

Registered no: 2366661

Thames Water Utilities Limited

Annual report and financial statements
including regulatory information

for the year ended 31 March 1997



Thames Water Utilities Limited

Annual report for the year ended 31 March 1997

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Directors and secretary (at 31 March 1997)

Directors

W J Alexander (Chairman)

D Badcock

J K Boudier

J G Hurcom

(resigned 31 March 1997)

S R Jay

(appointed 11 March 1997)

D J Luffrum

R J Marshall

(resigned 31 March 1997)

G W Maxwell (Managing Director)

J May

M G Ribbins

(resigned 31 March 1997)

J R Sexton

S C Walker

(resigned 31 March 1997)

Secretary and registered office

D Badcock

Nugent House

Vastern Road

Reading

Berkshire

RG1 8DB

Directors' report for the year ended 31 March 1997

The directors present their report and the audited financial statements for the year ended 31 March 1997.

Principal activities and review of the year

Overview

The principal activities of Thames Water Utilities Limited (Thames Water) 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 1996/97 we put into supply an average of 2,859 megalitres per day of water and treated an average of 4,209 megalitres per day of sewage.

In the year 1996/97, we have continued our drive for customer service excellence, ever higher water quality and effluent standards, operational efficiency and developing new business. Accordingly, we have been shaping our organisation to focus on our key processes. We have undertaken major restructuring of the utility company to bring sharper focus to business processes, particularly water supply, wastewater disposal and customer services.

This commitment has been rewarded with many successes during the year:

- * Despite experiencing less than 70% of average rainfall over the period, we have maintained our record of having not imposed water restrictions on our customers since 1991.
- * We coped with the winter freeze, facing the worst conditions to hit the water supply network for thirty years with operational staff working round the clock to deal with up to 300 burst water mains a day and maintain water supply to customers.
- * Our wastewater services performed well, with treatment works serving 99% of our customers complying with the "look-up" tables in the Environment Agency's effluent discharge consents.
- * We won three out of nine awards at the Utility Industry Achievement Awards. The three awards, presented by Utility Week magazine, were for Customer Care, Information Technology Initiative of the Year and Team of the Year. We were also runners-up in a further two awards: Accessible Business and Change Management.
- * We maintained the lowest average combined water and sewerage services bill of all the Water Service Companies for unmeasured households.
- * We invested £445.9m (£401.0m net of infrastructure renewals) over the year in the capital programme, to improve service to customers and to protect the environment.

- * Thames Water has instigated an Information Technology strategy to ensure that the company's business needs are fully supported into the future. We have embarked upon a programme to renew the company's computer systems by the year 2000.

Water resources, treatment and supply

We faced another testing year in 1996/97 as a result of record demands for water with another dry summer and extremely cold weather during January. Our investments to improve security of supply after two previous summers of unprecedented demand proved invaluable in again ensuring that our customers were not faced with water restrictions last year. However, we are mindful of the impact the continuing drought can have on the environment. We have extended our water efficiency advice and service to customers, with Water Efficiency Packs available for customers and schools, free of charge. The packs contain a water saving device, the "HIPPO", which can reduce toilet flush volumes without affecting performance. Over 140,000 customers have requested our pack, and demand is continuing.

All water companies were required by OFWAT to submit plans detailing their water efficiency strategy. Thames Water's plan was highly commended by the Director General.

Our mains rehabilitation programme has delivered accelerated output in line with the commitments made to the Drinking Water Inspectorate (DWI). A total of 623 km of water mains have undergone rehabilitation during the last year, exceeding the annual target of 600 km.

Leakage is at the top of our list of priorities with significant improvements achieved by the year end. In 1995 we set ourselves the target of halving leakage by the year 2005, with an initial investment programme of £200 million up to the year 2000. To help us achieve our target, we have set up dedicated detection teams to look for leakage, day and night. Following the record number of bursts in January, an emergency event support centre was set up to co-ordinate the extra work and we increased the number of gangs dedicated to leakage repairs. There is a freephone leakline number (0800 714 614) so that our customers can help us by reporting leaks.

The quality of our drinking water improved again this year. Compliance rose to 99.5% overall, mainly as a result of the installation of granular activated carbon (GAC) to meet pesticide targets. Ashford Common Water Treatment Works, which uses a GAC superfilter, was officially opened by the Secretary of State for the Environment on 17 May 1996. The advanced water treatment projects at West Wickham and Ladymead were completed, which will produce clearer, better tasting water for our customers.

A project is under way to develop groundwater sites in London at Merton, Streatham, Honor Oak and Waltham Abbey providing 20 megalitres per day for the summer of 1997.

Sewerage and sewage treatment

Sewerage

We have continued our "Bag it and Bin it" campaign, helping customers with the environmental problems associated with disposing of household wastes like fats, cotton buds and nappies down the drain. We received a commendation in the PR Week awards for communicating this message effectively.

The North London Flood Relief and Cray Valley Flood Relief tunnel sewer projects are almost completed, which will alleviate the risk of flooding to 1,809 properties.

The new Abbey Mills pumping station was completed at a cost of £23 million and will be commissioned in 1997.

The programme of sewerage activities previously undertaken by local and borough councils through sewerage management contracts will, in future, be undertaken by Thames Water, with the relevant staff being transferred to our company. The capital programme will be delivered through partnering agreements.

Sewage treatment

99% of our customers were served throughout the year by wastewater treatment works which complied with the "look-up" tables in the Environment Agency's effluent discharge consents. Our aim is to ensure that all works are fully compliant with their consents. Through continuing high investment we will continue to enhance river quality, which the Environment Agency confirmed has improved significantly.

Projects to improve reliability and to treat increased sewage flows were completed at Deephams, Witney, Windsor, Slough and Kew, the latter providing an extension to treat effluent from the Stag Brewery.

Major projects were started at Mogden Sewage Treatment Works and Hogsmill Sewage Treatment Works, the latter including treatment for flows transferred from Worcester Park, allowing the works to be closed.

The sludge handling centre at Newbury, including provision for odour control, was completed.

The two sewage sludge incineration plants at our Beckton and Crossness Sewage Treatment Works will begin their phased commissioning programme in the summer of 1997, to end the sludge disposal in the North Sea in 1998.

Quality

Certification for our ISO 9000 quality systems (ISO 9001 in Engineering and ISO 9002 in our Customer Centre) together with our Water Quality Centre's NAMAS accreditation have been re-affirmed this year.

In other parts of the business, quality systems underpin key operational and support activities. These are providing a sound basis for the development of a culture of continuous improvement and team working in the workplace.

Customers and the Community

Our commitment to customer service excellence led to the start of many initiatives during the year:

- * A Customer Field Services division was set up to focus on resolving customer queries and problems. Wide customer research was undertaken in order to totally redesign all our service routines. This front line service successfully completed more than one million jobs on our supply network last year;
- * An Event Support Centre has been set up to manage operational incidents more effectively. This proved invaluable in co-ordinating the operational gangs working round the clock to mend bursts in December and January;
- * Customer care meter teams were re-organised with the emphasis on immediate communication with the customer;
- * Eleven Community Partners were appointed to improve the accessibility of Thames Water in the local community. They administer the "Helping Hands Scheme" with the aim of making the company part of the community;
- * A new service called Thames Water Home Assist was offered to our customers giving emergency plumbing support with optional insurance cover;
- * As part of Thames Water's programme to conserve water for the environment, we are offering a free meter to all domestic customers;
- * We have agreed with OFWAT's Customer Service Committee a binding form of mediation for dealing with the small number of complaints which prove difficult to resolve.

In addition to these initiatives, our Customer Centre and Field Operations provide services 24 hours a day, 365 days a year for more than 11 million customers. Our Customer Centre handled more than three million enquiries, of which over 80% were by telephone. On average, each call was answered within 16 seconds which represents a further improvement on last year.

For the second year running Customer Services achieved the highest rating of "Very Good" against OFWAT's measures for response to customer enquiries and complaints and compares favourably when benchmarked against other industry sectors.

Continued investment in systems, people and quality, as well as the introduction of new services culminated in the award of three prestigious Utility Industry Achievement Awards.

In keeping with our policy to give high quality customer care which is relevant and appropriate, we have comprehensive alternative services for customers with special needs.

The range of services now includes large print and braille services as well as information on audio tape, password scheme and assistance during supply interruptions. In July we set up a service level agreement with the Royal National Institute for the Blind, to ensure a high standard of performance.

With the combination of the Customer Services Division and Customer Field Services, we are now placed to become a world leader in service provision.

Environment

Thames Water Plc will publish its Environmental Review 1997 in July. The report will detail environmental performance during 1996/97, highlighting the main environmental impacts of the business and including progress against targets. The annual Conservation, Access and Recreation Report will be published by Thames Water in June, reporting 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.

Environmental awards won this year included a national commendation in the Tidy Britain Group's 1996 Queen Mother's Birthday Awards for our waste reduction initiatives and work on the ThamesClean project. We continue to support ThamesClean and several community initiatives such as the Going for Green project with the London Borough of Merton and Global Action Plan.

We have been working towards a better understanding of sustainable development and implications for the water industry. As part of this we have contributed to a number of local authority plans and hosted a technical seminar attended by more than fifty local authorities.

Mogden Sewage Treatment Works was commended in the Business Commitment to the Environment Awards for improvements including landscape enhancements, odour control, effluent quality and energy efficiency.

Kempton Park Nature Reserve saw the first recorded successful breeding of Avocets in inland Britain. These rare winter visitors to Britain are the emblem of the Royal Society for the Protection of Birds and until now they have only bred on the coast due to the absence of suitable breeding sites inland. We also completed 41 habitat enhancement schemes this year (38 with local partners) improving nature conservation and public access.

Working with the Environment Agency, Thames Water successfully completed Phase 1 of the River Darent Restoration Programme.

Regulation

Thames Water's activities are regulated by three principal regulators: OFWAT, for services provided to customers and price limits; DWI, the Drinking Water Inspectorate, who monitor the quality of the water we supply; and EA, the Environment Agency, who licence abstractions and discharges and monitor our impact on the environment.

This year the Director General of OFWAT announced a periodic review of prices to take place in 1999. This review will reflect our obligations for the ten years post-2000 and the

limits on price changes in order to meet those obligations. Currently, our prices are allowed to rise on average by no more than 0.5% above inflation to help meet the costs of maintaining current, mainly environmental, obligations generally originating from the EU.

The sixth annual report for the calendar year 1995 (published July 1996) from the Government's Drinking Water Inspectorate, confirmed that the drinking water supplied to customers achieved 99% compliance against water regulations. We regret we were prosecuted for a single water quality incident which occurred in 1994 in a limited area in South London. A full internal review was carried out and measures taken to prevent this type of incident from happening again. Improvements continue to be made and during 1996 compliance rose steadily to 99.5%.

Preparation of our seventh annual report (for the calendar year 1996) on the quality of drinking water supplied has begun and will be available from July 1997.

Wastewater services also performed well during the year. The high quality of the treated wastewater discharged was particularly helpful in maintaining the quality of the river environment during periods of extremely low rainfall. We were, however, prosecuted by the Environment Agency on three occasions - for failing a discharge consent at Arborfield Sewage Treatment Works, for a discharge from a pumping station at Bishops Stortford and for an oil spill at a pumping station at Cricklewood. Remedial measures have been taken in each case.

Results

The results for the year are set out in the Profit & Loss account on page 13. Profits on ordinary activities before taxation increased by 6.4% to £371.7 million (1996: £349.4 million). Operating costs were again tightly managed and fell by 0.9% excluding depreciation and infrastructure renewals.

Dividends

During the year, the company proposed dividends of £136.6 million (1996: normal dividend £148.7 million, additional dividend £500 million) a decline of 8%. After adjusting for the payment of Advance Corporation Tax to be surrendered by Thames Water Plc, the like for like yearly movement was an increase of 6% in line with the company's increase in profit before tax. This results in profits being shared between shareholders (43%) and retention for investment (57%) which will be to the long term benefit of customers.

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 was 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 1997.

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 1996/97 are:-

| | |
|---------------------------------|--------------|
| W J Alexander (Chairman) | D J Luffrum |
| G W Maxwell (Managing Director) | R J Marshall |
| D Badcock | J May |
| J K Boudier | M G Ribbins |
| J G Hurcom | J R Sexton |
| S R Jay | S C Walker |

J G Hurcom, R J Marshall, M G Ribbins and S C Walker resigned as directors on 31 March 1997. S R Jay was appointed on 11 March 1997.

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 Thames Water's 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. The number of creditor days outstanding at 31 March 1997 was 34.

Employees

We continue to invest in the ongoing development of our employees at all levels across the organisation. In particular, our management team have been through a development programme aimed at improving their effectiveness and impact within the business.

We place great emphasis on encouraging open and direct communication with our employees and are developing new approaches and achieving higher standards of communication within our businesses.

Organisational changes have taken place to strengthen the customer focus of our operating units and to build on the strong utility base that exists. The second employee attitude survey results were published and, while there has been real concern about job security during a time of substantial change, employees still showed high levels of commitment and job satisfaction. Employees have risen to the challenge of changing needs in the business and rising customer expectations.

The contribution every employee makes to the performance of their team and the company is reflected in their pay and through the profit sharing scheme. Employees are encouraged to own a greater stake in the company through the Sharesave scheme and profit related pay has been introduced.

We are committed to the recruitment and training of young people and have been successful in developing general management competence in graduate recruits. This is complemented by our ongoing programme of activities with schools in the region.

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. This is evidenced by a continuing improvement in the reportable accident rate, which declined by over 25% during the year.

We place 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 and equipment.

During the year the company has introduced an employee assistance programme for all staff and has implemented improved arrangements for the health and safety of young employees and the transport of hazardous goods.

Employment of the disabled

The company recognises its responsibility for the employment, training, career development and promotion of disabled persons. Every effort is made to continue to employ those who become disabled while working for the company.

Research and development

The key research goals for the 1996/97 programme were to enable Thames Water to provide increased levels of customer service within the constraints of predicted climate change, environmental awareness and operating efficiency. This programme of work included the following:

- * Infrastructure research was significantly increased, investigating the interactions between buried pipes, climate change and ground conditions within the urban "built environment". The top priority was a reduction in leakage and burst frequency. Computer models have been developed which will help target capital investment;

- * A distribution pipe test rig has provided the focus for internationally acclaimed research on managing the delivery of even higher quality drinking water. The balance between regulatory requirements and the taste of chlorine has been more clearly defined, with the result that customers and regulators should both notice performance improvement in the home;
- * Two novel waste processing technologies were successfully operated at demonstration scale. These environmentally friendly processes reduce the need to dispose of waste to landfill, converting them to useful energy and more inert residues.

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 as at the end of the financial year 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 company 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, to safeguard the assets of the company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Corporate Governance

A full statement on 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

A handwritten signature in black ink that reads "David Badcock". The signature is written in a cursive style with a period at the end.

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 13 to 31.

Respective responsibilities of directors and auditors

As described on page 10 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 1997 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

19 June 1997

Profit and loss account for the year ended 31 March 1997

| | Notes | 1997 £m | 1996 £m |
|---|-------|--------------|----------------|
| Turnover | 2 | 1,000.8 | 975.6 |
| Operating costs | 3 | (593.0) | (588.3) |
| Operating profit | | 407.8 | 387.3 |
| Profit on sale of fixed assets | | 8.4 | 6.5 |
| Interest | 5 | (44.5) | (44.4) |
| Profit on ordinary activities before taxation | 2 | 371.7 | 349.4 |
| Tax on profit on ordinary activities | 6 | (44.1) | - |
| Profit for the financial year | | 327.6 | 349.4 |
| Dividends | 7 | (136.6) | (648.7) |
| Retained profit/(deficit) transferred to/(from) reserves | 20 | 191.0 | (299.3) |

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 stated above, and their historical cost equivalents.

Balance sheet at 31 March 1997

| | Notes | 1997 £m | 1996 £m |
|--|-------|-----------------------|-----------------------|
| Fixed assets | | | |
| Tangible assets | 8 | 3,326.1 | 3,055.5 |
| Investments | 9 | 0.1 | 0.1 |
| | | <u>3,326.2</u> | <u>3,055.6</u> |
| Current assets | | | |
| Stocks and work in progress | 10 | 12.6 | 14.9 |
| Debtors | 11 | 212.8 | 193.0 |
| Investments | 12 | 25.0 | 48.5 |
| Cash at bank and in hand | | 10.3 | 2.0 |
| | | <u>260.7</u> | <u>258.4</u> |
| Creditors: amounts falling due within one year | 13 | <u>(382.7)</u> | <u>(371.9)</u> |
| Net current liabilities | | <u>(122.0)</u> | <u>(113.5)</u> |
| Total assets less current liabilities | | <u>3,204.2</u> | <u>2,942.1</u> |
| Creditors: amounts falling due after more than one year | 14 | <u>(738.2)</u> | <u>(667.1)</u> |
| Net assets | | <u><u>2,466.0</u></u> | <u><u>2,275.0</u></u> |
| Capital and reserves | | | |
| Called up share capital | 18 | 760.0 | 760.0 |
| Share premium account | 19 | 100.0 | 100.0 |
| Profit & loss account | 20 | 1,606.0 | 1,415.0 |
| Equity shareholders' funds | | <u><u>2,466.0</u></u> | <u><u>2,275.0</u></u> |

The notes on pages 15 to 31 form part of these financial statements.

The financial statements were approved by the board of directors on 10 June 1997 and were signed on its behalf by:



J K Boudier
Director

Notes to the financial statements for the year ended 31 March 1997

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 1997 | Total 1996 |
|--|-----------------|----------------------|--------------------------------|----------------|----------------|
| | £m | £m | £m | £m | £m |
| TURNOVER | | | | | |
| Unmeasured charges | 262.8 | 437.0 | - | 699.8 | 685.8 |
| Measured charges | 111.0 | 119.7 | - | 230.7 | 209.2 |
| Trade effluent charges | - | 23.8 | - | 23.8 | 24.3 |
| Rechargeable works | 2.7 | 7.7 | 3.1 | 13.5 | 24.7 |
| Other income | 4.5 | 7.6 | 20.9 | 33.0 | 31.6 |
| Total Turnover 1997 | 381.0 | 595.8 | 24.0 | 1,000.8 | |
| Total Turnover 1996 | 383.2 | 573.6 | 18.8 | | 975.6 |
| OPERATING COSTS | | | | | |
| Operating costs before depreciation and maintenance of infrastructure assets | (225.8) | (211.9) | (17.3) | (455.0) | (459.0) |
| Depreciation | (45.1) | (53.2) | (1.3) | (99.6) | (91.8) |
| Infrastructure renewals charge | (16.1) | (22.3) | - | (38.4) | (37.5) |
| Total Operating costs | (287.0) | (287.4) | (18.6) | (593.0) | (588.3) |
| Operating profit | 94.0 | 308.4 | 5.4 | 407.8 | 387.3 |
| Profit on sale of fixed assets | 7.9 | 0.5 | - | 8.4 | 6.5 |
| Interest | (20.2) | (24.3) | - | (44.5) | (44.4) |
| Profit on ordinary activities before taxation 1997 | 81.7 | 284.6 | 5.4 | 371.7 | |
| Profit on ordinary activities before taxation 1996 | 82.1 | 263.2 | 4.1 | | 349.4 |

Turnover derives wholly from within the United Kingdom.

| | 1997 £m | 1996 £m |
|----------------------------------|----------------|----------------|
| Net assets | | |
| Water supply | 1,414.7 | 1,335.7 |
| Sewerage services | 1,707.5 | 1,595.5 |
| | <hr/> | <hr/> |
| Net operating assets | 3,122.2 | 2,931.2 |
| Net interest bearing liabilities | (656.2) | (656.2) |
| | <hr/> | <hr/> |
| | 2,466.0 | 2,275.0 |
| | <hr/> <hr/> | <hr/> <hr/> |

3 Operating costs

Analysis of operating costs by type of expense:

| | 1997 £m | 1996 £m |
|------------------------------------|--------------|--------------|
| Manpower costs | 144.6 | 162.3 |
| Other external charges | 247.8 | 215.6 |
| Materials and consumables | 27.0 | 27.3 |
| Other operating charges | 45.8 | 62.8 |
| Infrastructure renewals charge | 38.4 | 37.5 |
| Depreciation: | | |
| • own assets | 91.0 | 81.8 |
| • assets held under finance leases | 8.6 | 10.0 |
| Rentals under operating leases: | | |
| • hire of plant and machinery | 2.7 | 2.4 |
| • other | 1.8 | 1.5 |
| Auditors' remuneration: | | |
| • for audit work | 0.2 | 0.2 |
| • for non audit work | 0.1 | 0.1 |
| Research and development | 7.4 | 7.4 |
| | <hr/> | <hr/> |
| | 615.4 | 608.9 |
| Own work capitalised | (22.4) | (20.6) |
| | <hr/> | <hr/> |
| | 593.0 | 588.3 |
| | <hr/> <hr/> | <hr/> <hr/> |

4 Information regarding Directors and employees

Directors' remuneration

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Executive Directors: | | |
| Salary | 622 | 551 |
| Bonus | 78 | 60 |
| Other benefits | 66 | 78 |
| Company pension contributions to money purchase schemes | - | - |
| | <u>766</u> | <u>689</u> |

Retirement benefits are accruing to 10 directors under a defined benefit scheme.

| | 1997 £'000 | 1996 £'000 |
|---|---------------|---------------|
| Highest paid director | | |
| Highest paid director: R J Marshall (1996: J G Hurcom) | | |
| Aggregate emoluments and benefits | <u>116</u> | <u>106</u> |
| Accrued pension at end of year | <u>44</u> | <u>48</u> |

The above details of directors' remuneration do not include D J Luffrum and W J Alexander (1996: M R Hoffman, D J Luffrum and W J Alexander) 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.

Directors' share options

| Director | * | Number of options | | | Exercise price | Market price on exercise | Date when exercisable | Expiry date |
|--------------|--------|-------------------|--------------------------------------|-------------|----------------|--------------------------|-----------------------|-------------|
| | | At 31.03.96 | During the year Granted Exercised | At 31.03.97 | | | | |
| D Badcock | 15,000 | | (15,000) | - | 347p | 579p | 02.07.94 | 02.07.01 |
| | 10,000 | | | 10,000 | 453p | | 08.12.97 | 07.12.04 |
| | 14,000 | | | 14,000 | 560p | | 08.12.98 | 07.12.04 |
| J K Boudier | 10,000 | | | 10,000 | 453p | | 08.12.97 | 07.12.04 |
| | 11,000 | | | 11,000 | 560p | | 08.12.98 | 07.12.04 |
| J G Hurcom | 18,000 | | | 18,000 | 347p | | 02.07.94 | 02.07.01 |
| | 11,000 | | | 11,000 | 453p | | 08.12.97 | 07.12.04 |
| | 12,000 | | | 12,000 | 560p | | 08.12.98 | 07.12.04 |
| R J Marshall | 18,000 | | (18,000) | - | 347p | 574p | 02.07.94 | 02.07.01 |
| | 12,000 | | | 12,000 | 453p | | 08.12.97 | 07.12.04 |
| | 12,500 | | | 12,500 | 560p | | 08.12.98 | 07.12.04 |
| G W Maxwell | 10,000 | | (10,000) | - | 418p | 606p | 24.06.95 | 24.06.02 |
| | 10,000 | | | 10,000 | 453p | | 08.12.97 | 07.12.04 |
| | 11,500 | | | 11,500 | 560p | | 08.12.98 | 07.12.04 |
| J V May | 10,000 | | | 10,000 | 453p | | 08.12.97 | 07.12.04 |
| | 12,500 | | | 12,500 | 560p | | 08.12.98 | 07.12.04 |
| M G Ribbins | 16,000 | | | 16,000 | 347p | | 02.07.94 | 02.07.01 |
| | 9,000 | | | 9,000 | 453p | | 08.12.97 | 07.12.04 |
| | 10,500 | | | 10,500 | 560p | | 08.12.98 | 07.12.04 |
| J R Sexton | 6,000 | | | 6,000 | 453p | | 08.12.97 | 07.12.04 |
| | 7,300 | | | 7,300 | 560p | | 08.12.98 | 07.12.04 |
| S R Jay | 2,800 | | | 2,800 | 453p | | 08.12.97 | 07.12.04 |
| | 7,700 | | | 7,700 | 560p | | 08.12.98 | 07.12.04 |
| S C Walker | 14,000 | | | 14,000 | 453p | | 08.12.97 | 07.12.04 |
| | 12,000 | | | 12,000 | 560p | | 08.12.98 | 07.12.04 |

* or at date of appointment if later

No options lapsed during the year.

The options exercised by D Badcock, R J Marshall and G W Maxwell gave rise to a gain by reference to the share price at the date of exercise of £34,800, £40,860 and £18,800 respectively.

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

| Director | Number of options | | Exercise price |
|--------------|-------------------|--------|----------------|
| | 1997 | *1996 | |
| D Badcock | 4,637 | 4,637 | 372p |
| J K Boudier | 3,340 | 12,150 | 421p-442p |
| R J Marshall | 4,420 | 4,420 | 372p-421p |
| G W Maxwell | 1,642 | 1,642 | 420p |
| M G Ribbins | 4,639 | 4,639 | 372p-420p |
| J R Sexton | 3,340 | 4,991 | 421p-442p |
| S R Jay | 3,277 | 3,277 | 421p |
| S C Walker | 3,902 | 3,906 | 442p |

The market price of the shares at 31 March 1997 was 663p and the range during the period 1 April 1996 to 31 March 1997 was 532p to 694p.

Directors' interests in the share capital of Thames Water Plc

| Beneficial owner | Shares held as at 31 March 1997 | Shares held as at 1 April 1996 or date of appointment if later |
|------------------|------------------------------------|--|
| D Badcock | 1,896 | 1,712 |
| J K Boudier | 16,435 | 9,272 |
| J G Hurcom | 9,857 | 17,472 |
| R J Marshall | 16,926 | 9,039 |
| G W Maxwell | 467 | 358 |
| J V May | - | - |
| M G Ribbins | 2,649 | 4,697 |
| J R Sexton | 2,890 | 8,129 |
| S R Jay | 6,801 | 6,801 |
| S C Walker | 281 | 183 |

D J Luffrum and W J Alexander were also Directors of Thames Water Plc at 31 March 1997 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.

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:

| | 1997 Number | 1996 Number |
|-------------------|----------------|----------------|
| Water supply | 3,297 | 3,677 |
| Sewerage services | 2,597 | 2,661 |
| Total | <u>5,894</u> | <u>6,338</u> |

Employment costs including Executive Directors' remuneration were:

| | 1997 £m | 1996 £m |
|---------------------------------|--------------|--------------|
| Salaries and wages | 128.4 | 138.7 |
| Social security costs | 11.1 | 11.9 |
| Pension contributions (note 24) | 10.4 | 15.6 |
| Total | <u>149.9</u> | <u>166.2</u> |

Total employment costs contain £3.7m (1996: £2.3m) which is included in the infrastructure renewals charge and £1.6m (1996: £1.6m) which is included in research and development in note 3.

5 Interest

| | 1997 £m | 1996 £m |
|--|---------------|---------------|
| Bank loans, overdrafts and other loans: | | |
| - bank loans | (21.3) | (20.7) |
| - other loans | (2.0) | (0.9) |
| - group loans | (16.2) | (16.0) |
| Finance charges in respect of finance leases | (12.9) | (12.3) |
| | — | — |
| Interest payable and similar charges | (52.4) | (49.9) |
| Interest receivable | 7.9 | 5.5 |
| | — | — |
| Total | <u>(44.5)</u> | <u>(44.4)</u> |

6 Taxation

| | 1997 £m | 1996 £m |
|--|-------------|------------|
| UK corporation tax at 33% | 15.7 | - |
| Amount payable to group companies in respect of tax saved by group relief: | | |
| Group relief | 6.8 | - |
| Surrender of ACT | 21.6 | - |
| | — | — |
| | <u>44.1</u> | <u>-</u> |

The corporation tax payable for the year has been reduced by £28.4m because of group relief and ACT received from group companies for which payments of £28.4m will be made on 1 January 1998.

7 Dividends

| | 1997 £m | 1996 £m |
|---------------------|--------------|--------------|
| Dividends paid | 127.1 | 148.7 |
| Dividends proposed | 9.5 | - |
| | — | — |
| | 136.6 | 148.7 |
| Additional dividend | - | 500.0 |
| | — | — |
| | <u>136.6</u> | <u>648.7</u> |

8 Tangible fixed assets

| | Land and buildings £m | Plant and equipment £m | Infra- structure assets £m | Total £m |
|--------------------------|--------------------------------|---------------------------------|-------------------------------------|----------------|
| Net cost | | | | |
| At 1 April 1996 | 1,249.5 | 1,239.3 | 1,132.9 | 3,621.7 |
| Additions | 88.6 | 185.1 | 127.3 | 401.0 |
| Disposals | (1.8) | (45.2) | - | (47.0) |
| Capital contributions | - | - | (28.3) | (28.3) |
| At 31 March 1997 | 1,336.3 | 1,379.2 | 1,231.9 | 3,947.4 |
| Depreciation | | | | |
| At 1 April 1996 | 233.2 | 333.0 | - | 566.2 |
| Provided during the year | 22.7 | 76.9 | - | 99.6 |
| Disposals | (0.2) | (44.3) | - | (44.5) |
| At 31 March 1997 | 255.7 | 365.6 | - | 621.3 |
| Net book value | | | | |
| At 31 March 1997 | 1,080.6 | 1,013.6 | 1,231.9 | 3,326.1 |
| At 31 March 1996 | 1,016.3 | 906.3 | 1,132.9 | 3,055.5 |

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 £149.4m (1996: £121.1m).

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

| | 1997 £m | 1996 £m |
|-----------------------------|----------------|----------------|
| Freehold land and buildings | 1,056.7 | 994.3 |
| Leasehold | | |
| over 50 years | 19.5 | 17.5 |
| under 50 years | 4.4 | 4.5 |
| | 1,080.6 | 1,016.3 |

No depreciation has been charged on freehold land included above at £5.3m (1996: £4.5m).

Tangible fixed assets at 31 March 1997 include £397.9m (1996: £320.5m) 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 | |
|---------------------|--------------|--------------|----------------|--------------|
| | 1997 £m | 1996 £m | 1997 £m | 1996 £m |
| Plant and equipment | <u>281.2</u> | <u>250.0</u> | <u>230.9</u> | <u>208.4</u> |

9 Fixed asset investments

| | 1997 £m | 1996 £m |
|------------------------------|------------|------------|
| Cost of shares in subsidiary | <u>0.1</u> | <u>0.1</u> |

At 31 March 1997 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 |
|--|----------------------|---|---------------------|
| Thames Water Drainage Services Limited | Ordinary | 100% | Sewerage management |
| CONNECT 2020 Limited | Ordinary | 100% | Procurement |
| Thames Water Utilities Finance Plc | Ordinary | 100% | Finance Company |

At 31 March 1997 and 31 March 1996 the net asset values of Thames Water Drainage Services Limited and Thames Water Utilities Finance Plc were £2 and £50,000 respectively. No profits or losses having been made in either of the years concerned.

Connect 2020 Limited had a deficit on reserves of £1,853,000 at 31 March 1997 (1996: £322,000).

10 Stocks and work in progress

| | 1997 £m | 1996 £m |
|-------------------------------|-------------|-------------|
| Raw materials and consumables | 10.4 | 12.1 |
| Work in progress | 2.2 | 2.8 |
| Total | <u>12.6</u> | <u>14.9</u> |

11 Debtors

| | 1997 £m | 1996 £m |
|-------------------------------------|--------------|--------------|
| Due within one year | | |
| Trade debtors | 110.0 | 119.3 |
| Amounts owed by group undertakings | 26.7 | 8.5 |
| Other debtors | 8.9 | 10.7 |
| Prepayments and accrued income | 58.9 | 52.7 |
| Infrastructure renewals expenditure | 8.3 | 1.8 |
| | <hr/> | <hr/> |
| Total | 212.8 | 193.0 |
| | <hr/> <hr/> | <hr/> <hr/> |

12 Current asset investments

| | 1997 £m | 1996 £m |
|---|------------|------------|
| Fixed and floating interest rate securities | 25.0 | 48.5 |
| | <hr/> | <hr/> |

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

13 Creditors: amounts falling due within one year

| | 1997 £m | 1996 £m |
|--|--------------|--------------|
| Bank loans (note 15) | 7.4 | 2.6 |
| Bank overdraft | - | 1.9 |
| Other loans (note 15) | 0.4 | 0.6 |
| Obligations under finance leases (note 16) | 0.9 | 0.8 |
| Progress claims and advance payments | 60.5 | 60.6 |
| Trade creditors: | | |
| • Operating | 34.4 | 32.8 |
| • Capital | 97.7 | 87.3 |
| Amounts owed to group undertakings | 32.7 | 96.9 |
| Amount payable in respect of group relief | 28.4 | - |
| Taxation and social security payable | 19.4 | 4.3 |
| Accruals and deferred income | 91.4 | 84.1 |
| Proposed dividend | 9.5 | - |
| | <hr/> | <hr/> |
| Total | 382.7 | 371.9 |
| | <hr/> <hr/> | <hr/> <hr/> |

14 Creditors: amounts falling due after more than one year

| | 1997 £m | 1996 £m |
|--|-------------|-------------|
| Bank loans (note 15) | 263.5 | 220.9 |
| Other loans (note 15) | 35.6 | 36.1 |
| Obligations under finance leases (note 16) | 245.2 | 213.8 |
| Amounts owed to group undertakings (see below) | 150.0 | 150.0 |
| Other creditors | 6.1 | 9.3 |
| Deferred income | 37.8 | 37.0 |
| | <hr/> | <hr/> |
| Total | 738.2 | 667.1 |
| | <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 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:

| | 1997 £m | 1996 £m |
|----------------------------|-------------|-------------|
| Bank loans: | | |
| Within one year | 7.4 | 2.6 |
| Between one and two years | 15.5 | 7.4 |
| Between two and five years | 50.4 | 48.4 |
| After more than five years | 197.6 | 165.1 |
| | <hr/> | <hr/> |
| | 270.9 | 223.5 |
| | <hr/> | <hr/> |
| Other loans: | | |
| Within one year | 0.4 | 0.6 |
| Between one and two years | 0.4 | 0.4 |
| Between two and five years | 1.0 | 1.1 |
| After more than five years | 34.2 | 34.6 |
| | <hr/> | <hr/> |
| | 36.0 | 36.7 |
| | <hr/> <hr/> | <hr/> <hr/> |

Notes

- 1 All loans are repayable between 1997 and 2030.
- 2 Of the loans repayable after more than five years, £100m (1996: £50m) is in respect of bank loans and £32.4m (1996: £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 £170.9m (1996: £173.5m) in respect of bank loans and £3.6m (1996: £4.3m) is in respect of other loans.
- 4 The range of interest rates on bank loans is 6.6% to 11.5% (1996: 6.6% to 11.5%) and other loans is 3% to 11% (1996: 3% to 11%). These interest rates are those contracted on the underlying borrowings before taking account of the following interest rate protection. The company has arranged various long dated interest rate swaps which have the effect of fixing the rate of interest at an average of 9.3% on sterling borrowing of £15m for a term of 15 years. The remaining term is 11 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 2 years.
- 5 Other loans include loans totalling £32.4m (1996: £32.4m) which are secured on the revenues of the company.

16 Obligations under finance leases

| | 1997 £m | 1996 £m |
|---|-------------|-------------|
| Amounts due under finance leases are payable as follows: | | |
| Within one year | 7.3 | 9.0 |
| Between one and two years | 15.8 | 6.8 |
| Between two and five years | 53.8 | 47.3 |
| After more than five years | 414.7 | 379.2 |
| | <hr/> | <hr/> |
| | 491.6 | 442.3 |
| Less finance charges allocated to future periods | (245.5) | (227.7) |
| | <hr/> | <hr/> |
| Total | 246.1 | 214.6 |
| | <hr/> <hr/> | <hr/> <hr/> |

The aggregate amount of finance leases, any part of which falls due for repayment after more than five years is £244.2m (1996: £213.2m). In addition, the company is committed to outstanding lease facilities of £16.7m (1996: £43.7m) 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:

| | 1997 £m | 1996 £m |
|---------------------------------|--------------|--------------|
| Accelerated capital allowances: | | |
| - Infrastructure assets | 302.5 | 272.2 |
| - Other assets | 354.5 | 314.9 |
| Other timing differences | (0.9) | (7.6) |
| Losses | - | (1.7) |
| | <u>656.1</u> | <u>577.8</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

| | 1997 £m | 1996 £m |
|---|--------------|--------------|
| Authorised | | |
| 760,050,000 ordinary shares of £1 each | <u>760.0</u> | <u>760.0</u> |
| Allotted, called up and fully paid | | |
| 760,050,000 ordinary shares of £1 each | <u>760.0</u> | <u>760.0</u> |

19 Share premium account

| | 1997 £m | 1996 £m |
|---|------------|------------|
| Premium of 25p on issue of 400 million £1 ordinary shares | 100.0 | 100.0 |

20 Profit and loss account

| | Profit and loss account £m |
|------------------------------|----------------------------------|
| At 1 April 1996 | 1,415.0 |
| Retained profit for the year | 191.0 |
| | <hr/> |
| At 31 March 1997 | <u>1,606.0</u> |

21 Reconciliation of movements in shareholders' funds

| | 1997 £m | 1996 £m |
|--|----------------|----------------|
| Profit for the financial year | 327.6 | 349.4 |
| Dividends | (136.6) | (648.7) |
| | <hr/> | <hr/> |
| New share capital issued | 191.0 | (299.3) |
| Share premium created | - | 400.0 |
| Shareholders' funds at the beginning of the year | - | 100.0 |
| | <hr/> | <hr/> |
| Shareholders' funds at the end of the year | 2,275.0 | 2,074.3 |
| | <hr/> | <hr/> |
| | <u>2,466.0</u> | <u>2,275.0</u> |

22 Capital commitments

| | 1997 £m | 1996 £m |
|---------------------------------|------------|------------|
| Contracted for but not provided | 175.7 | 153.4 |
| | <hr/> | <hr/> |

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 1997 the company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

| | 1997 | | 1996 | |
|-----------------------------|--------------------------|-------------|--------------------------|-------------|
| | Land and Buildings £m | Other £m | Land and Buildings £m | Other £m |
| Leases which expire: | | | | |
| Within one year | 0.1 | 0.4 | - | 0.4 |
| Within one and two years | - | 0.8 | - | 0.7 |
| Between two and five years | 0.1 | 1.2 | - | 0.8 |
| After more than five years | 1.4 | - | 1.5 | - |
| | <u>1.6</u> | <u>2.4</u> | <u>1.5</u> | <u>1.9</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 1997 was £10.4m (1996: £15.6m). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the consulting actuaries to the schemes. A prepayment of £4.1m (1996: £nil) is included in debtors, representing the element of actuarial surplus within total payments of £15.6m in the year.

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 1997 payments amounted to £1.4m (1996: £0.5m).

25 Ultimate parent company and controlling party

The ultimate parent company and controlling party is Thames Water Plc and the company's results are included in the consolidated financial statements of the parent. The company has taken advantage of the exemption provided by Financial Reporting Standard 8 and has not disclosed details of transactions with other Thames Water Plc group companies. 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 - 1996/97

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Supplementary Regulatory Information - 1996/97**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 3.04 (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 13 to 31 with respect to the treatment required under FRS 3.

Current cost asset values for both infrastructure and non-infrastructure assets are for 1995/96 and 1996/97 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 3.04. 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

| | 1997 | | Total | 1996 | | Total |
|--|-----------------------|-------------------------------|--------------|-----------------------|-------------------------------|----------------|
| | Appointed business | Non- appointed business | | Appointed business | Non- appointed business | |
| | £m | £m | £m | £m | £m | £m |
| Turnover | 976.8 | 24.0 | 1,000.8 | 956.8 | 18.8 | 975.6 |
| Operating costs | (574.4) | (18.6) | (593.0) | (573.6) | (14.7) | (588.3) |
| | <u>402.4</u> | <u>5.4</u> | <u>407.8</u> | <u>383.2</u> | <u>4.1</u> | <u>387.3</u> |
| Operating income | 8.4 | - | 8.4 | 6.5 | - | 6.5 |
| | <u>410.8</u> | <u>5.4</u> | <u>416.2</u> | <u>389.7</u> | <u>4.1</u> | <u>393.8</u> |
| Interest | (44.5) | - | (44.5) | (44.4) | - | (44.4) |
| | <u>366.3</u> | <u>5.4</u> | <u>371.7</u> | <u>345.3</u> | <u>4.1</u> | <u>349.4</u> |
| Profit on ordinary activities before taxation | 366.3 | 5.4 | 371.7 | 345.3 | 4.1 | 349.4 |
| Taxation on profit on ordinary activities | (42.3) | (1.8) | (44.1) | - | - | - |
| | <u>324.0</u> | <u>3.6</u> | <u>327.6</u> | <u>345.3</u> | <u>4.1</u> | <u>349.4</u> |
| Profit for the financial year | 324.0 | 3.6 | 327.6 | 345.3 | 4.1 | 349.4 |
| Dividends | (135.1) | (1.5) | (136.6) | (641.1) | (7.6) | (648.7) |
| | <u>188.9</u> | <u>2.1</u> | <u>191.0</u> | <u>(295.8)</u> | <u>(3.5)</u> | <u>(299.3)</u> |
| Retained profit/(Deficit) transferred to/(from) reserves | 188.9 | 2.1 | 191.0 | (295.8) | (3.5) | (299.3) |

Current cost accounting statements

Profit and loss account
for the year ended 31 March 1997

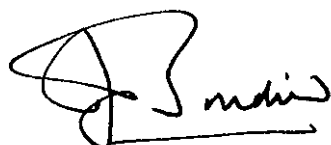
| | Notes | 1997 | | | 1996 | | Total £m |
|---|-------|-----------------------------|-------------------------------------|--------------|-----------------------------|-------------------------------------|----------------|
| | | Appointed business £m | Non- appointed business £m | Total £m | Appointed business £m | Non- appointed business £m | |
| Turnover | | 976.8 | 24.0 | 1,000.8 | 956.8 | 18.8 | 975.6 |
| Current cost operating costs | 2 | (638.0) | (18.6) | (656.6) | (636.5) | (14.7) | (651.2) |
| Operating income | | 10.9 | - | 10.9 | 8.5 | - | 8.5 |
| | | <u>349.7</u> | <u>5.4</u> | <u>355.1</u> | <u>328.8</u> | <u>4.1</u> | <u>332.9</u> |
| Working capital adjustment | | 2.3 | - | 2.3 | 2.9 | - | 2.9 |
| Current cost operating profit | | 352.0 | 5.4 | 357.4 | 331.7 | 4.1 | 335.8 |
| Interest | | (44.5) | - | (44.5) | (44.4) | - | (44.4) |
| Financing adjustment | | 18.0 | - | 18.0 | 17.4 | - | 17.4 |
| Current cost profit on ordinary activities before taxation | | 325.5 | 5.4 | 330.9 | 304.7 | 4.1 | 308.8 |
| Taxation | | (42.3) | (1.8) | (44.1) | - | - | - |
| Current cost profit attributable to shareholders | | 283.2 | 3.6 | 286.8 | 304.7 | 4.1 | 308.8 |
| Dividends | | (135.1) | (1.5) | (136.6) | (641.1) | (7.6) | (648.7) |
| Current cost retained profit/(deficit) | 8 | 148.1 | 2.1 | 150.2 | (336.4) | (3.5) | (339.9) |

Current cost accounting statements

Balance sheet
as at 31 March 1997

| | Notes | 1997 £m | 1996 £m |
|---|-------|------------------------|------------------------|
| Fixed assets | | | |
| Tangible assets | 3 - 5 | 35,635.4 | 35,122.6 |
| Third party contributions since 1989/90 | | (162.0) | (130.3) |
| | | <u>35,473.4</u> | <u>34,992.3</u> |
| Working capital | 6 | (119.6) | (88.8) |
| Net operating assets | | <u>35,353.8</u> | <u>34,903.5</u> |
| Cash and investments | | 35.4 | 50.6 |
| Non-trade debtors | | 8.9 | 10.7 |
| Non-trade creditors due within one year | | (37.1) | (85.9) |
| Dividends payable | | (9.5) | - |
| Creditors due after more than one year | | (738.2) | (667.1) |
| Net assets employed | | <u><u>34,613.3</u></u> | <u><u>34,211.8</u></u> |
| Financed by | | | |
| Capital and reserves | | | |
| Called up share capital | | 760.0 | 760.0 |
| Share premium | | 100.0 | 100.0 |
| Current cost reserve | 7 | 32,999.3 | 32,748.0 |
| Profit and loss account | 8 | 754.0 | 603.8 |
| | | <u>34,613.3</u> | <u>34,211.8</u> |

The accounting statements on pages 33 to 52 were approved by the Board of Directors on and were signed on its behalf by:



J K Boudier
Director

Notes to the supplementary regulatory financial statements for the year ended 31 March 1997**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), including the new required format for the statement of cash flows, 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 are included in the financial statements.

(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 1996/97 MEA adjustment results from a re-statement of the sewerage network length after being evaluated using new technology. The 1995/96 MEA adjustment 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 £5,540m (1996 £5,400m) based on a pipe length of 30,000 km. Adjustments may be required to those estimates in future years as more accurate information becomes 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 Sewerage 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 18 of the statutory 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 7.

2(a) Operating costs and associated fixed asset book values (year ended 31 March 1997)

| Operating costs for the Year ended 31 March 1997 | 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 | Customer services £m | Scientific services £m | Cost of regulation £m | | | |
| Direct costs | | | | | | | | | | | | |
| Employment costs | 12.2 | 18.4 | 30.6 | 4.3 | 11.9 | 9.4 | 21.3 | 25.6 | | | | |
| Power | 6.7 | 14.0 | 20.7 | 2.6 | 7.8 | 4.7 | 12.5 | 15.1 | | | | |
| Hired and contracted services | 2.0 | 3.3 | 5.3 | 20.2 | 3.2 | 2.9 | 6.1 | 26.3 | | | | |
| Associated companies | 0.9 | 29.5 | 30.4 | 3.8 | 2.6 | 2.6 | 5.2 | 9.0 | | | | |
| Materials and consumables | 3.7 | 3.7 | 7.4 | 0.5 | 2.4 | 2.2 | 4.6 | 5.1 | | | | |
| Service charges | 7.1 | - | 7.1 | 0.9 | 2.1 | - | 2.1 | 3.0 | | | | |
| Other direct costs | 2.6 | 2.1 | 4.7 | 3.7 | 8.0 | 0.3 | 8.3 | 12.0 | | | | |
| Total direct costs | 35.2 | 71.0 | 106.2 | 36.0 | 38.0 | 22.1 | 60.1 | 96.1 | | | 36.6 | 2.1 |
| General and support expenditure | 18.6 | 27.0 | 45.6 | 12.6 | 27.0 | 8.1 | 35.1 | 47.7 | | | 14.3 | 1.7 |
| Functional expenditure | 53.8 | 98.0 | 151.8 | 48.6 | 65.0 | 30.2 | 95.2 | 143.8 | | | 50.9 | 3.8 |
| Capital costs | | | | | | | | | | | | |
| CC depreciation | 42.5 | 23.9 | 66.4 | 4.1 | 70.0 | 5.5 | 75.5 | 79.6 | | | | |
| Infrastructure renewal expenditure | 2.2 | 21.1 | 23.3 | 21.5 | - | - | - | 21.5 | | | | |
| Infrastructure renewals accrual / prepayment | 0.8 | (8.0) | (7.2) | 0.8 | - | - | - | 0.8 | | | | |
| Functional cost | 99.3 | 135.0 | 234.3 | 75.0 | 135.0 | 35.7 | 170.7 | 245.7 | | | | |
| Total including business analysis | | | 268.5 | | | | | 273.8 | | | | |
| Rates | | | 24.8 | | | | | 19.1 | | | | |
| Doubtful debts | | | 7.0 | | | | | 10.5 | | | | |
| Business activities capital costs | | | 6.2 | | | | | 9.2 | | | | |
| Service costs | | | 306.5 | | | | | 312.6 | | | | |
| Services for third parties | | | 8.4 | | | | | 10.5 | | | | |
| Total cost | | | 314.9 | | | | | 323.1 | | | | |
| Fixed asset book values at 31 March 1997 | | | | | | | | | | | | |
| Service activities | 1,611.4 | 5,188.1 | 6,799.5 | 26,645.9 | 1,881.4 | 194.2 | 2,075.6 | 28,721.5 | | | | |
| Business activities | | | 48.7 | - | | | 65.7 | 65.7 | | | | |
| Service totals | | | 6,848.2 | 26,645.9 | | | 2,141.3 | 28,787.2 | | | | |
| Total CCA values | | | 6,848.2 | | | | | 28,787.2 | | | | |

2(b) 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 | Water supply | Water supply subtotal | Sewerage | Sewerage treatment and disposal | Sewage 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 | 13.5 | 28.7 | 42.2 | 4.7 | 16.9 | 24.8 | 29.5 | | | |
| Power | 4.8 | 15.6 | 20.4 | 3.6 | 7.9 | 12.8 | 16.4 | | | |
| Hired and contracted services | 1.0 | 13.1 | 14.1 | 19.7 | 4.1 | 5.7 | 25.4 | | | |
| Associated companies | 0.7 | 8.2 | 8.9 | 6.8 | 1.7 | 4.3 | 11.1 | | | |
| Materials and consumables | 2.9 | 5.7 | 8.6 | 0.6 | 2.0 | 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 | 7.9 | 11.2 | | | |
| Total direct costs | 31.8 | 74.8 | 106.6 | 38.7 | 43.0 | 62.1 | 100.8 | 34.8 | 2.7 | 2.3 |
| General and support expenditure | 13.2 | 27.0 | 40.2 | 11.2 | 27.6 | 39.0 | 50.2 | 10.7 | 6.9 | 2.5 |
| Functional expenditure | 45.0 | 101.8 | 146.8 | 49.9 | 70.6 | 101.1 | 151.0 | 45.5 | 9.6 | 4.8 |
| Capital costs | | | | | | | | | | |
| CC depreciation | 38.3 | 21.4 | 59.7 | 4.0 | 67.6 | 72.9 | 76.9 | | | |
| Infrastructure renewal expenditure | 1.2 | 16.4 | 17.6 | 20.2 | - | 0.1 | 20.3 | | | |
| Infrastructure renewals accrual / prepayment | 1.8 | (3.7) | (1.9) | 1.6 | - | (0.1) | 1.5 | | | |
| Functional cost | 86.3 | 135.9 | 222.2 | 75.7 | 138.2 | 174.0 | 249.7 | | | |
| Total including business analysis | | | 255.1 | | | | 276.7 | | | |
| Rates | | | 22.9 | | | | 21.1 | | | |
| Doubtful debts | | | 4.7 | | | | 6.8 | | | |
| Business activities capital costs | | | 6.8 | | | | 10.3 | | | |
| Service costs | | | 289.5 | | | | 314.9 | | | |
| Services for third parties | | | 22.1 | | | | 10.0 | | | |
| Total cost | | | 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 | 1,963.2 | 28,457.4 | | | |
| Business activities | | | 56.4 | 0.6 | | 84.1 | 84.7 | | | |
| Service totals | | | 6,580.5 | 26,494.8 | | 2,047.3 | 28,542.1 | | | |
| Total CCA values | | | 6,580.5 | | | | 28,542.1 | | | |

3 Tangible fixed assets by service as at 31 March 1997

| | Water supply £m | Sewerage £m | Sewage treatment & disposal £m | Total £m |
|-------------------------------|-----------------------|-----------------|---|-----------------|
| Gross replacement cost | | | | |
| At 1 April 1996 | 7,586.9 | 26,951.4 | 3,663.6 | 38,201.9 |
| MEA adjustment | - | (638.1) | - | (638.1) |
| RPI adjustment | 197.3 | 700.7 | 95.2 | 993.2 |
| Disposals | (57.9) | (9.8) | (93.8) | (161.5) |
| Additions | 170.0 | 104.6 | 126.4 | 401.0 |
| At 31 March 1997 | 7,896.3 | 27,108.8 | 3,791.4 | 38,796.5 |
| Depreciation | | | | |
| At 1 April 1996 | 1,006.4 | 456.6 | 1,616.3 | 3,079.3 |
| MEA adjustment | - | - | - | - |
| RPI adjustment | 26.2 | 11.9 | 42.0 | 80.1 |
| Disposals | (57.9) | (9.8) | (93.8) | (161.5) |
| Charge for year | 73.4 | 4.2 | 85.6 | 163.2 |
| At 31 March 1997 | 1,048.1 | 462.9 | 1,650.1 | 3,161.1 |
| Net book amount | | | | |
| At 31 March 1997 | 6,848.2 | 26,645.9 | 2,141.3 | 35,635.4 |
| Net book amount | | | | |
| At 31 March 1996 | 6,580.5 | 26,494.8 | 2,047.3 | 35,122.6 |

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 (a) Tangible fixed assets by asset type
as at 31 March 1997**

Water Services

| | 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 1996 | 2,728.4 | 48.4 | 4,721.3 | 88.8 | 7,586.9 |
| MEA adjustment | - | - | - | - | - |
| RPI adjustment | 70.9 | 1.3 | 122.8 | 2.3 | 197.3 |
| Disposals | (52.5) | - | - | (5.4) | (57.9) |
| Additions | 100.2 | 1.5 | 62.9 | 5.4 | 170.0 |
| At 31 March 1997 | 2,847.0 | 51.2 | 4,907.0 | 91.1 | 7,896.3 |
| Depreciation | | | | | |
| At 1 April 1996 | 948.7 | 17.2 | - | 40.5 | 1,006.4 |
| MEA adjustment | - | - | - | - | - |
| RPI adjustment | 24.7 | 0.4 | - | 1.1 | 26.2 |
| Disposals | (52.5) | - | - | (5.4) | (57.9) |
| Charge for year | 65.5 | 1.7 | - | 6.2 | 73.4 |
| At 31 March 1997 | 986.4 | 19.3 | - | 42.4 | 1,048.1 |
| Net book amount | | | | | |
| At 31 March 1997 | 1,860.6 | 31.9 | 4,907.0 | 48.7 | 6,848.2 |
| Net book amount | | | | | |
| At 31 March 1996 | 1,779.7 | 31.2 | 4,721.3 | 48.3 | 6,580.5 |

**4 (b) Tangible fixed assets by asset type
as at 31 March 1997**

Sewerage services

| | 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 1996 | 4,010.9 | 71.1 | 26,403.0 | 130.0 | 30,615.0 |
| MEA adjustment | - | - | (638.1) | - | (638.1) |
| RPI adjustment | 104.2 | 1.8 | 686.5 | 3.4 | 795.9 |
| Disposals | (100.5) | - | - | (3.1) | (103.6) |
| Additions | 176.2 | 2.2 | 49.5 | 3.1 | 231.0 |
| At 31 March 1997 | 4,190.8 | 75.1 | 26,500.9 | 133.4 | 30,900.2 |
| Depreciation | | | | | |
| At 1 April 1996 | 1,953.3 | 59.6 | - | 60.0 | 2,072.9 |
| MEA adjustment | - | - | - | - | - |
| RPI adjustment | 50.8 | 1.5 | - | 1.6 | 53.9 |
| Disposals | (100.5) | - | - | (3.1) | (103.6) |
| Charge for year | 78.5 | 2.1 | - | 9.2 | 89.8 |
| At 31 March 1997 | 1,982.1 | 63.2 | - | 67.7 | 2,113.0 |
| Net book amount | | | | | |
| At 31 March 1997 | 2,208.7 | 11.9 | 26,500.9 | 65.7 | 28,787.2 |
| Net book amount At 31 March 1996 | 2,057.6 | 11.5 | 26,403.0 | 70.0 | 28,542.1 |

Included in the gross replacement cost of Infrastructure assets is £5,540m (1996: £5,400m) 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.

**4 (c) Tangible fixed assets by asset type
as at 31 March 1997**

Total

| | 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 1996 | 6,739.3 | 119.5 | 31,124.3 | 218.8 | 38,201.9 |
| MEA adjustment | - | - | (638.1) | - | (638.1) |
| RPI adjustment | 175.1 | 3.1 | 809.3 | 5.7 | 993.2 |
| Disposals | (153.0) | - | - | (8.5) | (161.5) |
| Additions | 276.4 | 3.7 | 112.4 | 8.5 | 401.0 |
| At 31 March 1997 | 7,037.8 | 126.3 | 31,407.9 | 224.5 | 38,796.5 |
| Depreciation | | | | | |
| At 1 April 1996 | 2,902.0 | 76.8 | - | 100.5 | 3,079.3 |
| MEA adjustment | - | - | - | - | - |
| RPI adjustment | 75.5 | 1.9 | - | 2.7 | 80.1 |
| Disposals | (153.0) | - | - | (8.5) | (161.5) |
| Charge for year | 144.0 | 3.8 | - | 15.4 | 163.2 |
| At 31 March 1997 | 2,968.5 | 82.5 | - | 110.1 | 3,161.1 |
| Net book amount | | | | | |
| At 31 March 1997 | 4,069.3 | 43.8 | 31,407.9 | 114.4 | 35,635.4 |
| Net book amount At 31 March 1996 | 3,837.3 | 42.7 | 31,124.3 | 118.3 | 35,122.6 |

**5 Net book values of fixed assets by service and by asset type
as at 31 March 1997**

| | Specialised operational assets £m | Non- specialised operational properties £m | Infra- structure assets £m | Other tangible assets £m | Total £m |
|-------------------------------|--|--|-------------------------------------|-----------------------------------|-----------------|
| Water supply | 1,860.6 | 31.9 | 4,907.0 | 48.7 | 6,848.2 |
| Sewerage | 144.4 | 0.6 | 26,500.9 | - | 26,645.9 |
| Sewage treatment and disposal | 2,064.3 | 11.3 | - | 65.7 | 2,141.3 |
| At 31 March 1997 | 4,069.3 | 43.8 | 31,407.9 | 114.4 | 35,635.4 |

6 Working capital

| | 1997 £m | 1996 £m |
|---|----------------|---------------|
| Stocks | 12.6 | 14.9 |
| Trade debtors | 110.0 | 119.3 |
| Trade creditors | (34.4) | (32.8) |
| Short term capital creditors | (97.7) | (87.3) |
| Infrastructure renewals prepayment | 8.3 | 1.8 |
| Accruals | (107.1) | (84.1) |
| Trade payments in advance | (60.5) | (60.6) |
| Payroll related taxes and social security contributions | (3.7) | (4.3) |
| Group trade debtors/(creditors) | (6.0) | (8.4) |
| Prepayments | 58.9 | 52.7 |
| | <hr/> | <hr/> |
| Total working capital | (119.6) | (88.8) |
| | <hr/> <hr/> | <hr/> <hr/> |

7 Current cost reserve

| | 1997 £m | 1996 £m |
|--|-----------------|-----------------|
| Balance at 1 April 1996 | 32,748.0 | 36,724.5 |
| MEA adjustment | (638.1) | (4,875.7) |
| RPI adjustments | | |
| - Fixed assets | 913.1 | 922.5 |
| - Grants and third party contributions | (3.4) | (3.0) |
| - Working capital | (2.3) | (2.9) |
| - Financing | (18.0) | (17.4) |
| | <hr/> | <hr/> |
| Balance at 31 March 1997 | 32,999.3 | 32,748.0 |
| | <hr/> <hr/> | <hr/> <hr/> |

8 Profit and loss account

| | 1997 £m | 1996 £m |
|--|--------------|--------------|
| Balance at 1 April 1996 | 603.8 | 943.7 |
| Current cost retained profit/(deficit) | 150.2 | (339.9) |
| | <hr/> | <hr/> |
| Balance at 31 March 1997 | 754.0 | 603.8 |
| | <hr/> <hr/> | <hr/> <hr/> |

Rolling five-year summary

Current cost profit and loss account
for the year ended 31 March 1997
with corresponding amounts at 1997 prices

| | 1997 | 1996 | 1995 | 1994 | 1993 |
|--|----------------|----------------|--------------|--------------|--------------|
| | £m | £m | £m | £m | £m |
| Turnover | 1,000.8 | 999.0 | 971.5 | 947.1 | 896.5 |
| Current cost operating costs | (656.6) | (666.8) | (673.9) | (673.2) | (656.1) |
| Operating income/(cost) | 10.9 | 8.7 | 5.8 | (2.4) | 6.7 |
| | <u>355.1</u> | <u>340.9</u> | <u>303.4</u> | <u>271.5</u> | <u>247.1</u> |
| Working capital adjustment | 2.3 | 3.0 | 2.6 | 2.8 | 2.4 |
| | <u>357.4</u> | <u>343.9</u> | <u>306.0</u> | <u>274.3</u> | <u>249.5</u> |
| Interest | (44.5) | (45.5) | (51.7) | (47.7) | (36.6) |
| Financing adjustment | 18.0 | 17.8 | 24.6 | 12.9 | 7.5 |
| | <u>330.9</u> | <u>316.2</u> | <u>278.9</u> | <u>239.5</u> | <u>220.4</u> |
| Current cost profit on ordinary activities before taxation | 330.9 | 316.2 | 278.9 | 239.5 | 220.4 |
| Taxation | (44.1) | - | (0.3) | (0.3) | 0.8 |
| | <u>286.8</u> | <u>316.2</u> | <u>278.6</u> | <u>239.2</u> | <u>221.2</u> |
| Current cost profit on ordinary activities after taxation | 286.8 | 316.2 | 278.6 | 239.2 | 221.2 |
| Extraordinary income | - | - | - | - | - |
| | <u>286.8</u> | <u>316.2</u> | <u>278.6</u> | <u>239.2</u> | <u>221.2</u> |
| Current cost profit attributable to shareholders | 286.8 | 316.2 | 278.6 | 239.2 | 221.2 |
| Dividends | (136.6) | (664.3) | (140.6) | (132.5) | (121.3) |
| | <u>150.2</u> | <u>(348.1)</u> | <u>138.0</u> | <u>106.7</u> | <u>99.9</u> |
| Current cost retained profit/(deficit) | 150.2 | (348.1) | 138.0 | 106.7 | 99.9 |

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 1997
with corresponding amounts at 1997 prices

| | *1997 £m | *1996 £m | 1995 £m | 1994 £m | 1993 £m |
|--|------------------------|------------------------|------------------------|------------------------|------------------------|
| Fixed assets | | | | | |
| Tangible assets | 35,635.4 | 36,035.8 | 40,993.9 | 40,846.1 | 40,624.9 |
| Third party contributions since 1989/90 | (162.0) | (133.7) | (117.1) | (89.4) | (71.5) |
| | <u>35,473.4</u> | <u>35,902.1</u> | <u>40,876.8</u> | <u>40,756.7</u> | <u>40,553.4</u> |
| Working capital | (119.6) | (91.1) | (114.3) | (78.8) | (124.3) |
| | <u>35,353.8</u> | <u>35,811.0</u> | <u>40,762.5</u> | <u>40,677.9</u> | <u>40,429.1</u> |
| Net operating assets | | | | | |
| Cash and investments | 35.4 | 51.8 | 5.5 | 2.6 | 17.2 |
| Non-trade debtors due within one year | 8.9 | 11.0 | 6.5 | 6.1 | 10.3 |
| Non-trade creditors due within one year | (46.6) | (88.1) | (47.5) | (126.6) | (65.0) |
| Creditors due after more than one year | (738.2) | (684.4) | (645.3) | (609.7) | (536.3) |
| | <u>34,613.3</u> | <u>35,101.3</u> | <u>40,081.7</u> | <u>39,950.3</u> | <u>39,855.3</u> |
| Net assets employed | | | | | |
| Financed by | | | | | |
| Capital and reserves | | | | | |
| Called up share capital | 760.0 | 779.8 | 379.4 | 392.7 | 401.8 |
| Share premium | 100.0 | 102.6 | - | - | - |
| Profit and loss account | 754.0 | 619.5 | 994.7 | 887.1 | 797.8 |
| | <u>32,999.3</u> | <u>33,599.4</u> | <u>38,707.6</u> | <u>38,670.5</u> | <u>38,655.7</u> |
| Current cost reserve | 34,613.3 | 35,101.3 | 40,081.7 | 39,950.3 | 39,855.3 |
| | <u><u>34,613.3</u></u> | <u><u>35,101.3</u></u> | <u><u>40,081.7</u></u> | <u><u>39,950.3</u></u> | <u><u>39,855.3</u></u> |

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

* The 1996 and 1997 balance sheets include the revised MEA valuations.

Statement of cash flows for the year ended 31 March 1997

| | Notes | 1997 £m | 1996 £m |
|--|-------|----------------|-------------|
| Net cash inflow from operating activities | a | 558.9 | 496.7 |
| Returns on investments and servicing of finance | | | |
| Interest received | | 9.4 | 3.9 |
| Interest paid | | (38.8) | (37.4) |
| Interest in finance lease rentals | | (8.2) | (12.2) |
| | | <hr/> | <hr/> |
| Net cash outflow from returns on investments and servicing of finance | | (37.6) | (45.7) |
| Capital expenditure and infrastructure renewals | | | |
| Gross cost of purchase fixed assets | | (358.3) | (275.2) |
| Receipt of grants and contributions | | 30.7 | 24.8 |
| Infrastructure renewals expenditure | | (44.9) | (37.9) |
| Disposal of fixed assets | | 10.6 | 4.5 |
| | | <hr/> | <hr/> |
| Net cash outflow from investing activities | | (361.9) | (283.8) |
| Equity dividends paid | | (127.1) | (648.7) |
| Management of liquid resources | | | |
| Withdrawals from short term deposits | | 48.5 | - |
| Purchase of short term deposits | | (25.0) | (48.5) |
| Group loans | | (11.5) | - |
| | | <hr/> | <hr/> |
| Net cash inflow/(outflow) from management of liquid resources | d | 12.0 | (48.5) |
| | | <hr/> | <hr/> |
| Net cash inflow/(outflow) before financing | | 44.3 | (530.0) |
| Financing | | | |
| Capital element of finance lease rentals | | (0.8) | (5.2) |
| New loans | | 50.0 | 42.3 |
| Repayment of loans | | (83.3) | (12.1) |
| Proceeds of share issues | | - | 500.0 |
| | | <hr/> | <hr/> |
| Net cash (outflow)/inflow from financing | d | (34.1) | 525.0 |
| | | <hr/> | <hr/> |
| Increase/(decrease) in cash | b, c | 10.2 | (5.0) |
| | | <hr/> <hr/> | <hr/> <hr/> |

Notes to the cash flow statement

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

| | 1997 £m | 1996 £m |
|--|--------------|--------------|
| Current cost operating profit, excluding profit on asset sales | 346.5 | 327.3 |
| Working capital adjustment | (2.3) | (2.9) |
| Decrease in stocks and work in progress | 2.3 | 0.3 |
| Current cost depreciation | 163.2 | 154.7 |
| Grant movement | (1.6) | (1.2) |
| (Increase) in debtors and prepaid expenses | (3.0) | (16.0) |
| Increase/(Decrease) in creditors and accrued expenses | 15.4 | (3.0) |
| Infrastructure renewals | 38.4 | 37.5 |
| Net cash inflow from operating activities | 558.9 | 496.7 |

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

| | 1997 £m | 1996 £m |
|---------------------------------|-------------|------------|
| Balance at 1 April 1996 | 0.1 | 2.0 |
| Net cash inflow (outflow) | 10.2 | (1.9) |
| Balance at 31 March 1997 | 10.3 | 0.1 |

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

| | 1997 £m | 1996 £m | Change in year £m |
|--------------------------|-------------|------------|-------------------------|
| Cash at bank and in hand | 10.3 | 2.0 | 8.3 |
| Bank overdraft | - | (1.9) | 1.9 |
| | 10.3 | 0.1 | 10.2 |

(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 1995 | 37.7 | 149.8 | 432.2 | - | 619.7 |
| Net cash inflow/(outflow) 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 |
| Net cash (outflow)/inflow from financing | (80.0) | - | 45.9 | 12.0 | (22.1) |
| Finance leases raised during the year | - | - | 32.3 | - | 32.3 |
| Balance at 31 March 1997 | - | 150.0 | 553.0 | (36.5) | 666.5 |

Analysis of net debt

| | 1996 | Cashflow | Non-cash changes | 1997 |
|---------------------------|----------------|-------------|---------------------|----------------|
| | £m | £m | £m | £m |
| Cash at bank and in hand | 2.0 | 8.3 | - | 10.3 |
| Overdrafts | (1.9) | 1.9 | - | - |
| | | 10.2 | | |
| Debt due after 1 year | (407.0) | (50.0) | 7.9 | (449.1) |
| Debt due within 1 year | (83.2) | 83.3 | (7.9) | (7.8) |
| Finance leases | (214.6) | 0.8 | (32.3) | (246.1) |
| | | 34.1 | | |
| Current asset investments | 48.5 | (12.0) | - | 36.5 |
| Total | (656.2) | 32.3 | (32.3) | (656.2) |

Supplementary Directors interests information (in accordance with RAG5.02)

Listed below are details of directorships held by Thames Water Utilities Directors at 31 March 1997 in associated companies that have traded with the Regulated business during the year.

Directorships held in Associated Companies

| | |
|---------------|---|
| W J Alexander | Thames Water Plc Thames Water International Services Limited |
| D Badcock | Isis Insurance Company Limited |
| D J Luffrum | Isis Insurance Company Limited Kennet Properties Limited Thames Water Developments Limited Thames Water Environmental Services Limited Thames Water International Services Limited Thames Water Investments Limited Thames Water Plc Thames Water Products & Services Limited Thames Water Property Limited St James Homes Limited |
| R J Marshall | Thames Water Environmental Services Limited |

Directorships held in Thames Water Utilities Limited wholly owned subsidiary companies

| | |
|---------------|--|
| W J Alexander | Connect 2020 Limited Thames Water Utilities Finance Plc |
| D J Luffrum | Thames Water Utilities Finance Plc |
| J K Boudier | Connect 2020 Limited Thames Water Utilities Finance Plc |

Thames Water Utilities Limited conducts its Appointed Business so as to ensure arms-length trading and avoidance of cross-subsidy in the spirit of Condition F of the Instrument of Appointment.

The specialised procurement services provided by Connect 2020, for example, produce real benefits to the appointed business by ensuring best possible terms are obtained on a full range of goods and services.

No directorships are held by Thames Water Utilities directors in circumstances which might in practice result in conflicts of interest in intra-group trading relationships. Executive directors on the Thames Water Plc board, in some cases, are also directors of other group companies, including Thames Water Utilities Limited, on behalf of the parent company.

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

This is to certify that at their meeting on 10 June 1997 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 1998, 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 1998, 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 13 to 31 and 34 to 51 and page 53.

Respective responsibilities of directors and auditors

As described on page 10 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 1997 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 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 13 to 31 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 35 to 51 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

June 1997