6</u>	<u>163.3</u>
Working capital adjustment	2.5	2.7	2.3	5.3	3.7
	<u>289.5</u>	<u>259.7</u>	<u>236.0</u>	<u>209.9</u>	<u>167.0</u>
Current cost operating profit	289.5	259.7	236.0	209.9	167.0
Interest	(48.9)	(45.1)	(34.6)	(16.3)	5.3
Financing adjustment	23.3	12.1	7.1	7.0	4.1
	<u>263.9</u>	<u>226.7</u>	<u>208.5</u>	<u>200.6</u>	<u>176.4</u>
Current cost profit on ordinary activities before taxation	263.9	226.7	208.5	200.6	176.4
Taxation	(0.3)	(0.3)	0.7	(1.6)	1.8
	<u>263.6</u>	<u>226.4</u>	<u>209.2</u>	<u>199.0</u>	<u>178.2</u>
Current cost profit on ordinary activities after taxation	263.6	226.4	209.2	199.0	178.2
Extraordinary income	-	-	-	-	0.8
	<u>263.6</u>	<u>226.4</u>	<u>209.2</u>	<u>199.0</u>	<u>179.0</u>
Current cost profit attributable to shareholders	263.6	226.4	209.2	199.0	179.0
Dividends	(133.0)	(125.5)	(114.7)	(106.6)	(99.4)
	<u>130.6</u>	<u>100.9</u>	<u>94.5</u>	<u>92.4</u>	<u>79.6</u>
Current cost profit retained	130.6	100.9	94.5	92.4	79.6

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

Rolling five-year summary

Current cost balance sheet as at 31 March 1995 with corresponding amounts at 1995 prices

	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Fixed assets					
Tangible assets	38,893.6	38,749.5	38,549.9	38,293.9	38,032.2
Third party contributions since 1989/90	(111.1)	(84.8)	(67.7)	(45.2)	(22.7)
	<u>38,782.5</u>	<u>38,664.7</u>	<u>38,482.2</u>	<u>38,248.7</u>	<u>38,009.5</u>
Working capital	(108.4)	(74.7)	(118.0)	(126.2)	(135.3)
	<u>38,674.1</u>	<u>38,590.0</u>	<u>38,364.2</u>	<u>38,122.5</u>	<u>37,874.2</u>
Net operating assets					
Cash and investments	5.2	2.5	16.3	88.0	63.4
Non-trade debtors due within one year	6.2	5.8	9.7	5.7	13.8
Non-trade creditors due within one year	(45.1)	(120.1)	(61.6)	(50.7)	(109.7)
Creditors due after more than one year	(612.2)	(578.5)	(509.0)	(429.7)	(151.0)
	<u>38,028.2</u>	<u>37,899.7</u>	<u>37,819.6</u>	<u>37,735.8</u>	<u>37,690.7</u>
Net assets employed					
Financed by					
Capital and reserves					
Called up share capital	360.0	372.6	381.2	388.4	404.3
Current cost reserve	36,724.5	36,685.6	36,681.3	36,673.5	36,681.3
Profit and loss account	943.7	841.5	757.1	673.9	605.1
	<u>38,028.2</u>	<u>37,899.7</u>	<u>37,819.6</u>	<u>37,735.8</u>	<u>37,690.7</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 1995

	Notes	1995 £m	1994 £m
Net cash inflow from operating activities	a	473.7	367.7
Returns on investments and servicing of finance			
Interest received		4.8	3.8
Interest paid		(40.3)	(36.5)
Interest element of finance lease rental payments		(7.6)	(6.6)
Dividend paid to parent company		(133.0)	(122.0)
		<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance		(176.1)	(161.3)
		<u> </u>	<u> </u>
Investing activities			
Purchase of tangible fixed assets		(274.2)	(354.6)
Capital contributions		41.8	25.3
Sale of tangible fixed assets		10.3	14.0
		<u> </u>	<u> </u>
Net cash outflow from investing activities		(222.1)	(315.3)
		<u> </u>	<u> </u>
Net cash inflow/(outflow) before financing		75.5	(108.9)
		<u> </u>	<u> </u>
Financing			
Long term bank loans		-	45.0
Repayment of long term other loans		(0.5)	(0.6)
Loan from subsidiary undertaking		-	0.3
Short term loan from parent undertaking		(43.7)	55.7
Short term investments of greater than 3 months maturity		1.2	12.6
Capital element of finance lease rental payments		(6.1)	(8.0)
		<u> </u>	<u> </u>
Net cash (outflow)/inflow from financing	d	(49.1)	105.0
		<u> </u>	<u> </u>
Increase/(decrease) in cash and cash equivalents	b, c	26.4	(3.9)
		<u> </u>	<u> </u>

Notes to the cash flow statement

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

	1995 £m	1994 £m
Current cost operating profit, excluding profit on asset sales	284.0	254.8
Depreciation	154.5	138.6
Working capital adjustment	(2.5)	(2.6)
Decrease in stocks and work in progress	0.7	0.6
Decrease/(increase) in debtors	8.3	(18.8)
Grant movement	(0.5)	-
Increase/(decrease) in creditors	29.0	(4.9)
Exchange loss	0.2	-
	<u>473.7</u>	<u>367.7</u>
Net cash inflow from operating activities	<u><u>473.7</u></u>	<u><u>367.7</u></u>

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

	1995 £m	1994 £m
Balance at 1 April 1994	(21.3)	(17.4)
Net cash inflow/(outflow)	26.4	(3.9)
	<u>5.1</u>	<u>(21.3)</u>
Balance at 31 March 1995	<u><u>5.1</u></u>	<u><u>(21.3)</u></u>

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

	1995 £m	1994 £m	Change in year £m
Cash at bank and in hand	5.1	1.1	4.0
Bank overdraft	-	(2.4)	2.4
Bills of exchange	-	(20.0)	20.0
	<u>5.1</u>	<u>(21.3)</u>	<u>26.4</u>
	<u><u>5.1</u></u>	<u><u>(21.3)</u></u>	<u><u>26.4</u></u>

(d) Analysis of changes in financing during the year

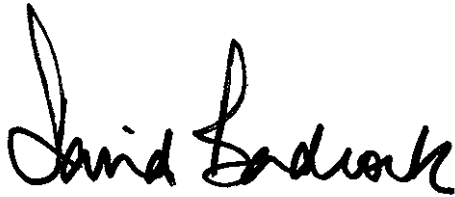
	Loan from parent undertaking	Loan from subsidiary undertaking	Loans and finance lease obligations	Current asset investments	Total
	£m	£m	£m	£m	£m
Balance at 1 April 1993	25.7	149.3	326.5	(13.8)	487.7
Net cash inflow from financing	55.7	0.3	36.4	12.6	105.0
Finance leases raised during the year	-	-	30.5	-	30.5
Balance at 31 March 1994	81.4	149.6	393.4	(1.2)	623.2
Net cash (outflow)/inflow from financing	(43.7)	-	(6.6)	1.2	(49.1)
Finance leases raised during the year	-	-	45.4	-	45.4
Write off of debt issue costs	-	0.2	-	-	0.2
Foreign exchange loss	-	-	0.2	-	0.2
Balance at 31 March 1995	37.7	149.8	432.4	-	619.9

Finance leases amounting to £45.4m (1994: £30.5m) were raised during the year to fund capital plant, equipment and vehicles.

Directors' Certificate under Condition F6A of the Company's Appointment

This is to certify that at their meeting on 6 June 1995 the Directors of Thames Water Utilities Limited ("the Appointee") resolved as follows:

- " - that in the opinion of the Directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, at least until 30 June 1996, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- that in the opinion of the Directors, the Appointee will, at least until 30 June 1996, have available to it management resources which are sufficient to enable it to carry out those functions."



David Badcock
Secretary & Legal Director

Report of the auditors to the Director General of Water Services

We have audited the financial statements on pages 11 to 29 and 31 to 48.

Respective responsibilities of directors and auditors

As described on page 8 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 for statutory financial statements purposes 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.

For the purpose of this report we have augmented our audit of the statutory financial statements by a review of the supplementary regulatory accounting statements to determine whether they are consistent with the statutory financial statements. This review also included an examination, on a test basis, of compliance with relevant Regulatory Accounting Guidelines and an assessment of the significant estimates and judgements made by the directors in the preparation of the supplementary regulatory accounting statements.

In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements in terms of Generally Accepted Accounting Principles and Regulatory Accounting Guidelines.

Opinion

In our opinion the financial statements for the year to 31 March 1995 contain the information 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 (Wales) of the company as a water (and sewerage) undertaker under the Water Act 1991.

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 11 to 29 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 33 to 47 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.

Coopers Lybrand

Coopers & Lybrand

Chartered Accountants and Registered Auditors

Reading

16 June 1995