

Registered no: 2366661

Thames Water Utilities Limited

Annual report and financial statements
including regulatory information

for the year ended 31 March 1996



Thames Water Utilities Limited

Annual report for the year ended 31 March 1996

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Directors and secretary

Executive directors

M R Hoffman (Chairman)	(resigned 31 March 1996)
W J Alexander (Managing Director)	
D Badcock	
J K Boudier	
J G Hurcom	
D J Luffrum	
R J Marshall	
G W Maxwell	(appointed 7 November 1995)
J V May	(appointed 7 November 1995)
M G Ribbins	
J R Sexton	
S C Walker	

Secretary and registered office

D Badcock
Nugent House
Vastern Road
Reading
Berkshire
RG1 8DB

Directors' report for the year ended 31 March 1996

The directors present their report and the audited financial statements for the year ended 31 March 1996.

Principal activities and review of the year

Introduction

The company's principal activities are the supply of water to over 3.4 million premises in its area and the collection and treatment of sewage from over 5.1 million premises. In 1995/96 it put into supply an average of 2,872 megalitres per day of water and treated an average of 3,861 megalitres per day of sewage.

The company maintained the lowest average combined water and sewerage services bill for our unmeasured households of all the Water Service Companies. We invested £374.8m (£337.3m net of infrastructure renewals) over the year on our capital programme to improve our service to customers and reaffirmed our commitment to excellent customer service with all employees participating in our "Make Time for Customers" programme.

Investments made to improve our water supply system after the record demands of the summer of 1994 were crucial in successfully meeting unprecedented demands resulting from the drought of last summer, maintaining our record of having not imposed water restrictions on our customers since 1991.

In September 1995, Thames Water Utilities Limited formed the "Connect 2020" company as part of a new strategic partnership with Andersen Consulting. "Connect 2020" is a specialist supply chain management company which builds upon the long-standing operational experience of Thames Water Utilities Limited and the logistics and re-engineering skills of Andersen Consulting. The two main objectives of the new company are: firstly, to deliver a full procurement service to the Thames Water Utility business at a reduced cost and with improved levels of service; and secondly, to market its supply chain services to other utility companies in the UK.

In the year under review, Thames Water Plc undertook a strategic review of its business with the intention of developing a new integrated organisation built on the strong utility base that already exists. Accordingly, our Group Chief Executive - and the Chairman of Thames Water Utilities Limited (TWUL) - Michael Hoffman, left the company on 31 March 1996 and Bill Alexander became Group Managing Director of Thames Water Plc from 1 April 1996. John Hurcom, as Deputy Managing Director of TWUL, is responsible for all TWUL activities on a day to day basis.

Water resources, treatment and supply

On average, we supply 2,872 megalitres of water a day. During the last year we have put a record amount of water into supply. In some parts of our distribution area demand for water rose to 25% above normal during the summer heatwave. We appealed to customers to use water wisely in their gardens and their positive response enabled us to avoid restrictions during this exceptional drought period.

In March 1996 we adopted an enhanced water efficiency strategy to support the new duty under the Environment Act 1995, to promote the efficient use of water by customers. In May 1995 we won a silver medal at the Chelsea Flower Show for our water efficiency display.

Our new underground water storage scheme in North London was formally opened in June by the then environment minister, Robert Atkins MP. Excess capacity of a huge aquifer beneath the Enfield/Haringey area is now used as a natural underground reservoir, holding water until needed. This long term investment scheme allows surplus water in winter to be stored to maintain supplies during drought.

Considerable progress was made on the drinking water quality improvement programme with investments in advanced water treatment (AWT) processes at many of our plants, which produce clearer, better tasting water for our customers. Several projects were completed and Walton Water Treatment Works (WTW) was officially opened by the Chairman in September. Good progress was maintained on the installation of granular activated carbon (GAC) "Superfilter" at Ashford Common, Coppermills and Kempton Park WTWs. Commissioning of the GAC reactivation plant at Kempton Park commenced in the year, ready for handover and full operation in May 1996.

A dedicated mains rehabilitation team has been set up to undertake a five year mains water quality rehabilitation programme targeted at areas of greatest customer benefit.

Following our stated intention to reduce leakage by half by the year 2005, considerable effort and good progress was made during a difficult winter period, with dedicated night teams actively searching for hidden leaks in targeted zones.

Sewerage and sewage treatment

Sewerage

The programme to reduce the number of properties at risk of sewage flooding has continued positively with our annual target of protecting 1,100 properties being outperformed by the protection of an additional 36. A total of 31 schemes were completed. A major project in North London, providing flood alleviation to 1,677 properties in the boroughs of Hackney and Haringey, was started during the year. This figure includes 875 properties at lower risk.

The hydraulic computer modelling of the central London area was completed. This will be used in conjunction with asset management plans for sewerage to help us resolve London's more complex flooding and pollution problems.

We have actively supported the national "Bag It and Bin It" campaign which started in March 1995. This is aimed at encouraging customers to avoid disposing of unsuitable waste into household drainage. We have distributed several thousand advice leaflets which identify the problem wastes and suitable, alternative disposal means. We took part in the Croydon Schools' Challenge to educate children on the effects of unsuitable waste upon household drainage.

Sewage treatment

Wastewater performance during the year has been very good. In February we received a Certificate of Endorsement from 11 organisations, including the National Rivers

Authority, for river quality improvements to the River Thames. Our investment programme has contributed to the Thames being recognised as the cleanest metropolitan river in the world. There are significant runs of salmon in this river and we are working with two otter projects to encourage the return of the otter to the upper Thames area.

The sewage treatment programme has focused on improving reliability and wastewater quality, with major projects being completed at Guildford, Oxford and Crawley, the latter including a works extension to treat surface water run-off from Gatwick Airport. A programme to meet higher Environment Agency effluent compliance requirements started at Basingstoke, Compton and Washwater. Major works extensions also started at Windsor and Witney. In total 31 schemes to improve sewage treatment works were completed, resulting in wastewater quality compliance rising to 99% this year. In the year, 339 of 344 sewage treatment works with numeric effluent consents achieved their targets. Two of the works that failed did so only by exceeding metals limits which we consider to be inappropriately stringent and these metal consent limits are currently under appeal.

Quality

Our Engineering Department's ISO 9001 award and our Scientific Laboratories' NAMAS accreditation have been re-affirmed this year. Our Customer Centre achieved ISO 9002 certification in March 1996 for the billing and collection of water services charges.

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 gave just over 70 awards in 1995/96.

The standards set by the Highways Authorities are exacting. It was therefore gratifying to receive 6 Gold Awards in the year from the "Considerate Contractors Scheme" of the city of London Corporation.

Customers and the Community

Our state-of-the-art Customer Centre at Swindon provides a service 365 days a year, 24 hours a day, for more than 11 million customers. During 1995/96, the Customer Centre handled nearly 3 million enquiries, of which over three quarters were by telephone. On average, each call was answered within 20 seconds and 90% of calls are dealt with at the first point of contact. This performance helped Customer Services to achieve the highest rating of "Very Good" against OFWAT's measures for response to customer enquiries and complaints in 1995/96, a further improvement on last year's achievement of "Good". Continued investment in systems, people and quality has further enhanced customer service and the centre is now well placed for continuous improvement.

Over 6,200 staff experienced a two day "Make Time for Customers" programme. This marked a further step in the company's efforts to provide yet higher standards in customer care.

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.

Our first television advertising campaign last autumn was a response to market research showing that 90% of customers wanted more information about Thames Water. It was

very well received and, featuring our own employees rather than actors, it resulted in a significant improvement in customers' awareness of the company's achievements.

Environment

Thames Water Plc will publish the Environmental Review 1996 in July. The report will detail environmental performance during 1995/96 including progress against the 39 environmental targets established by Thames Water Utilities Limited last year. Data in this review are externally verified. The annual Conservation, Access and Recreation Report will be published by Thames Water Utilities Limited in June. This will report our achievements in environmental stewardship and recreation provision over the year. Both documents will be available free of charge from Thames Water's Customer Centre.

In December TWUL was the first water company to gain the prestigious Energy Accreditation Certificate, supported by the Department of the Environment. This was awarded for significant improvements in energy efficiency.

The company won 8 environmental awards over the year. We received the Royal Institute of Chartered Surveyors "Greening the City" award in June for the Greenway partnership pathway scheme through London. Our sustained environmental performance was also rewarded with a Certificate of Excellence in the Mars/Berkshire awards, following up our success last year in achieving the Premier Award. The Royal Institute of British Architects made an award to the Ring Main Landmark Tower at Shepherds Bush in November. Both this tower and the North London pumping stations for the Enfield/Haringey Artificial Recharge project won commendations in the 1996 Civic Trust Awards.

TWUL and partner organisations spent £246,000 on habitat enhancement projects during 1995/96. 30 of these were completed in the year, 22 in conjunction with local partner organisations. We also undertook other important nature conservation and heritage projects: at Wigwell in Oxfordshire we created a downland nature reserve with the Charlbury council, and set up a trust at Kempton Park to restore the disused triple expansion steam engines. We have continued to support the ThamesClean project, led by the Tidy Britain Group, to reduce litter on the banks of the River Thames.

Regulation

Thames Water Utilities Limited's activities were regulated by three principal regulators - OFWAT, who monitor the services provided to customers and set limits on the prices the company can charge - DWI, the Drinking Water Inspectorate, who monitor the quality of the water we supply - and the NRA, National Rivers Authority (now superseded by the Environment Agency), who monitor the impact the company has on the environment.

This year marks the first year of new price limits following a price review by the Director General of OFWAT in 1994. Our prices rose on average by only 0.5% above inflation. This was the K factor allowed by the Director General's Review, designed to fund environmental improvements to meet EU legislation.

The fifth annual report for calendar year 1994 (published July 1995) from the Government's Drinking Water Inspectorate confirmed that the drinking water supplied to customers achieved 99% compliance against water regulations. This is the best ever level for the company.

Preparation of our sixth annual report (for the calendar year 1995) on the quality of drinking water supplied has begun and will be available from July 1996.

During the year the NRA prosecuted us on five occasions. Two convictions were in respect of the escape of sewage at Newbury and Haslemere Sewage Treatment Works. Two were in respect of the escape of sewage from a fractured sewer in Colnebrook. One conviction was in respect of the escape of sewage from Lower Charwell Street Pumping Station, Banbury. Merton Local Authority prosecuted us over dust nuisance at Raynes Park depot.

Results

The results for the year are set out in the Profit and Loss account on page 11. Profits increased by 10.2% to £349.4 million (1995: £317.1 million). Operating costs were again tightly managed and kept well below the rate of inflation, rising just 0.8% excluding depreciation and infrastructure renewals.

Dividends

During the year, the company proposed dividends of £648.7 million, comprising an ordinary dividend of £148.7 million (1995:£133.0 million) and an additional interim dividend of £500 million (1995:nil). The ordinary distribution has due regard to the level of earnings, regulatory considerations, and capital employed in the business. The increased ordinary dividend is inclusive of efficiency gains, the majority of which have been retained for investment which will be to the long term benefit of the company's customers.

The additional interim dividend of £500 million was paid by agreement of the Utility Directors to rectify a disparity between the level of reserves held at parent company level by the company and other companies within the water sector. This followed research by our advisors that indicated that only some 2% of group reserves within Thames were held in the parent company (Thames Water Plc) whereas the average for the water sector at 31 March 1995 was 35%. Following the payment of the dividend to the parent company, the company authorised and issued 400 million new ordinary shares of £1 each for which the parent company paid £500 million in cash to purchase the shares, including a premium of 25p per share. As a result, the company's net cashflow and equity shareholders' funds are unaffected (See notes 18 and 19).

Fixed assets

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 1996.

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 1995/96 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	S C Walker

G W Maxwell and J May were appointed as directors on 7 November 1995.
M R Hoffman resigned as a director on 31 March 1996.

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.

Payment of Suppliers

Thames Water actively supports a number of initiatives to promote a prompt payment culture, including those by the Construction Round Table and the CBI. The implementation of these principles in its trading arrangements is managed by its procurement subsidiary Connect 2020. All payment of suppliers is made on the basis of mutually agreed terms and conditions which are established in advance of purchases.

Employees

Organisational changes have taken place to strengthen the customer focus of our operating units and to build on the strong utility base that exists. A second, follow-up Employee survey ("Viewfinder 2") was carried out covering the whole workforce in order to gauge employee opinion on a wide range of work related issues. A response to employees is in preparation.

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. In addition, health and safety requirements are carefully considered in the design or purchase of new plant or equipment.

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 has enabled the smooth implementation of the new requirements introduced in early 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 new research projects conducted in 1995/96 were:-

- Pilot trials at the Kempton Advanced Water Treatment Centre have shown that it will be possible to reduce traditional chlorine use by at least 50%, improving taste whilst meeting all health standards.
- The first of the new monitoring technologies to detect and measure Combined Sewer Overflows and cross connection between foul and storm sewers has been installed at twelve sites to help calibrate a giant model of London's sewers. This will help reduce both foul flooding of customer properties and storm pollution of rivers and streams.
- A novel risk and consequence computer model for targeting water mains investment and maintenance in order to reduce bursts and water losses is under development. The first stage model commenced field trials in London during the year and is linked to research on "no-Dig" solutions for relining pipes to also improve quality.
- A large scale demonstration plant at Maple Lodge Sewage Treatment Works has been completed which doubles the amount of green energy that can currently be produced (biogas and electricity) and reduces problems at landfill sites for municipal waste authorities.
- Innovative, quickly fitted treatment solutions are being developed and installed at many smaller sewage treatment works to improve compliance with strict new effluent standards. Amongst the novel but effective ideas is a low cost device that captures polluting material in the inlet to clarifiers.

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 30.

Respective responsibilities of directors and auditors

As described on page 9 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.


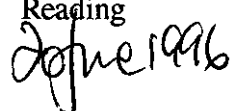
Basis of opinion

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 1996 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


**Profit and loss account
for the year ended 31 March 1996**

	Notes	1996 £m	1995 £m
Turnover	2	975.6	919.1
Operating costs	3	(588.3)	(562.3)
Operating profit		387.3	356.8
Profit on sale of fixed assets		6.5	9.5
Interest	5	(44.4)	(48.9)
Profit on ordinary activities before taxation	2	349.4	317.4
Tax on profit on ordinary activities	6	-	(0.3)
Profit for the financial year		349.4	317.1
Dividends	7	(648.7)	(133.0)
(Deficit)/ Retained profit transferred (from)/to reserves	20	(299.3)	184.1

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.

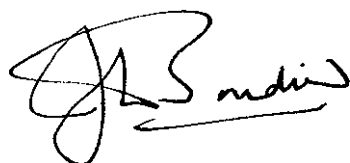
There is no difference between the profit on ordinary activities before taxation and the deficit on reserves for the year stated above, and their historical cost equivalents.

Balance sheet at 31 March 1996

	Notes	1996 £m	1995 £m
Fixed assets			
Tangible assets	8	3,055.5	2,828.6
Investments	9	0.1	0.1
		<u>3,055.6</u>	<u>2,828.7</u>
Current assets			
Stocks and work in progress	10	14.9	15.2
Debtors	11	193.0	171.0
Investments	12	48.5	-
Cash at bank and in hand		2.0	5.1
		<u>258.4</u>	<u>191.3</u>
Creditors: amounts falling due within one year	13	<u>(371.9)</u>	<u>(333.5)</u>
Net current liabilities		<u>(113.5)</u>	<u>(142.2)</u>
Total assets less current liabilities		<u>2,942.1</u>	<u>2,686.5</u>
Creditors: amounts falling due after more than one year	14	<u>(667.1)</u>	<u>(612.2)</u>
Net assets		<u>2,275.0</u>	<u>2,074.3</u>
Capital and reserves			
Called up share capital	18	760.0	360.0
Share premium	19	100.0	-
Reserves and retained profits	20	1,415.0	1,714.3
Equity shareholders' funds		<u>2,275.0</u>	<u>2,074.3</u>

The notes on pages 13 to 30 form part of these financial statements.

The financial statements were approved by the board of directors on 11 June 1996 and were signed on its behalf by:



J K Boudier
Director

Notes to the financial statements for the year ended 31 March 1996

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 is provided in the supplementary regulatory information.

2 Segmental analysis by class of business

	Water supply	Sewerage services	Other trading activities	Total 1996	Total 1995
	£m	£m	£m	£m	£m
TURNOVER					
Unmeasured charges	258.0	427.8	-	685.8	655.3
Measured charges	101.9	107.3	-	209.2	186.1
Trade effluent charges	-	24.3	-	24.3	24.9
Rechargeable works	17.2	7.5	-	24.7	21.2
Other income	6.1	6.7	18.8	31.6	31.6
Total Turnover (1996)	383.2	573.6	18.8	975.6	
Total Turnover (1995)	366.9	535.0	17.2		919.1
OPERATING COSTS					
Operating costs before depreciation and maintenance of infrastructure assets	(229.0)	(215.9)	(14.1)	(459.0)	(455.4)
Depreciation	(42.1)	(49.1)	(0.6)	(91.8)	(79.2)
Infrastructure renewals charge	(15.7)	(21.8)	-	(37.5)	(27.7)
Total Operating costs	(286.8)	(286.8)	(14.7)	(588.3)	(562.3)
Operating profit	96.4	286.8	4.1	387.3	356.8
Profit on sale of fixed assets	5.9	0.6	-	6.5	9.5
Interest	(20.2)	(24.2)	-	(44.4)	(48.9)
Profit on ordinary activities before taxation (1996)	82.1	263.2	4.1	349.4	
Profit on ordinary activities before taxation (1995)	88.2	225.9	3.3		317.4

Turnover derives wholly from within the United Kingdom.

	1996 £m	1995 £m
Net assets		
Water supply	1,335.7	1,223.9
Sewerage services	1,595.5	1,465.0
	<hr/>	<hr/>
Net operating assets	2,931.2	2,688.9
Net interest bearing liabilities	(656.2)	(614.6)
	<hr/>	<hr/>
	2,275.0	2,074.3
	<hr/> <hr/>	<hr/> <hr/>

3 Operating costs

Analysis of operating costs by type of expense:

	1996 £m	1995 £m
Manpower costs	162.3	165.0
Other external charges	215.6	207.0
Materials and consumables	27.3	28.5
Other operating charges	62.8	64.2
Infrastructure renewals charge	37.5	27.7
Depreciation:		
• own assets	81.8	69.8
• assets held under finance leases	10.0	9.4
Rentals under operating leases:		
• hire of plant and machinery	2.4	2.1
• other	1.5	1.9
Auditors' remuneration:		
• for audit work	0.2	0.2
• for non audit work	0.1	0.1
Research and development	7.4	6.7
	<hr/>	<hr/>
	608.9	582.6
Own work capitalised	(20.6)	(20.3)
	<hr/>	<hr/>
	588.3	562.3
	<hr/> <hr/>	<hr/> <hr/>

4 Information regarding Directors and employees

Directors' remuneration

	1996 £'000	1995 £'000
Executive Directors:		
Salary	551	640
Bonus	60	106
Other benefits	78	65
Pension contributions	166	193
	<u>855</u>	<u>1,004</u>

	1996 £'000	1995 £'000
Fees and other emoluments (excluding pension contributions) payable to the chairman and the highest paid director are as follows:		

Chairman		
M R Hoffman (see below)	<u>Nil</u>	<u>Nil</u>

Highest paid Director		
J G Hurcom (1995: W J Alexander)		
Salary	88	138
Bonus	9	24
Other benefits	9	7
	<u>106</u>	<u>169</u>

The pension benefits of the highest paid director are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. Contributions to the schemes in 1996 were £26,476 (1995: W J Alexander: £41,723).

The above details of directors' emoluments do not include the emoluments of M R Hoffman, D J Luffrum and W J Alexander (1995: M R Hoffman, D J Luffrum and W R Harper) who are remunerated by Thames Water Plc in respect of their services to the group as a whole. Their costs are included in management fees recharged to subsidiary companies. Full details of their remuneration are disclosed in the financial statements of Thames Water Plc. The above details do not include any emoluments for D Badcock from 1 November 1995 as he was appointed as Group Company Secretary and remunerated by Thames Water Plc from that date.

Scale of Directors' remuneration (excluding pension contributions)

	1996 Number	1995 Number
£Nil to £5,000	3	3
£35,001 to £40,000	1	-
£40,001 to £45,000	1	-
£55,001 to £60,000	1	-
£75,001 to £80,000	1	2
£80,001 to £85,000	1	-
£85,001 to £90,000	1	1
£90,001 to £95,000	1	2
£100,001 to £105,000	1	1
£105,001 to £110,000	1	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 1996	Shares held as at 1 April 1995 or date of appointment if later
D Badcock	1,712	1,575
J K Boudier	9,272	10,460
J G Hurcom	17,472	16,750
R J Marshall	9,039	8,535
G W Maxwell	358	352
J V May	-	-
M G Ribbins	4,697	4,408
J R Sexton	8,129	3,802
S C Walker	183	126

M R Hoffman, D J Luffrum and W J Alexander were also Directors of Thames Water Plc at 31 March 1996 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 on exercise	Date when exercisable	Expiry date	
	* At	During the year						At
	01.04.95	Granted	Exercised					31.03.96
D Badcock	15,000 10,000			15,000 10,000 14,000	347p 453p 560p		02.07.94 08.12.97 08.12.98 02.07.01 07.12.04 07.12.04	
J K Boudier	15,000 10,000		15,000	- 10,000 11,000	347p 453p 560p	576p	02.07.94 08.12.97 08.12.98 02.07.01 07.12.04 07.12.04	
J G Hurcom	18,000 11,000			18,000 11,000 12,000	347p 453p 560p		02.07.94 08.12.97 08.12.98 02.07.01 07.12.04 07.12.04	
R J Marshall	18,000 12,000			18,000 12,000 12,500	347p 453p 560p		02.07.94 08.12.97 08.12.98 02.07.01 07.12.04 07.12.04	
G W Maxwell	10,000 10,000			10,000 10,000 11,500	418p 453p 560p		24.06.95 08.12.97 08.12.98 24.06.02 07.12.04 07.12.04	
J V May	10,000			10,000 12,500	453p 560p		08.12.97 08.12.98 07.12.04 07.12.04	
M G Ribbins	16,000 9,000			16,000 9,000 10,500	347p 453p 560p		02.07.94 08.12.97 08.12.98 02.07.01 07.12.04 07.12.04	
J R Sexton	11,000 12,000 6,000		11,000 12,000	- - 6,000 7,300	418p 480p 453p 560p	576p	24.06.95 01.12.95 08.12.97 08.12.98 24.06.02 01.12.02 07.12.04 07.12.04	
S C Walker	10,000 13,000 14,000		10,000 13,000	- - 14,000 12,000	418p 418p 453p 560p	517p 529p	24.06.95 24.06.95 08.12.97 08.12.98 24.06.02 24.06.02 07.12.04 07.12.04	

No options lapsed during the year.

The options exercised by J K Boudier, J R Sexton and S C Walker gave rise to a gain by reference to the share price at the date of exercise of £34,350, £28,900 and £24,330 respectively.

The following directors have options under the Thames Water Sharesave Scheme which is available to all employees.

Director	Number of options		Exercise price
	1996	*1995	
D Badcock	4,637	4,637	372p
J K Boudier	12,150	12,150	176p-421p
R J Marshall	4,420	4,420	372p-421p
G W Maxwell	1,642	-	420p
M Ribbins	4,639	1,854	372p-420p
J R Sexton	4,991	4,991	296p-421p
S C Walker	3,906	3,906	288p

The market price of the shares at 31 March 1996 was 574p and the range during the period 1 April 1995 to 31 March 1996 was 470p to 581p.

* or date of appointment if later

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:

	1996 Number	1995 Number
Water supply	3,677	3,586
Sewerage services	2,661	3,087
Total	<u>6,338</u>	<u>6,673</u>

	1996 £m	1995 £m
Employment costs including Executive Directors' remuneration were:		
Salaries and wages	138.7	141.1
Social security costs	11.9	11.9
Pension contributions (note 24)	15.6	15.3
Total	<u>166.2</u>	<u>168.3</u>

Total employment costs contain £2.3m (1995: £1.7m) which is included in the infrastructure renewals charge and £1.6m (1995:£1.6m) which is included in research and development in note 3.

5 Interest

	1996	1995
	£m	£m
Bank loans, overdrafts and other loans:		
- overdrafts	-	(0.2)
- bank loans	(20.7)	(21.2)
- other loans	(0.9)	(2.8)
- group loans	(16.0)	(16.8)
Finance charges in respect of finance leases	(12.3)	(12.3)
Interest payable and similar charges	(49.9)	(53.3)
Interest receivable	5.5	4.4
Total	<u>(44.4)</u>	<u>(48.9)</u>

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. The company expects to be a payer of mainstream corporation tax next year.

	1996	1995
	£m	£m
Group relief		
- adjustment in respect of prior years	-	(0.3)
	<u> </u>	<u> </u>

7 Dividends

	1996	1995
	£m	£m
Interim	38.7	44.0
Additional interim	500.0	-
Final	110.0	89.0
	<u> </u>	<u> </u>
	<u>648.7</u>	<u>133.0</u>

Following the payment of the additional interim dividend, Thames Water Plc reinvested the £500.0m in the share capital of the company at a premium of 25 pence per share (See notes 18 and 19).

8 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infra- structure assets £m	Total £m
Net cost				
At 1 April 1995	1,172.3	1,056.9	1,079.3	3,308.5
Reclassification	(10.2)	10.2	-	-
Additions	88.9	178.4	70.0	337.3
Disposals	(1.5)	(6.2)	(0.2)	(7.9)
Capital contributions	-	-	(16.2)	(16.2)
At 31 March 1996	1,249.5	1,239.3	1,132.9	3,621.7
Depreciation				
At 1 April 1995	216.2	263.7	-	479.9
Reclassification	(1.1)	1.1	-	-
Provided during the year	18.4	73.4	-	91.8
Disposals	(0.3)	(5.2)	-	(5.5)
At 31 March 1996	233.2	333.0	-	566.2
Net book value				
At 31 March 1996	1,016.3	906.3	1,132.9	3,055.5
At 31 March 1995	956.1	793.2	1,079.3	2,828.6

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 £121.1m (1995: £104.9m).

During the year, assets previously described as freehold buildings with a net book value of £27.5m were reclassified as leaseholds £18.4m and plant & equipment £9.1m.

The net book value of land and buildings is analysed as follows :

	1996 £m	1995 £m
Freehold land and buildings	994.3	952.0
Leasehold		
over 50 years	17.5	0.1
under 50 years	4.5	4.0
	<u>1,016.3</u>	<u>956.1</u>

No depreciation has been charged on freehold land included above at £4.5m (1995: £4.2m).

Tangible fixed assets at 31 March 1996 include £320.5m (1995: £344.8m) 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	
	1996 £m	1995 £m	1996 £m	1995 £m
Plant and equipment	<u>250.0</u>	<u>190.1</u>	<u>208.4</u>	<u>158.5</u>

9 Fixed asset investments

	1996 £m	1995 £m
Cost of shares in subsidiary	<u>0.1</u>	<u>0.1</u>

At 31 March 1996 the company held more than 10% of the allotted share capital of the following undertakings :

Name of undertaking	Class of shares held	Proportion of nominal value of issued shares held	Activity
CONNECT 2020 Limited	Ordinary	100%	Procurement
Thames Water Utilities Finance Plc	Ordinary	100%	Finance Company

At 31 March 1996 the net asset value of Thames Water Utilities Finance Plc was £50,000 (1995: £50,000), no profits or losses having been made in either of the years concerned. Connect 2020 Limited had a deficit on reserves of £322,000 at 31 March 1996.

10 Stocks and work in progress

	1996 £m	1995 £m
Raw materials and consumables	12.1	12.7
Work in progress	<u>2.8</u>	<u>2.5</u>
Total	<u>14.9</u>	<u>15.2</u>

11 Debtors

	1996 £m	1995 £m
Due within one year		
Trade debtors	119.3	107.9
Amounts owed by group undertakings	8.5	5.1
Other debtors	10.4	5.9
Prepayments and accrued income	52.7	50.4
Infrastructure renewals expenditure	1.8	1.4
	<u>192.7</u>	<u>170.7</u>
Due after more than one year		
Other debtors	0.3	0.3
	<u>0.3</u>	<u>0.3</u>
Total	<u><u>193.0</u></u>	<u><u>171.0</u></u>

12 Current asset investments

	1996 £m	1995 £m
Fixed and floating interest rate securities	48.5	-
	<u>48.5</u>	<u>-</u>

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

13 Creditors: amounts falling due within one year

	1996 £m	1995 £m
Bank loans (note 15)	2.6	1.4
Bank overdraft	1.9	-
Other loans (note 15)	0.6	0.8
Obligations under finance leases (note 16)	0.8	5.2
Progress claims and advance payments	60.6	65.3
Trade creditors:		
• Operating	32.8	35.7
• Capital	87.3	85.1
Amounts owed to group undertakings	96.9	52.1
Taxation and social security payable	4.3	4.1
Accruals and deferred income	84.1	83.8
	<u>371.9</u>	<u>333.5</u>
Total	<u><u>371.9</u></u>	<u><u>333.5</u></u>

14 Creditors: amounts falling due after more than one year

	1996 £m	1995 £m
Bank loans (note 15)	220.9	223.6
Other loans (note 15)	36.1	46.5
Obligations under finance leases (note 16)	213.8	154.7
Amounts owed to group undertakings (see below)	150.0	149.8
Other creditors	9.3	7.6
Deferred income	37.0	30.0
	<hr/>	<hr/>
Total	667.1	612.2
	<hr/> <hr/>	<hr/> <hr/>

A 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 £150.0 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 the subsidiary undertaking due under the terms of the bond.

15 Loans

Loans outstanding are repayable as follows:

	1996 £m	1995 £m
Bank loans:		
Within one year	2.6	1.4
Between one and two years	7.4	2.6
Between two and five years	48.4	39.0
After more than five years	165.1	182.0
	<hr/>	<hr/>
	223.5	225.0
	<hr/>	<hr/>
Other loans:		
Within one year	0.6	0.8
Between one and two years	0.4	0.5
Between two and five years	1.1	1.7
After more than five years	34.6	44.3
	<hr/>	<hr/>
	36.7	47.3
	<hr/> <hr/>	<hr/> <hr/>

Notes

- 1 All loans are repayable between 1996 and 2030.
- 2 Of the loans repayable after more than five years, £50.0m (1995: £50.0m) is in respect of bank loans and £32.4m (1995: £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 after more than five years is £173.5m (1995: £175m) in respect of bank loans and £4.3m (1995: £14.9m) is in respect of other loans.
- 4 The range of interest rates on bank loans is 6.6% to 11.5% (1995: 6.6% to 11.5%) and other loans is 3% to 11.0% (1995: 3% to 9.5%). 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 9.3% on sterling borrowing of £15m for a term of 15 years. The remaining term is 12 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 remaining weighted average term of 4 years.
- 5 Other loans include loans totalling £32.4m (1995: £32.4m) which are secured on the revenues of the company.

16 Obligations under finance leases

	1996 £m	1995 £m
Amounts due under finance leases are payable as follows:		
Within one year	9.0	17.3
Between one and two years	6.8	8.8
Between two and five years	47.3	33.6
After more than five years	379.2	270.9
	<u>442.3</u>	<u>330.6</u>
Less finance charges allocated to future periods	(227.7)	(170.7)
Total	<u><u>214.6</u></u>	<u><u>159.9</u></u>

The aggregate amount of finance leases, any part of which falls due for repayment after more than five years is £213.2m (1995: £153.3m). In addition, the company is committed to outstanding lease facilities of £43.7m (1995: £118.8m) to fund capital investment.

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:

	1996 £m	1995 £m
Accelerated capital allowances:		
- Infrastructure assets	272.2	245.2
- Other assets	314.9	283.0
Other timing differences	(7.6)	(18.3)
Losses	(1.7)	(44.2)
	<u>577.8</u>	<u>465.7</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

	1996 £m	1995 £m
Authorised		
760,050,000 ordinary shares of £1 each	<u>760.0</u>	<u>360.0</u>
Allotted, called up and fully paid		
760,050,000 ordinary shares of £1 each	<u>760.0</u>	<u>360.0</u>

On 8 March 1996 the Authorised share capital of the company was increased to £760,050,000 by the creation of 400,000,000 additional ordinary shares of £1 each. These shares were issued for cash at a premium of 25p (see note 19) on the same date.

19 Share premium

	1996 £m	1995 £m
Premium of 25p on issue of 400 million £1 ordinary shares (see note 18)	<u>100.0</u>	<u>-</u>

20 Reserves and retained profits

	Profit and loss account £m
At 1 April 1995	1,714.3
Deficit for the year	(299.3)
At 31 March 1996	<u><u>1,415.0</u></u>

21 Reconciliation of movements in shareholders' funds

	1996 £m	1995 £m
Profit for the financial year	349.4	317.1
Dividends	(648.7)	(133.0)
	<u>(299.3)</u>	<u>184.1</u>
New share capital issued (Note 18)	400.0	-
Share premium created (Note 19)	100.0	-
Shareholders' funds at the beginning of the year	<u>2,074.3</u>	<u>1,890.2</u>
Shareholders' funds at the end of the year	<u><u>2,275.0</u></u>	<u><u>2,074.3</u></u>

22 Capital commitments

	1996 £m	1995 £m
Contracted for but not provided for	<u>153.4</u>	<u>231.0</u>

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

23 Operating leases

At 31 March 1996 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	1996		1995	
	Land and Buildings £m	Other £m	Land and Buildings £m	Other £m
Leases which expire:				
Within one year	-	0.4	-	0.3
Between two and five years	-	0.7	0.1	1.5
After more than five years	1.5	0.8	1.6	-
	<u>1.5</u>	<u>1.9</u>	<u>1.7</u>	<u>1.8</u>
	<u><u>1.5</u></u>	<u><u>1.9</u></u>	<u><u>1.7</u></u>	<u><u>1.8</u></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 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 1996 was £15.6m (1995: £15.3m). 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 (1995: £nil).

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 1996 payments amounted to £0.5m. (1995: £nil).

25 Ultimate parent company

The ultimate parent company is Thames Water Plc. 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 - 1995/96

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Current Cost Accounting Statements - 1995/96**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 30 with respect to the treatment required under FRS 3.

Current cost asset values for both infrastructure and non-infrastructure assets are for 1995/96 based upon Modern Equivalent Asset (MEA) values. These values have been derived from the Asset Management Plan 2 (AMP 2) submission.

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 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

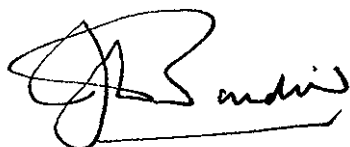
	1996			1995		
	Appointed business	Non- appointed business	Total	Appointed business	Non- appointed business	Total
	£m	£m	£m	£m	£m	£m
Turnover	956.8	18.8	975.6	901.9	17.2	919.1
Operating costs	(573.6)	(14.7)	(588.3)	(548.4)	(13.9)	(562.3)
	<u>383.2</u>	<u>4.1</u>	<u>387.3</u>	<u>353.5</u>	<u>3.3</u>	<u>356.8</u>
Operating income	6.5	-	6.5	9.5	-	9.5
	<u>389.7</u>	<u>4.1</u>	<u>393.8</u>	<u>363.0</u>	<u>3.3</u>	<u>366.3</u>
Interest	(44.4)	-	(44.4)	(48.9)	-	(48.9)
	<u>345.3</u>	<u>4.1</u>	<u>349.4</u>	<u>314.1</u>	<u>3.3</u>	<u>317.4</u>
Profit on ordinary activities before taxation	345.3	4.1	349.4	314.1	3.3	317.4
Taxation on profit on ordinary activities	-	-	-	(0.3)	-	(0.3)
	<u>345.3</u>	<u>4.1</u>	<u>349.4</u>	<u>313.8</u>	<u>3.3</u>	<u>317.1</u>
Profit for the financial year	345.3	4.1	349.4	313.8	3.3	317.1
Dividends	(641.1)	(7.6)	(648.7)	(131.6)	(1.4)	(133.0)
	<u>(295.8)</u>	<u>(3.5)</u>	<u>(299.3)</u>	<u>182.2</u>	<u>1.9</u>	<u>184.1</u>
(Deficit)/Retained profit transferred (from)/to reserves	(295.8)	(3.5)	(299.3)	182.2	1.9	184.1

Current cost accounting statements

Balance sheet
as at 31 March 1996

	Notes	1996 £m	1995 £m
Fixed assets			
Tangible assets	3 - 5	35,122.6	38,893.6
Third party contributions since 1989/90		(130.3)	(111.1)
		<u>34,992.3</u>	<u>38,782.5</u>
Working capital	6	(88.8)	(108.4)
Net operating assets		<u>34,903.5</u>	<u>38,674.1</u>
Cash and investments		50.6	5.2
Non-trade debtors		10.7	6.2
Non-trade creditors due within one year		(85.9)	(45.1)
Creditors due after more than one year		(667.1)	(612.2)
Net assets employed		<u>34,211.8</u>	<u>38,028.2</u>
Financed by			
Capital and reserves			
Called up share capital		760.0	360.0
Share premium		100.0	-
Current cost reserve	7	32,748.0	36,724.5
Profit and loss account	8	603.8	943.7
		<u>34,211.8</u>	<u>38,028.2</u>

The accounting statements on pages 33 to 49 were approved by the Board of Directors on 11 June 1996 and were signed on its behalf by:



J K Boudier
Director

Notes to the supplementary regulatory financial statements for the year ended 31 March 1996**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.

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) (iii) 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 the current cost of fixed assets**(i) Review of asset valuations**

A review of the "modern equivalent asset" (MEA) values as at 31 March 1993 was undertaken as part of the Periodic Review and the revised valuations have been included in the 1995/96 financial statements for the first time in accordance with OFWAT requirements.

(ii) Tangible fixed assets

The assets have been valued in accordance with RAG 1.02, as amended by RD 4/96 on a modern equivalent asset basis. Depreciation is charged in line with historic cost asset age profiles. Infrastructure assets are not depreciated.

Additions during the year are taken at the historical cost values.

Disposals are stated at the value of assets replaced as a result of the company investment programme in addition to disposals to third parties that affect the MEA valuation.

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

The MEA adjustment value refers to the cumulative effect of the accounting changes required by regulation arising from the Asset Management Plan 2 (AMP2) valuation and additions and disposals since 31 March 1993.

- **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 their MEA value, in a manner as described above. Due to the nature of these assets, MEA value is calculated based on the length of sewer or pipe, or the capacity of the asset.

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. The company has estimated the length of these pipes in order to include their asset values in these accounts. This value is £5,400m (1995 £4,667m) based on a pipe length of 30,000 km (1995 32,000 km). The length and value have changed as the result of more accurate information being available.

The restated value of specialised operational assets under MEA valuation methods include those assets used routinely in operating the business which are directly attributable to Water or Sewage services.

Non-specialised Assets are those assets used routinely within the business, which cannot be directly attributed to either part of the business.

- **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.

(iii) **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.

(e) **Dividend**

The basis on which the value of the dividend has been established is included in the Directors Report on page 6.

2(a) Operating costs and associated fixed asset book values (year ended 31 March 1996)

Operating costs for the year ended 31 March 1996	Service analysis			Business analysis						
	Resources and treatment £m	Water supply Distribution £m	Water supply subtotal £m	Sewerage treatment and disposal £m	Sewerage Sludge treatment and disposal £m	Sewerage T & D subtotal £m	Sewerage services subtotal £m	Customer services £m	Scientific services £m	Cost of regulation £m
Direct costs										
Employment costs	13.5	28.7	42.2	4.7	16.9	7.9	24.8	29.5		
Power	4.8	15.6	20.4	3.6	7.9	4.9	12.8	16.4		
Hired and contracted services	1.0	13.1	14.1	19.7	4.1	1.6	5.7	25.4		
Associated companies	0.7	8.2	8.9	6.8	1.7	2.6	4.3	11.1		
Materials and consumables	2.9	5.7	8.6	0.6	2.0	1.7	3.7	4.3		
Service charges	7.3	-	7.3	-	2.9	-	2.9	2.9		
Other direct costs	1.6	3.5	5.1	3.3	7.5	0.4	7.9	11.2		
Total direct costs	31.8	74.8	106.6	38.7	43.0	19.1	62.1	100.8	34.8	2.7
General and support expenditure	13.2	27.0	40.2	11.2	27.6	11.4	39.0	50.2	10.7	2.5
Functional expenditure	45.0	101.8	146.8	49.9	70.6	30.5	101.1	151.0	45.5	9.6
Capital costs										
CC depreciation	38.3	21.4	59.7	4.0	67.6	5.3	72.9	76.9		
Infrastructure renewal expenditure	1.2	16.4	17.6	20.2	-	0.1	0.1	20.3		
Infrastructure renewals accrual / prepayment	1.8	(3.7)	(1.9)	1.6	-	(0.1)	(0.1)	1.5		
Functional cost	86.3	135.9	222.2	75.7	138.2	35.8	174.0	249.7	45.5	9.6
Total including business analysis										
Rates			255.1					276.7		
Doubtful debts			22.9					21.1		
Business activities capital costs			4.7					6.8		
			6.8					10.3		
Service costs	289.5		289.5					314.9		
Services for third parties	22.1		22.1					10.0		
Total cost	311.6		311.6					324.9		
Fixed asset book values at 31 March 1996										
Service activities	1,546.1	4,978.0	6,524.1	26,494.2	1,779.5	183.7	1,963.2	28,457.4		
Business activities			56.4	0.6			84.1	84.7		
Service totals	6,580.5	26,494.8	6,580.5	26,494.8	2,047.3	28,542.1	28,542.1	28,542.1		
Total CCA values	6,580.5		6,580.5					28,542.1		

2(b) 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			Business analysis			
	Resources and treatment £m	Distribution £m	Water supply subtotal £m	Sewerage treatment £m	Sludge treatment and disposal £m	Sewerage 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	10.1	31.4	37.9			
Power	4.6	15.1	19.7	3.3	4.8	12.6	15.9			
Hired and contracted services	0.9	10.5	11.4	18.5	4.5	9.1	27.6			
Associated companies	0.3	3.9	4.2	6.9	1.7	3.3	10.2			
Materials and consumables	2.9	7.1	10.0	0.6	2.2	5.3	5.9			
Service charges	5.1	-	5.1	-	-	2.8	2.8			
Other direct costs	3.2	6.8	10.0	4.9	1.0	10.5	15.4			
Total direct costs	31.6	79.7	111.3	40.7	24.4	75.0	115.7	31.9	6.5	0.3
General and support expenditure	11.5	23.2	34.7	13.6	8.0	30.0	43.6	10.3	3.2	2.9
Functional expenditure	43.1	102.9	146.0	54.3	32.4	105.0	159.3	42.2	9.7	3.2
Capital costs										
CC depreciation	30.7	5.9	36.6	6.1	9.5	58.8	64.9			
Infrastructure renewal expenditure	2.8	5.5	8.3	7.2	3.4	10.6	17.1			
Infrastructure renewals accrual / prepayment	0.2	0.5	0.7	0.6	0.3	0.9	1.5			
Functional cost	76.8	114.8	191.6	67.5	45.6	175.3	242.8			
Total including business analysis										
Rates			222.0				267.5			
Doubtful debts			23.1				18.5			
Business activities capital costs			4.2				7.8			
			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	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			

3 Tangible fixed assets by service as at 31 March 1996

	Water supply £m	Sewerage £m	Sewage treatment & disposal £m	Total £m
Gross replacement cost				
At 1 April 1995	8,173.2	30,190.0	3,070.7	41,433.9
MEA adjustment	(907.9)	(4,005.4)	479.9	(4,433.4)
RPI adjustment	197.0	710.1	96.3	1,003.4
Disposals	(3.0)	(11.0)	(125.3)	(139.3)
Additions	127.6	67.7	142.0	337.3
At 31 March 1996	7,586.9	26,951.4	3,663.6	38,201.9
Depreciation				
At 1 April 1995	878.5	177.2	1,484.6	2,540.3
MEA adjustment	38.9	274.2	129.2	442.3
RPI adjustment	24.9	12.2	43.8	80.9
Disposals	(2.8)	(11.0)	(125.1)	(138.9)
Charge for year	66.9	4.0	83.8	154.7
At 31 March 1996	1,006.4	456.6	1,616.3	3,079.3
Net book amount At 31 March 1996	6,580.5	26,494.8	2,047.3	35,122.6
Net book amount At 31 March 1995	7,294.7	30,012.8	1,586.1	38,893.6

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 1996

	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 1995	4,852.5	221.5	35,980.3	379.6	41,433.9
MEA adjustment	1,583.8	(116.0)	(5,733.0)	(168.2)	(4,433.4)
RPI adjustment	174.5	2.9	820.3	5.7	1,003.4
Disposals	(138.5)	(0.8)	-	-	(139.3)
Additions	267.0	11.9	56.7	1.7	337.3
At 31 March 1996	6,739.3	119.5	31,124.3	218.8	38,201.9
Depreciation					
At 1 April 1995	2,255.8	74.4	-	210.1	2,540.3
MEA adjustment	571.1	(0.5)	-	(128.3)	442.3
RPI adjustment	76.7	2.0	-	2.2	80.9
Disposals	(138.5)	(0.4)	-	-	(138.9)
Charge for year	136.9	1.3	-	16.5	154.7
At 31 March 1996	2,902.0	76.8	-	100.5	3,079.3
Net book amount At 31 March 1996	3,837.3	42.7	31,124.3	118.3	35,122.6
Net book amount At 31 March 1995	2,596.7	147.1	35,980.3	169.5	38,893.6

Included in the gross replacement cost of Infrastructure assets is £5,400m (1995: £4,667m) of Section 24 sewers (see note 1a(ii)). 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 as at 31 March 1996

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
Water supply	1,779.7	31.2	4,721.3	48.3	6,580.5
Sewerage	91.2	0.6	26,403.0	-	26,494.8
Sewage treatment and disposal	1,966.4	10.9	-	70.0	2,047.3
At 31 March 1996	3,837.3	42.7	31,124.3	118.3	35,122.6

6 Working capital

	1996 £m	1995 £m
Stocks	14.9	15.2
Trade debtors	119.3	107.9
Trade creditors	(32.8)	(35.7)
Short term capital creditors	(87.3)	(85.1)
Infrastructure renewals prepayment	1.8	1.4
Accruals	(84.1)	(83.8)
Payments in advance	(60.6)	(65.3)
Payroll related taxes and DSS contributions	(4.3)	(4.1)
Group trade debtors/(creditors)	(8.4)	(9.3)
Prepayments	52.7	50.4
	<hr/>	<hr/>
Total working capital	(88.8)	(108.4)
	<hr/> <hr/>	<hr/> <hr/>

7 Current cost reserve

	1996 £m	1995 £m
Balance at 1 April 1995	36,724.5	35,445.0
MEA adjustment	(4,875.7)	-
RPI adjustments		
- Fixed assets	922.5	1,308.2
- Capital contributions	(3.0)	(2.9)
- Working capital	(2.9)	(2.5)
- Financing	(17.4)	(23.3)
	<hr/>	<hr/>
Balance at 31 March 1996	32,748.0	36,724.5
	<hr/> <hr/>	<hr/> <hr/>

8 Profit and loss account

	1996 £m	1995 £m
Balance at 1 April 1995	943.7	813.1
Current cost (deficit)/retained profit	(339.9)	130.6
	<hr/>	<hr/>
Balance at 31 March 1996	603.8	943.7
	<hr/> <hr/>	<hr/> <hr/>

Rolling five-year summary

Current cost profit and loss account
for the year ended 31 March 1996
with corresponding amounts at 1996 prices

	1996	1995	1994	1993	1992
	£m	£m	£m	£m	£m
Turnover	975.6	949.4	925.3	875.4	840.2
Current cost operating costs	(651.2)	(658.7)	(657.8)	(640.7)	(637.9)
Operating income/(cost)	8.5	5.7	(2.3)	6.5	8.9
	<u>332.9</u>	<u>296.4</u>	<u>265.2</u>	<u>241.2</u>	<u>211.2</u>
Working capital adjustment	2.9	2.6	2.8	2.4	5.5
	<u>335.8</u>	<u>299.0</u>	<u>268.0</u>	<u>243.6</u>	<u>216.7</u>
Interest	(44.4)	(50.5)	(46.6)	(35.7)	(16.8)
Financing adjustment	17.4	24.1	12.5	7.4	7.2
	<u>308.8</u>	<u>272.6</u>	<u>233.9</u>	<u>215.3</u>	<u>207.1</u>
Current cost profit on ordinary activities before taxation	308.8	272.6	233.9	215.3	207.1
Taxation	-	(0.3)	(0.3)	0.7	(1.7)
	<u>308.8</u>	<u>272.3</u>	<u>233.6</u>	<u>216.0</u>	<u>205.4</u>
Current cost profit on ordinary activities after taxation	308.8	272.3	233.6	216.0	205.4
Extraordinary income	-	-	-	-	-
	<u>308.8</u>	<u>272.3</u>	<u>233.6</u>	<u>216.0</u>	<u>205.4</u>
Current cost profit attributable to shareholders	308.8	272.3	233.6	216.0	205.4
Dividends	(648.7)	(137.4)	(129.4)	(118.5)	(110.0)
	<u>(339.9)</u>	<u>134.9</u>	<u>104.2</u>	<u>97.5</u>	<u>95.4</u>
Current cost (deficit)/retained profit	<u>(339.9)</u>	<u>134.9</u>	<u>104.2</u>	<u>97.5</u>	<u>95.4</u>

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 1996
with corresponding amounts at 1996 prices

	*1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Fixed assets					
Tangible assets	35,122.6	39,943.7	39,797.8	39,605.5	39,323.1
Third party contributions since 1989/90	(130.3)	(114.1)	(87.1)	(69.6)	(46.4)
	<u>34,992.3</u>	<u>39,829.6</u>	<u>39,710.7</u>	<u>39,535.9</u>	<u>39,276.7</u>
Working capital	(88.8)	(111.3)	(76.7)	(121.2)	(129.6)
	<u>34,903.5</u>	<u>39,718.3</u>	<u>39,634.0</u>	<u>39,414.7</u>	<u>39,147.1</u>
Net operating assets					
Cash and investments	50.6	5.3	2.5	16.8	90.4
Non-trade debtors due within one year	10.7	6.4	5.9	10.0	5.9
Non-trade creditors due within one year	(85.9)	(46.3)	(123.3)	(63.3)	(52.1)
Creditors due after more than one year	(667.1)	(628.7)	(594.1)	(522.9)	(441.3)
	<u>34,211.8</u>	<u>39,055.0</u>	<u>38,925.0</u>	<u>38,855.3</u>	<u>38,750.0</u>
Net assets employed					
	<u><u>34,211.8</u></u>	<u><u>39,055.0</u></u>	<u><u>38,925.0</u></u>	<u><u>38,855.3</u></u>	<u><u>38,750.0</u></u>
Financed by					
Capital and reserves					
Called up share capital	760.0	369.7	382.7	391.7	398.9
Share premium	100.0	-	-	-	-
Current cost reserve	32,748.0	37,716.1	37,678.0	37,685.8	37,659.1
Profit and loss account	603.8	969.2	864.3	777.8	692.0
	<u>34,211.8</u>	<u>39,055.0</u>	<u>38,925.0</u>	<u>38,855.3</u>	<u>38,750.0</u>
	<u><u>34,211.8</u></u>	<u><u>39,055.0</u></u>	<u><u>38,925.0</u></u>	<u><u>38,855.3</u></u>	<u><u>38,750.0</u></u>

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

* The 1996 balance sheet includes the revised MEA valuations.

Statement of cash flows for the year ended 31 March 1996

	Notes	1996 £m	1995 £m
Net cash inflow from operating activities	a	458.8	473.7
Returns on investments and servicing of finance			
Interest received		3.9	4.8
Interest paid		(37.4)	(40.3)
Interest element of finance lease rental payments		(12.2)	(7.6)
Dividend paid to parent company		(648.7)	(133.0)
		<u> </u>	<u> </u>
Net cash outflow from returns on investments and servicing of finance		(694.4)	(176.1)
		<u> </u>	<u> </u>
Investing activities			
Purchase of tangible fixed assets		(275.2)	(274.2)
Capital contributions		24.8	41.8
Sale of tangible fixed assets		4.5	10.3
		<u> </u>	<u> </u>
Net cash outflow from investing activities		(245.9)	(222.1)
		<u> </u>	<u> </u>
Net cash (outflow)/inflow before financing		(481.5)	75.5
		<u> </u>	<u> </u>
Financing			
Long term bank loans		(1.5)	-
Repayment of long term other loans		(10.6)	(0.5)
Short term loan from parent undertaking		42.3	(43.7)
Capital element of finance lease rental payments		(5.2)	(6.1)
		<u> </u>	<u> </u>
		25.0	(50.3)
Short term investments of greater than 3 months maturity		(48.5)	1.2
		<u> </u>	<u> </u>
	d	(23.5)	(49.1)
Issue of ordinary share capital		500.0	-
		<u> </u>	<u> </u>
Net cash inflow/(outflow) from financing		476.5	(49.1)
		<u> </u>	<u> </u>
(Decrease)/increase in cash and cash equivalents	b, c	(5.0)	26.4
		<u> </u>	<u> </u>

Notes to the cash flow statement

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

	1996 £m	1995 £m
Current cost operating profit, excluding profit on asset sales	327.3	284.0
Depreciation	154.7	154.5
Working capital adjustment	(2.9)	(2.5)
Decrease in stocks and work in progress	0.3	0.7
(Increase)/decrease in debtors	(16.4)	8.3
Grant movement	(1.2)	(0.5)
(Decrease)/increase in creditors	(3.0)	29.0
Exchange loss	-	0.2
	<u>458.8</u>	<u>473.7</u>
Net cash inflow from operating activities	<u><u>458.8</u></u>	<u><u>473.7</u></u>

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

	1996 £m	1995 £m
Balance at 1 April 1995	5.1	(21.3)
Net cash (outflow)/inflow	(5.0)	26.4
	<u>0.1</u>	<u>5.1</u>
Balance at 31 March 1996	<u><u>0.1</u></u>	<u><u>5.1</u></u>

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

	1996 £m	1995 £m	Change in year £m
Cash at bank and in hand	2.0	5.1	(3.1)
Bank overdraft	(1.9)	-	(1.9)
	<u>0.1</u>	<u>5.1</u>	<u>(5.0)</u>
	<u><u>0.1</u></u>	<u><u>5.1</u></u>	<u><u>(5.0)</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 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
Balance at 31 March 1995	37.7	149.8	432.2	-	619.7
Net cash (outflow)/inflow from financing	42.3	-	(17.3)	(48.5)	(23.5)
Finance leases raised during the year	-	-	59.9	-	59.9
Write off of debt issue costs	-	0.2	-	-	0.2
Balance at 31 March 1996	80.0	150.0	474.8	(48.5)	656.3

Finance leases amounting to £59.9m (1995: £45.4m) were raised during the year to fund capital plant, equipment and vehicles.

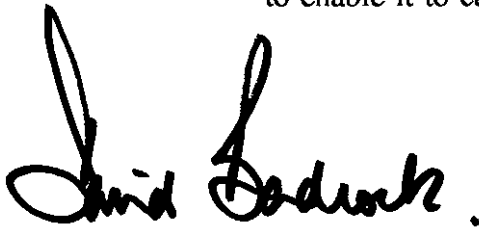
Analysis of net debt

	1995	Cashflow	Non-cash changes	1996
	£m	£m	£m	£m
Cash at bank and in hand	5.1	(3.1)	-	2.0
Overdrafts	-	(1.9)	-	(1.9)
		(5.0)		
Debt due after 1 year	(419.9)	13.1	(0.2)	(407.0)
Debt due within 1 year	(39.9)	(43.3)	-	(83.2)
Finance leases	(159.9)	5.2	(59.9)	(214.6)
		(25.0)		
Current asset investments	-	48.5	-	48.5
Total	(614.6)	18.5	(60.1)	(656.2)

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

This is to certify that at their meeting on 11 June 1996 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 1997, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointments); and
- that in the opinion of the Directors, the Appointee will, at least until 30 June 1997, 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 30 and 32 to 49.

Respective responsibilities of directors and auditors

As described on page 9 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.

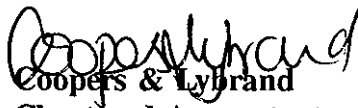
In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements in terms of Generally Accepted Accounting Principles and Regulatory Accounting Guidelines.

Opinion

In our opinion the financial statements for the year to 31 March 1996 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.

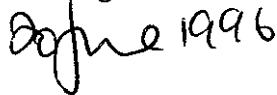
In respect of this information we report that in our opinion:

- (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 30 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 34 to 48 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

Chartered Accountants and Registered Auditors

Reading


29 June 1996