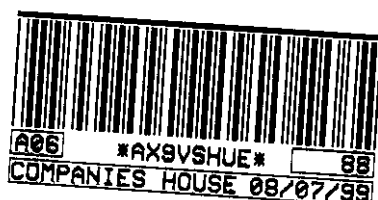


Registered no: 2366661

## Thames Water Utilities Limited

Annual Report and Financial Statements  
including regulatory information

for the year ended 31 March 1999



# Thames Water Utilities Limited

## Annual report for the year ended 31 March 1999

|                                      | Pages |
|--------------------------------------|-------|
| Directors and secretary              | 2     |
| Chairman's review                    | 3-4   |
| Directors' report                    | 5-8   |
| Report of the auditors               | 9     |
| Profit and loss account              | 10    |
| Balance sheet                        | 11    |
| Notes to the financial statements    | 12-31 |
| Supplementary regulatory information | 32-55 |

# **Thames Water Utilities Limited**

## **Directors and secretary (at 31 March 1999)**

### **Directors**

W J Alexander (Chairman)  
D Badcock  
J K Boudier  
D J Luffrum  
W S Lunn  
G W Maxwell (Managing Director)  
J V May  
J R Sexton

### **Secretary and registered office**

D Badcock  
Gainsborough House  
Manor Farm Road  
Reading  
RG2 OJN

# Thames Water Utilities Limited

## Chairman's review

### Utility Operations

The Utility business delivered a sound financial performance:

- turnover increased from £1,040m to £1,095m;
- operating profits went up by 9% to £474m;
- *operating costs, excluding depreciation and infrastructure renewals, remained broadly the same;*
- capital investment of £463m was made.

### Customer Service is a Key Priority

As we move into a more competitive environment, the need to excel in our services to customers becomes ever more important. Over the last year, our levels of customer service have risen to an all time high, particularly in the areas of drinking water, and our customer contact handling. We have maintained a high level of performance in sewage effluent compliance.

The importance we place on meeting the needs of our customers is also demonstrated by:

- our range of leaflets in large print and braille;
- services we offer for the deaf and hard of hearing;
- our Customer Assistance Fund to help and support customers who face financial difficulties.

In December 1998, we received our sixth Utility Week Achievement Award, on this occasion in recognition of the services provided by our 24-hour Customer Centre.

### Future Plans, Future Prices

The Company has been working with Ofwat, the water regulatory body, to achieve a balanced outcome from the Price Review for the five years from April 2000. In July, we are expecting the Regulator to announce a draft determination of future charging limits for the Company. We will then have an opportunity for further discussions with him, before his final decision is made in November.

We believe we have achieved a fair balance to date:

- we have exceeded the external targets set in several areas, within the price cap agreed at the Review five years ago;
- the efficiency of the business has improved significantly;
- we have the lowest average bill for combined water and wastewater services in England and Wales;
- our average unit costs for providing water and wastewater services are among the lowest in the industry;
- we have shared our outperformance with customers through discretionary capital investment, as well as a range of additional services.

# Thames Water Utilities Limited

## Capital Investment Achievements

Our capital investment programme is at the heart of our service improvements. This year, we have invested £463m. Since privatisation in 1989, the Company has invested £3.5bn.

We completed our £350m Advanced Water Treatment programme ahead of schedule and under budget, ensuring our drinking water meets strict European standards. Key to this success is our pioneering Superfilter, making drinking water clearer and brighter than ever before.

A high point of the year was the official opening of our sludge-powered generators, at Beckton and Crossness Wastewater Treatment Works, by His Royal Highness The Duke of Edinburgh. We have invested £165m to build these plants, in preparation for new directives brought in to end the disposal of sewage sludge at sea.


The generators represent an excellent source of renewable energy, creating enough environmentally-friendly electricity to supply around 20,000 homes. This green energy is being sold to businesses, as part of our relationship with the Renewable Energy Company to market electricity generated at 20 wastewater treatment works throughout the Thames Water region.

## Managing our Water Resources

The drought of 1997 is now well behind us and we have learnt a great deal about how to make the best use of our resources. We have invested £300m to reduce leakage over the last five years and have developed the latest technology in leakage detection. We exceeded the demanding Ofwat leakage target for 1998/99 and levels are now the lowest since reliable records began.

Rising groundwater under London is becoming an increasing problem for the capital city. The Company has pledged to maximise the amount we use to supplement water supplies. We have already opened up four boreholes, as part of a five stage solution involving more than 50 new boreholes in the Capital.

The success of the Company relies on the hard work and dedication of our employees. I would like to extend my personal thanks to all our staff and to welcome new employees who have joined us during the year.



**W J Alexander**  
Chairman

# Thames Water Utilities Limited

## Directors' report for the year ended 31 March 1999

The Directors present their report and the audited financial statements for the year ended 31 March 1999.

### Principal activities and review of the year

The principal activities of Thames Water Utilities Limited are the supply of water to over 3.4 million premises and the collection and treatment of sewage from over 5.1 million premises, serving around 12 million customers in London and the Thames Valley.

Details of the progress made and information relating to the various activities of the Company during the year and plans for the future are given in the Chairman's Review on pages 3 to 4.

### Results

The results for the year are set out in the Profit & Loss account on page 10.

### Dividends

During the year, the Company proposed an ordinary dividend of £141.0m (1998: £143.4m).

In addition, the Company undertook a further restructuring, through a special dividend of £750m (1998: £500m), and now has gearing in line with Ofwat's stated assumptions for the forthcoming Periodic Review.

The underlying dividend payment has been reduced to reflect the additional interest costs so that there is a neutral cost of servicing capital finance.

### Fixed Assets

In the opinion of the Directors, the market value of the Company's occupied properties is not significantly different from 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 1999.

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.

# Thames Water Utilities Limited

## Directors

The names of the Directors of the Company who served throughout 1998/99 are:-

W J Alexander (Chairman)  
G W Maxwell (Managing Director)  
D Badcock  
J K Boudier  
S R Jay (to 13 October 1998)  
D J Luffrum  
W S Lunn (from 22 March 1999)  
J V May  
J R Sexton

## Directors' Interests

Note 5 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'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.

## Policy on Payment of Suppliers

The Company supports a number of initiatives to promote a prompt payment culture, including those proposed by the Construction Round Table and the CBI. The implementation of these principles in the Company's arrangements with its suppliers is managed by its procurement subsidiary CONNECT 2020, whilst arrangements with its contractors are managed through the Engineering Department. All payments to suppliers, service providers and contractors are made on the basis of mutually agreed terms and conditions which are established in advance of purchases.

The amount due to trade creditors at 31 March 1999 represented 47 days' purchases received from those creditors.

## Employees

During the year we have involved a large number of managers in the development of a Statement of the Company's Business Principles, laying a foundation for ethical conduct in all aspects of the Company's dealings. The Company's values are: success, responsiveness, professionalism, respect for others, honesty and integrity, and challenge and innovation. These values characterise the way that we want the Company to deal with all its stakeholders: including customers, employees and shareholders. The behaviours which turn them into actions are embedded in all aspects of the business such as recruitment, performance management, development and training, employee relations and reward and recognition.

We continue to invest in the training of our employees to ensure they can fulfil their job responsibilities and to develop them for the future.

We continue to develop significant changes in our approach to managing employee performance and reward and have paved the way for more devolved arrangements for the future.

# Thames Water Utilities Limited

We continue to acknowledge the importance of communication with our employees on key business issues, and we intend to improve on this.

We have played a part in the Government's "New Deal Welfare to Work" programme providing a number of opportunities for young people to gain rewarding work. We have maintained an active recruitment strategy for technicians and graduates.

## Health and Safety

It is the policy throughout the Company to ensure that health and safety standards are maintained at a high level in order to protect both our employees and members of the public. All managers and employees have responsibility for implementing this policy under the guidance of the Health, Safety and Risk Manager and his team.

This year has seen the development of a wide range of initiatives aimed at improving health and safety standards and further embedding these in the culture. This, coupled with an ongoing commitment to providing health and safety training at all levels, has resulted in our lowest ever accident incidence rate.

## Employment for 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

We view Research and Development as a high priority. Our strategy remains focused on developing innovative solutions in support of improvements in customer service, drinking water quality and protection of the environment. Particular emphasis is being placed on water efficiency and the effects of climate change on future demand.

## Corporate Governance

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

## 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.



# Thames Water Utilities Limited

## Year 2000

A full statement on the Group's assessment of the risks and uncertainties associated with the year 2000 problem, its plans to address these issues and the related costs is set out in the Annual Report of Thames Water Plc.

## Auditors

Following the merger of Coopers & Lybrand and Price Waterhouse, Coopers & Lybrand resigned as the Company's auditors on 16 September 1998 and the Board appointed PricewaterhouseCoopers as auditors of the Company. They have expressed their willingness to continue in office and a resolution for their appointment will be proposed at the Annual General Meeting.

Approved by the Board



**David Badcock**  
Secretary and Legal Director



**Gordon W Maxwell**  
Managing Director

# Thames Water Utilities Limited

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

We have audited the financial statements on pages 10 to 31.

### Respective responsibilities of directors and auditors

The Directors are responsible for preparing the Annual Report including, as described on page 7, the financial statements. Our responsibilities, as independent Auditors, are established by statute, the Auditing Practices Board and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

### Basis of audit 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 presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company at 31 March 1999 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers  
Chartered Accountants and Registered Auditors  
Reading  
10 June 1999

# Thames Water Utilities Limited

## Profit and loss account for the year ended 31 March 1999

|  | Notes | 1999<br>£m            | 1998<br>£m     |
|--|-------|-----------------------|----------------|
| <b>Turnover</b>                                      | 2     | <b>1,094.5</b>        | 1,040.2        |
| Operating costs                                      | 2&3   | (630.3)               | (610.1)        |
| Operating income                                     | 4     | <u>9.4</u>            | <u>0.5</u>     |
| <b>Operating profit</b>                              |       | <b>473.6</b>          | 430.6          |
| Interest   | 6     | <u>(77.6)</u>         | <u>(50.7)</u>  |
| <b>Profit on ordinary activities before taxation</b> | 2     | <b>396.0</b>          | 379.9          |
| Tax on profit on ordinary activities                 | 7     | <u>(75.9)</u>         | <u>(64.1)</u>  |
| <b>Profit for the financial year</b>                 |       | <b>320.1</b>          | 315.8          |
| Dividends  | 8     | <u>(891.0)</u>        | <u>(643.4)</u> |
| <b>Deficit for the year</b>                          | 19    | <u><b>(570.9)</b></u> | <u>(327.6)</u> |

All amounts above relate to continuing operations.

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

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

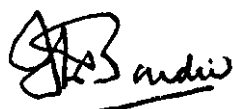
# Thames Water Utilities Limited

## Balance sheet at 31 March 1999

|  | Notes | 1999<br>£m       | 1998<br>£m     |
|--|-------|------------------|----------------|
| <b>Fixed assets</b>  |       |                  |                |
| Tangible assets  | 9     | 3,945.5          | 3,646.7        |
| Investments  | 10    | 0.1              | 0.1            |
|  |       | <u>3,945.6</u>   | <u>3,646.8</u> |
| <b>Current assets</b>  |       |                  |                |
| Stocks and work in progress                                    | 11    | 12.3             | 12.3           |
| Debtors  | 12    | 265.6            | 223.7          |
| Cash at bank and in hand                                       |       | 17.5             | 13.3           |
|  |       | <u>295.4</u>     | <u>249.3</u>   |
| <b>Creditors: amounts falling due within one year</b>          | 13    | <u>(1,184.9)</u> | <u>(702.6)</u> |
| <b>Net current liabilities</b>                                 |       | <u>(889.5)</u>   | <u>(453.3)</u> |
| <b>Total assets less current liabilities</b>                   |       | <b>3,056.1</b>   | <b>3,193.5</b> |
| <b>Creditors: amounts falling due after more than one year</b> | 14    | <u>(1,219.6)</u> | <u>(786.1)</u> |
| <b>Net assets</b>  |       | <u>1,836.5</u>   | <u>2,407.4</u> |
| <b>Capital and reserves</b>                                    |       |                  |                |
| Called up share capital  | 17    | 1,029.0          | 1,029.0        |
| Share premium account  | 18    | 100.0            | 100.0          |
| Profit and loss account  | 19    | 707.5            | 1,278.4        |
| <b>Equity shareholders' funds</b>                              |       | <u>1,836.5</u>   | <u>2,407.4</u> |

The notes on pages 12 to 31 form part of these financial statements.

The financial statements were approved by the Board of Directors on 7 June 1999 and were signed on its behalf by:



**J K Boudier**  
Director

# Thames Water Utilities Limited

## Notes to the financial statements for the year ended 31 March 1999

### 1 Principal accounting policies

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

#### (a) Change in accounting policies and presentation of financial information

The Company has adopted the requirements of Financial Reporting Standard (FRS) 11, 12 and 13 issued by the Accounting Standards Board during the year ended 31 March 1999. FRS 11 (impairment of fixed assets and goodwill) and FRS 12 (provisions and contingencies) have not had a significant effect on the financial statements. FRS 13 (derivatives and other financial instruments) has required further disclosure of the Company's financial instruments; narrative disclosures and numerical disclosures are set out in note 15 to the financial statements.

#### (b) 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(e) below. Consolidated Group financial statements have not been prepared as the Company is a wholly owned subsidiary of Thames Water Plc.

#### (c) Turnover

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

#### (d) 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.

# Thames Water Utilities Limited

## (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 | 3 - 10 years  |

## (e) 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 9.

Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the useful lives of the assets.

## (f) 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.

## (g) 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.

## (h) 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.

# Thames Water Utilities Limited

## (i) 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.

## (j) 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.

## (k) Research and development

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

## (l) 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.

## (m) Cash flow

In accordance with the provisions of Financial Reporting Standard 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.

# Thames Water Utilities Limited

## 2 Segmental analysis by class of business

|  | Water supply   | Sewerage services | Other trading activities | Total 1999     | Total 1998 |
|--|----------------|-------------------|--------------------------|----------------|------------|
|  | £m             | £m                | £m                       | £m             | £m         |
| <b>TURNOVER</b>  |                |                   |                          |                |            |
| Measured charges   | 153.6          | 159.2             | -                        | 312.8          | 268.3      |
| Unmeasured charges   | 273.6          | 434.8             | -                        | 708.4          | 700.1      |
| Trade effluent charges   | -              | 23.8              | -                        | 23.8           | 24.6       |
| Developer services   | 2.0            | 4.6               | 4.3                      | 10.9           | 10.9       |
| Other income   | 7.0            | 12.5              | 19.1                     | 38.6           | 36.3       |
| <b>Total Turnover 1999</b>   | <b>436.2</b>   | <b>634.9</b>      | <b>23.4</b>              | <b>1,094.5</b> |            |
| Total Turnover 1998  | 401.0          | 615.2             | 24.0                     |                | 1,040.2    |
| <b>OPERATING COSTS</b>   |                |                   |                          |                |            |
| Operating costs before depreciation and maintenance of infrastructure assets | (225.2)        | (215.3)           | (20.8)                   | (461.3)        | (461.7)    |
| Depreciation   | (60.8)         | (67.5)            | -                        | (128.3)        | (109.0)    |
| Infrastructure renewals charge   | (21.6)         | (19.1)            | -                        | (40.7)         | (39.4)     |
| <b>Total Operating costs 1999</b>  | <b>(307.6)</b> | <b>(301.9)</b>    | <b>(20.8)</b>            | <b>(630.3)</b> |            |
| Total Operating costs 1998   | (307.7)        | (283.2)           | (19.2)                   |                | (610.1)    |
| Operating profit   | 128.6          | 333.0             | 2.6                      | 464.2          | 430.1      |
| Profit on sale of fixed assets   | 8.1            | 1.3               | -                        | 9.4            | 0.5        |
| Interest   | (36.0)         | (41.6)            | -                        | (77.6)         | (50.7)     |
| <b>Profit on ordinary activities before taxation 1999</b>                    | <b>100.7</b>   | <b>292.7</b>      | <b>2.6</b>               | <b>396.0</b>   |            |
| Profit on ordinary activities before taxation 1998                           | 71.2           | 303.4             | 5.3                      |                | 379.9      |

Turnover derives wholly from within the United Kingdom.

|                                  | 1999<br>£m     | 1998<br>£m     |
|----------------------------------|----------------|----------------|
| <b>Net assets</b>                |                |                |
| Water supply                     | 1,718.0        | 1,518.4        |
| Sewerage services                | 1,987.6        | 1,782.5        |
| Net operating assets             | 3,705.6        | 3,300.9        |
| Net interest bearing liabilities | (1,869.1)      | (893.5)        |
|                                  | <b>1,836.5</b> | <b>2,407.4</b> |



# Thames Water Utilities Limited

## 3 Operating costs

Analysis of operating costs by type of expense:

|                                    | 1999<br>£m   | 1998<br>£m   |
|------------------------------------|--------------|--------------|
| Manpower costs                     | 140.8        | 133.8        |
| Other external charges             | 288.9        | 283.5        |
| Materials and consumables          | 22.7         | 24.1         |
| Other operating charges            | 26.9         | 40.8         |
| Infrastructure renewals charge     | 40.7         | 39.4         |
| Depreciation:                      |              |              |
| • own assets                       | 120.7        | 99.6         |
| • assets held under finance leases | 7.6          | 9.4          |
| Rentals under operating leases:    |              |              |
| • hire of plant and machinery      | 2.4          | 2.8          |
| • other                            | 4.1          | 1.8          |
| Auditors' remuneration:            |              |              |
| • for audit work                   | 0.2          | 0.1          |
| • for non audit work (a)           | 0.4          | 0.3          |
| Research and development           | 8.0          | 7.9          |
|                                    | <u>663.4</u> | <u>643.5</u> |
| Own work capitalised               | (33.1)       | (33.4)       |
|                                    | <u>630.3</u> | <u>610.1</u> |

(a) In addition to these costs, the auditors received remuneration of £nil (1998: £0.8m) for non-audit work which is included in the cost of capital projects.

## 4 Operating income

|  | 1999<br>£m | 1998<br>£m |
|--|------------|------------|
| Profit on disposal of fixed assets   | 7.8        | 8.8        |
| Profit/(Loss) on disposal of assets related to the redevelopment of the Reading office | 1.6        | (8.3)      |
|  | <u>9.4</u> | <u>0.5</u> |
| Taxation attributable, included in the charge for the year                             | <u>0.1</u> | <u>0.1</u> |

# Thames Water Utilities Limited

## 5 Information regarding Directors and employees

### Directors' remuneration

|                      | 1999<br>£'000 | 1998<br>£'000 |
|----------------------|---------------|---------------|
| Salary               | 400           | 492           |
| Bonus                | 41            | 84            |
| Other benefits       | 43            | 59            |
| Aggregate emoluments | <u>484</u>    | <u>635</u>    |

Retirement benefits are accruing to 5 (1998: 5) Directors under a defined benefit scheme.

During the year 4 Directors exercised share options and 5 Directors became entitled to receive shares in Thames Water Plc under the long-term incentive scheme.

| <b>Highest paid Director</b>      | 1999<br>£'000 | 1998<br>£'000 |
|-----------------------------------|---------------|---------------|
| G W Maxwell (1998: D Badcock)     |               |               |
| Aggregate emoluments and benefits | <u>115</u>    | <u>123</u>    |
| Accrued pension at end of year    | <u>29</u>     | <u>52</u>     |

The above details of Directors' remuneration do not include D Badcock, D J Luffrum and W J Alexander ( 1998: D Badcock (from 1 March 1998), 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. Due to the size and complexity of the Group, the emoluments of the Directors of the Parent Company are not apportioned across the group companies.

Full details of their remuneration including options and awards under the long-term restricted share plan are disclosed in the financial statements of Thames Water Plc.

# Thames Water Utilities Limited

## Directors' interests

### a) Executive share options in the share capital of Thames Water Plc

| Director    | At<br>31.03.98 | Number of options<br>exercised during<br>the year | At<br>31.03.99 | Exercise<br>price | Market<br>price on<br>exercise | Date when<br>exercisable | Expiry<br>date |
|-------------|----------------|---|----------------|-------------------|--------------------------------|--------------------------|----------------|
| J K Boudier | 10,000         | (10,000)  | -              | 453p              | 1117p                          | 08.12.97                 | 07.12.04       |
|             | 11,000         | (11,000)  | -              | 560p              | 1206p                          | 08.12.98                 | 07.12.05       |
| G W Maxwell | 11,500         | (11,500)  | -              | 560p              | 1206p                          | 08.12.98                 | 07.12.05       |
| J V May     | 12,500         | (12,500)  | -              | 560p              | 1206p                          | 08.12.98                 | 07.12.05       |
| J R Sexton  | 6,000          | -   | 6,000          | 453p              | -                              | 08.12.97                 | 07.12.04       |
|             | 7,300          | (7,300)   | -              | 560p              | 1206p                          | 08.12.98                 | 07.12.05       |

No options were granted or lapsed during the year.

### b) Long-Term restricted share plan in respect of shares in Thames Water Plc

| Director    | Date of award | Number of shares -<br>maximum | Earliest<br>vesting date |
|-------------|---------------|-------------------------------|--------------------------|
| J K Boudier | 09.07.97      | 1,647                         | 01.04.2001               |
|             | 11.08.98      | 1,520                         | 01.04.2002               |
| G W Maxwell | 09.07.97      | 1,830                         | 01.04.2001               |
|             | 11.08.98      | 1,788                         | 01.04.2002               |
| J V May     | 09.07.97      | 1,627                         | 01.04.2001               |
|             | 11.08.98      | 1,502                         | 01.04.2002               |
| J R Sexton  | 09.07.97      | 1,627                         | 01.04.2001               |
|             | 11.08.98      | 1,538                         | 01.04.2002               |

## Notes

The number of shares that will vest under the long-term plan is determined by the Group's position relative to similar companies in the UK based upon comparative total shareholder return over a four year period. Should Thames Water Plc rank below fourth place then no shares will vest and the Directors' interest in the shares will lapse.

The proportion of shares to vest for fourth place and above is graduated as follows:-

|         |                    |
|---------|--------------------|
| 4th     | 25% of the shares  |
| 3rd     | 50% of the shares  |
| 1st/2nd | 100% of the shares |

# Thames Water Utilities Limited

## c) Thames Water Sharesave Scheme

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

| Director    | Number of options |       | Exercise price |
|-------------|-------------------|-------|----------------|
|             | 1999              | 1998  |                |
| J K Boudier | 3,340             | 3,340 | 421p-442p      |
| G W Maxwell | 2,078             | 1,642 | 420p-887p      |
| J R Sexton  | 3,340             | 3,340 | 421p-442p      |

The market price of the shares at 31 March 1999 was 940p and the range during the period 1 April 1998 to 31 March 1999 was 920p to 1208p.

## d) Share bonus plan in respect of shares in Thames Water Plc

| Director    | Date of award | Number of shares - maximum | Notional value*<br>£000 | Earliest vesting date |
|-------------|---------------|----------------------------|-------------------------|-----------------------|
| J K Boudier | 11.08.1998    | 363                        | 3.6                     | 11.08.2001            |
| G W Maxwell | 11.08.1998    | 407                        | 4.0                     | 11.08.2001            |
| J V May     | 11.08.1998    | 362                        | 3.6                     | 11.08.2001            |
| J R Sexton  | 11.08.1998    | 362                        | 3.6                     | 11.08.2001            |

\* the notional value of the shares is based upon the market price of Thames Water Plc shares at the close of business on 28 May 1999. The market price was 990p.

## Directors' interests in the ordinary share capital of Thames Water Plc

| Beneficial owner | Shares held as at<br>31 March 1999 | Shares held as at<br>31 March 1998 |
|------------------|------------------------------------|------------------------------------|
| J K Boudier      | 13,297                             | 14,475                             |
| G W Maxwell      | 6,359                              | 2,904                              |
| J V May          | 36                                 | 40                                 |
| J R Sexton       | 423                                | 430                                |

In addition to the shares noted above, J K Boudier (127), G W Maxwell (127), J V May (40) and J R Sexton (127) have B shares held in trust under the Thames Water Profit Sharing Scheme. W S Lunn held no shares in Thames Water Plc.

W J Alexander, D Badcock and D J Luffrum were also Directors of Thames Water Plc at 31 March 1999 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.

# Thames Water Utilities Limited

## Employee information

Average number of persons employed by the Company, including Executive Directors, analysed by class of business:

|                   | 1999<br>Number | 1998<br>Number |
|-------------------|----------------|----------------|
| Water supply      | 3,267          | 3,257          |
| Sewerage services | 2,360          | 2,352          |
| <b>Total</b>      | <b>5,627</b>   | <b>5,609</b>   |

|   | 1999<br>£m   | 1998<br>£m   |
|---|--------------|--------------|
| <b>Employment costs including Executive Directors' remuneration were:</b> |              |              |
| Salaries and wages  | 125.9        | 121.7        |
| Social security costs   | 10.6         | 9.9          |
| Pension contributions (note 23)   | 9.8          | 8.7          |
| <b>Total</b>  | <b>146.3</b> | <b>140.3</b> |

Total employment costs include £3.8m (1998: £4.7m) which is included in the infrastructure renewals charge and £1.7m (1998: £1.8m) which is included in research and development in note 3.

## 6 Interest

|  | 1999<br>£m    | 1998<br>£m    |
|--|---------------|---------------|
| Bank loans, overdrafts and other loans:      |               |               |
| - bank loans                                 | (31.8)        | (23.9)        |
| - other loans                                | (8.0)         | (3.0)         |
| - group loans                                | (29.5)        | (15.7)        |
| Finance charges in respect of finance leases | (16.7)        | (14.0)        |
| Interest payable and similar charges         | (86.0)        | (56.6)        |
| Interest receivable                          | 8.4           | 5.9           |
| <b>Total</b>                                 | <b>(77.6)</b> | <b>(50.7)</b> |

# Thames Water Utilities Limited

## 7 Taxation

|  | 1999<br>£m  | 1998<br>£m  |
|--|-------------|-------------|
| UK corporation tax at 31% (1998: 31%)                                      | 31.0        | 23.5        |
| Amount payable to group companies in respect of tax saved by group relief: |             |             |
| Group relief   | -           | 4.4         |
| Surrender of ACT   | 54.2        | 42.7        |
| Deferred Taxation  | -           | (1.2)       |
|  | <u>85.2</u> | <u>69.4</u> |
| Prior year items - Deferred Tax  | -           | 1.2         |
| - Other  | (9.3)       | (6.5)       |
|  | <u>75.9</u> | <u>64.1</u> |

The corporation tax payable for the year has been reduced by £54.2m (1998: £47.1m) because of ACT received (1998: group relief and ACT received) from group companies for which payment of £54.2m will be made on 1 January 2000.

## 8 Dividends

|                     | 1999<br>£m   | 1998<br>£m   |
|---------------------|--------------|--------------|
| Dividends paid      | 141.0        | 142.0        |
| Dividends proposed  | -            | 1.4          |
|                     | <u>141.0</u> | <u>143.4</u> |
| Additional dividend | 750.0        | 500.0        |
|                     | <u>891.0</u> | <u>643.4</u> |

## 9 Tangible fixed assets

|                          | Land and<br>buildings<br>£m | Plant and<br>equipment<br>£m | Infrastructure<br>assets<br>£m | Total<br>£m    |
|--------------------------|-----------------------------|------------------------------|--------------------------------|----------------|
| <b>Net cost</b>          |                             |                              |                                |                |
| At 1 April 1998          | 1,423.5                     | 1,579.9                      | 1,338.8                        | 4,342.2        |
| Additions                | 100.8                       | 202.8                        | 159.9                          | 463.5          |
| Disposals                | (0.8)                       | (28.4)                       | -                              | (29.2)         |
| Capital contributions    | -                           | -                            | (34.3)                         | (34.3)         |
|                          | <u>1,523.5</u>              | <u>1,754.3</u>               | <u>1,464.4</u>                 | <u>4,742.2</u> |
| <b>At 31 March 1999</b>  |                             |                              |                                |                |
| <b>Depreciation</b>      |                             |                              |                                |                |
| At 1 April 1998          | 277.3                       | 418.2                        | -                              | 695.5          |
| Provided during the year | 27.4                        | 100.9                        | -                              | 128.3          |
| Disposals                | (0.3)                       | (26.8)                       | -                              | (27.1)         |
|                          | <u>304.4</u>                | <u>492.3</u>                 | <u>-</u>                       | <u>796.7</u>   |
| <b>At 31 March 1999</b>  |                             |                              |                                |                |
| <b>Net book value</b>    |                             |                              |                                |                |
| At 31 March 1999         | <u>1,219.1</u>              | <u>1,262.0</u>               | <u>1,464.4</u>                 | <u>3,945.5</u> |
| At 31 March 1998         | <u>1,146.2</u>              | <u>1,161.7</u>               | <u>1,338.8</u>                 | <u>3,646.7</u> |

# Thames Water Utilities Limited

In order to give a true and fair view (note 1(e)) the cost of infrastructure assets is stated after the deduction of capital contributions amounting to £216.7m (1998: £182.4m).

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

|                             | 1999<br>£m     | 1998<br>£m     |
|-----------------------------|----------------|----------------|
| Freehold land and buildings | 1,194.8        | 1,122.2        |
| Leasehold over 50 years     | 20.1           | 19.7           |
| under 50 years              | 4.2            | 4.3            |
|                             | <u>1,219.1</u> | <u>1,146.2</u> |

No depreciation has been charged on freehold land included above at £6.4m (1998: £5m).

Tangible fixed assets at 31 March 1999 include £306.4m (1998: £464.3m) 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 |              |
|---------------------|--------------|--------------|----------------|--------------|
|                     | 1999<br>£m   | 1998<br>£m   | 1999<br>£m     | 1998<br>£m   |
| Plant and equipment | <u>270.2</u> | <u>289.6</u> | <u>245.7</u>   | <u>239.3</u> |

## 10 Fixed asset investments

|                              | 1999<br>£m | 1998<br>£m |
|------------------------------|------------|------------|
| Cost of shares in subsidiary | <u>0.1</u> | <u>0.1</u> |

At 31 March 1999 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                    |
|--|----------------------|---|-----------------------------|
| Gemwel Limited                         | Ordinary             | 50%   | Water and Sewerage Services |
| Thames Water Drainage Services Limited | Ordinary             | 100%  | Sewerage Management         |
| CONNECT 2020 Limited                   | Ordinary             | 100%  | Procurement                 |
| Thames Water Utilities Finance Plc     | Ordinary             | 100%  | Finance Company             |

# Thames Water Utilities Limited

At 31 March 1999 and 31 March 1998 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 have been made in either of the years concerned.

CONNECT 2020 Limited had a deficit on reserves of £1,462,000 at 31 March 1999 (1998: £1,400,000).

Gemwel Limited had a deficit on reserves of £35,000 at 31 March 1999 (1998: £46,000).

## 11 Stocks and work in progress

|                               | 1999<br>£m  | 1998<br>£m  |
|-------------------------------|-------------|-------------|
| Raw materials and consumables | 11.1        | 11.1        |
| Work in progress              | 1.2         | 1.2         |
| Total                         | <u>12.3</u> | <u>12.3</u> |

## 12 Debtors

|                                     | 1999<br>£m   | 1998<br>£m   |
|-------------------------------------|--------------|--------------|
| <b>Due within one year</b>          |              |              |
| Trade debtors                       | 120.9        | 104.9        |
| Amounts owed by group undertakings  | 23.4         | 21.1         |
| Other debtors                       | 4.7          | 13.3         |
| Prepayments and accrued income      | 107.1        | 78.9         |
| Infrastructure renewals expenditure | 9.5          | 5.5          |
| Total                               | <u>265.6</u> | <u>223.7</u> |

## 13 Creditors: amounts falling due within one year

|   | 1999<br>£m     | 1998<br>£m   |
|---|----------------|--------------|
| Bank loans (note 15)  | 96.6           | 69.4         |
| Other loans (note 15)   | -              | 1.1          |
| Obligations under finance leases (note 15)                            | 1.8            | 1.3          |
| Progress claims and advance payments                                  | 71.9           | 65.6         |
| Trade creditors:  |                |              |
| • Operating   | 40.9           | 31.7         |
| • Capital   | 103.1          | 108.5        |
| Amounts owed to group undertakings                                    | 665.8          | 240.1        |
| Amount payable in respect of group relief and advance corporation tax | 54.3           | 45.4         |
| Corporation tax   | 35.9           | 24.0         |
| Other taxation and social security payable                            | 3.6            | 3.3          |
| Accruals and deferred income  | 111.0          | 110.8        |
| Proposed dividend   | -              | 1.4          |
| Total   | <u>1,184.9</u> | <u>702.6</u> |



# Thames Water Utilities Limited

Amounts owed to Group undertakings includes an interest bearing loan of £621.3m (1998: £94m) which is repayable on normal commercial terms. There are no interest free loans (1998: £115.5m).

## 14 Creditors: amounts falling due after more than one year

|  | 1999<br>£m | 1998<br>£m |
|--|------------|------------|
| Bank loans (note 15)                           | 356.9      | 298.1      |
| Other loans (note 15)                          | 32.6       | 32.4       |
| Obligations under finance leases (note 15)     | 261.2      | 260.4      |
| Amounts owed to group undertakings (see below) | 516.2      | 150.0      |
| Other creditors                                | 8.8        | 7.0        |
| Deferred income                                | 43.9       | 38.2       |
|  | <hr/>      | <hr/>      |
| Total  | 1,219.6    | 786.1      |

A subsidiary undertaking, Thames Water Utilities Finance Plc, has in issue £516.2m (1998: £150m) Guaranteed Bonds. The net proceeds were loaned to the Company under the same terms and £516.2m (1998: £150m) is included in amounts owed to group undertakings 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.

# Thames Water Utilities Limited

## 15 Financial instruments

Financial Reporting Standard 13 requires disclosure of the Company's Funding and Treasury Policy together with further details on its financial assets and liabilities.

### Funding and Treasury Policy

The Group's funding policy is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

Derivative financial instruments, including cross currency swaps, interest rate swaps and forward contracts are employed to manage the interest rate and currency risks arising from the primary financial instruments used to finance the Company's activities.

A statement regarding the management of Treasury operations is set out in the Annual Report of Thames Water Plc.

Short term debtors and creditors have been excluded from financial instruments' disclosures.

### Financial assets

Interest rate risk profile

|                   | 1999                    |                      |                  |
|-------------------|-------------------------|----------------------|------------------|
|                   | Total at floating rates | Total at fixed rates | Total book value |
|                   | £m                      | £m                   | £m               |
| Cash at bank/hand |                         |                      |                  |
| - £ Sterling      | 15.2                    | -                    | 15.2             |
| - Others          | 2.3                     | -                    | 2.3              |
|                   | <u>17.5</u>             | <u>-</u>             | <u>17.5</u>      |

Base rate is the benchmark rate for all cash at bank.

# Thames Water Utilities Limited

## Financial liabilities

### Interest rate risk profile

1999

|  | <u>Fixed rate liabilities</u> |                      |                  |                                |  |
|--|-------------------------------|----------------------|------------------|--------------------------------|--|
|  | Total at floating rates       | Total at fixed rates | Total book value | Weighted average interest rate | Weighted average period until maturity for which rate is fixed |
|  | £m                            | £m                   | £m               | %                              | years  |
| Banks loans & overdraft<br>- £ Sterling      | 110.5                         | 343.0                | 453.5            | 8.0                            | 8.4  |
|  | <u>110.5</u>                  | <u>343.0</u>         | <u>453.5</u>     | <u>8.0</u>                     | <u>8.4</u>   |
| Other loans & finance leases<br>- £ Sterling | 850.9                         | 582.2                | 1,433.1          | 7.4                            | 19.4   |
|  | <u>850.9</u>                  | <u>582.2</u>         | <u>1,433.1</u>   | <u>7.4</u>                     | <u>19.4</u>  |

The Company's interest rate and cross currency swaps convert £63.4m of floating rate borrowings into fixed rate and hedge the sterling value of £11.2m foreign currency borrowings.

Additionally, interest rate swaps are in place which convert £10m of fixed rate borrowings from an average fixed rate of 10.5% to floating rates (based on LIBOR) for a weighted average remaining term of 2.7 years.

Short term lending bears interest at rates linked to LIBOR.

### Currency risk

The Company is not exposed to any significant currency risk after taking the effects of its cross currency swaps and forward rate contracts into consideration.

# Thames Water Utilities Limited

## Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Company's financial instruments.

|  | 1999                   |                        |
|--|------------------------|------------------------|
|  | Total book value<br>£m | Total fair value<br>£m |
| Primary financial instruments            |                        |                        |
| - Financial assets                       | 17.5                   | 17.5                   |
| - Financial liabilities                  | (1,886.6)              | (1,971.6)              |
| Derivative financial instruments         |                        |                        |
| - Interest rate and cross currency swaps |                        | (8.3)                  |
|  | <u>(1,869.1)</u>       | <u>(1,962.4)</u>       |

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 1999 quoted prices. Mark to market techniques (discounting expected cashflows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values which approximate to book value.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effects of revaluing foreign currency borrowings at closing rates is included in the fair valuation.

# Thames Water Utilities Limited

## Maturities

|                                       | 1999<br>£m     | 1998<br>£m     |
|---------------------------------------|----------------|----------------|
| <b>Bank loans and overdrafts</b>      |                |                |
| - Within one year                     | 96.6           | 69.4           |
| - Between one and two years           | 16.8           | 16.1           |
| - Between two and five years          | 80.2           | 52.7           |
| - After more than five years          | 259.9          | 229.3          |
|                                       | <u>453.5</u>   | <u>367.5</u>   |
| <b>Other loans and finance leases</b> |                |                |
| - Within one year                     | 623.1          | 211.9          |
| - Between one and two years           | 2.7            | 2.5            |
| - Between two and five years          | 228.3          | 160.4          |
| - After more than five years          | 579.0          | 279.9          |
|                                       | <u>1,433.1</u> | <u>654.7</u>   |
| <b>Total borrowings</b>               | <u>1,886.6</u> | <u>1,022.2</u> |

- Loans are repayable between 1999 and 2028.
- Loans wholly repayable after more than five years hence are:

|              | 1999<br>£m   | 1998<br>£m   |
|--------------|--------------|--------------|
| -Bank loans  | 200.0        | 150.0        |
| -Other loans | 330.0        | 32.4         |
|              | <u>530.0</u> | <u>182.4</u> |

- Other loans include loans totalling £32.4m (1998: £32.4m) which are secured on the revenues of the Company.
- Loans repayable by instalments after more than five years hence are :-

|                  | 1999<br>£m   | 1998<br>£m   |
|------------------|--------------|--------------|
| - Bank loans     | 59.9         | 79.3         |
| - Finance leases | 249.0        | 247.5        |
|                  | <u>308.9</u> | <u>326.8</u> |

- The range of interest rates on outstanding bank loans are 5.92% to 11.5% (1998: 6.25% to 11.5%) and other loans are 3% to 9% (1998: 3% to 11%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.
- The Company is committed to outstanding finance lease facilities of £nil (1998: £13.6m) to fund capital investment.

# Thames Water Utilities Limited

## Borrowing facilities

The Company has unused committed borrowing facilities with a range of financial institutions totalling £410m, expiring as follows:

|                           | £m         |
|---------------------------|------------|
| Within one year           | 310        |
| Between one and two years | -          |
| After more than two years | 100        |
|                           | <u>410</u> |

The Group also has a US\$ 3 billion uncommitted Euro-Medium Term Note programme which provides access to the capital markets in a range of currencies and maturities. At 31 March 1999, the Company had borrowed £36.2m. This is made up of £20m carrying interest at floating rates. The remaining £16.2m carries interest at a weighted average rate of 2.3% with a weighted average term of 4.9 years.

## 16 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 at current tax rates is as follows:

|                                 | 1999<br>£m   | 1998<br>£m   |
|---------------------------------|--------------|--------------|
| Accelerated capital allowances: |              |              |
| - Infrastructure assets         | 316.6        | 305.0        |
| - Other assets                  | 377.1        | 367.2        |
| Other timing differences        | (4.2)        | (1.4)        |
|                                 | <u>689.5</u> | <u>670.8</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.

## 17 Share capital

|  | 1999<br>£m     | 1998<br>£m     |
|--|----------------|----------------|
| <b>Authorised</b>  |                |                |
| 1,029,050,000 (1998: 1,029,050,000) ordinary shares of £1 each | <u>1,029.0</u> | <u>1,029.0</u> |
| <b>Allotted, called up and fully paid</b>                      |                |                |
| 1,029,050,000 (1998: 1,029,050,000) ordinary shares of £1 each | <u>1,029.0</u> | <u>1,029.0</u> |

# Thames Water Utilities Limited

## 18 Share premium account

|   | 1999<br>£m   | 1998<br>£m   |
|---|--------------|--------------|
| Premium of 25p on issue of 400 million £1 ordinary shares | <u>100.0</u> | <u>100.0</u> |

## 19 Profit and loss account

|                         | Profit and loss<br>account<br>£m |
|-------------------------|----------------------------------|
| At 1 April 1998         | 1,278.4                          |
| Deficit for the year    | (570.9)                          |
| <b>At 31 March 1999</b> | <u>707.5</u>                     |

## 20 Reconciliation of movements in shareholders' funds

|  | 1999<br>£m     | 1998<br>£m     |
|--|----------------|----------------|
| Profit for the financial year                    | 320.1          | 315.8          |
| Dividends  | (891.0)        | (643.4)        |
|  | <u>(570.9)</u> | <u>(327.6)</u> |
| New share capital issued                         | -              | 269.0          |
| Shareholders' funds at the beginning of the year | <u>2,407.4</u> | <u>2,466.0</u> |
| Shareholders' funds at the end of the year       | <u>1,836.5</u> | <u>2,407.4</u> |

## 21 Capital commitments

|                                 | 1999<br>£m   | 1998<br>£m   |
|---------------------------------|--------------|--------------|
| Contracted for but not provided | <u>107.5</u> | <u>201.2</u> |

In addition to these commitments, the Company has long-term capital investment plans to provide for future growth.

# Thames Water Utilities Limited

## 22 Operating leases

At 31 March 1999 the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

|                            | 1999                     |             | 1998                     |             |
|----------------------------|--------------------------|-------------|--------------------------|-------------|
|                            | Land and buildings<br>£m | Other<br>£m | Land and buildings<br>£m | Other<br>£m |
| Leases which expire:       |                          |             |                          |             |
| Within one year            | -                        | 0.9         | 0.1                      | 0.4         |
| Within one and two years   | 0.1                      | 0.9         | -                        | 1.2         |
| Between two and five years | 0.2                      | 0.6         | 0.2                      | 0.8         |
| After more than five years | 3.8                      | -           | 1.5                      | -           |
|                            | <u>4.1</u>               | <u>2.4</u>  | <u>1.8</u>               | <u>2.4</u>  |

## 23 Pension schemes

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

The total ongoing pension cost for the Company during the year ended 31 March 1999 was £9.8m (1998: £8.7m). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the independent and professionally qualified consulting actuaries to the schemes.

The regular cost of benefits amounted to £18.4m (1998: £17.6m) and the surplus resulted in a variation amounting to a reduction in the pension cost of £8.6m (1998: £8.9m).

As at 31 March 1999 an accrual in respect of the funded schemes amounting to £5.8m (1998: £0.3m) was included in creditors.

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 1999 payments amounted to £0.7m (1998: £1.4m).

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

## 24 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.



# Thames Water Utilities Limited

## Supplementary Regulatory Information - 1998/99

|  | Pages |
|--|-------|
| Introduction   | 33    |
| Certificate prepared in accordance with Condition F6A            | 33    |
| Supplementary historical cost profit and loss account            | 34    |
| Current cost accounting statements                               |       |
| Profit and loss account  | 35    |
| Balance sheet  | 36    |
| Notes to the supplementary regulatory financial statements       | 37-46 |
| Rolling five-year summary  |       |
| Current cost profit and loss account                             | 47    |
| Current cost balance sheet                                       | 48    |
| Statement of cash flows  | 49-51 |
| Regulatory Accounts Intra Group Trade                            | 52    |
| Supplementary Directors' interests information                   | 53    |
| Report of the auditors to the Director General of Water Services | 54-55 |

# Thames Water Utilities Limited

## Supplementary Regulatory Information - 1998/99

### 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 10 to 31 with respect to the treatment required under FRS 3.

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

### 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 developer services for which the Company is a monopoly supplier.

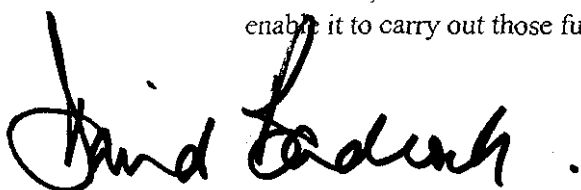
As the non-appointed business, as defined by Regulatory Accounting Guidelines, has generated turnover in excess of 1% of total turnover, further profit and loss information has been provided in accordance with RAG 3.04. Non-appointed business includes the provision of developer services for which the Company is not a monopoly supplier, Green Energy, plumbing services and other services to third parties.

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

This is to certify that at their meeting on 7 June 1999 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 2000, 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 2000, have available to it management resources which are sufficient to enable it to carry out those functions."



David Badcock  
Secretary & Legal Director

# Thames Water Utilities Limited

## Supplementary historical cost profit and loss account

|   | 1999                  |                               |                | 1998                  |                               |                |
|---|-----------------------|-------------------------------|----------------|-----------------------|-------------------------------|----------------|
|   | Appointed<br>business | Non-<br>appointed<br>business | Total          | Appointed<br>business | Non-<br>appointed<br>business | Total          |
|   | £m                    | £m                            | £m             | £m                    | £m                            | £m             |
| <b>Turnover</b>   | 1,071.1               | 23.4                          | 1,094.5        | 1,016.2               | 24.0                          | 1,040.2        |
| Operating costs   | (609.5)               | (20.8)                        | (630.3)        | (590.9)               | (19.2)                        | (610.1)        |
|   | <u>461.6</u>          | <u>2.6</u>                    | <u>464.2</u>   | <u>425.3</u>          | <u>4.8</u>                    | <u>430.1</u>   |
| Operating income  | 9.4                   | -                             | 9.4            | 0.5                   | -                             | 0.5            |
|   | <u>471.0</u>          | <u>2.6</u>                    | <u>473.6</u>   | <u>425.8</u>          | <u>4.8</u>                    | <u>430.6</u>   |
| <b>Operating profit</b>   | 471.0                 | 2.6                           | 473.6          | 425.8                 | 4.8                           | 430.6          |
| Interest  | (77.6)                | -                             | (77.6)         | (50.7)                | -                             | (50.7)         |
|   | <u>393.4</u>          | <u>2.6</u>                    | <u>396.0</u>   | <u>375.1</u>          | <u>4.8</u>                    | <u>379.9</u>   |
| <b>Profit on ordinary activities<br/>before taxation</b>            | 393.4                 | 2.6                           | 396.0          | 375.1                 | 4.8                           | 379.9          |
| Taxation on profit on ordinary<br>activities                        | (75.1)                | (0.8)                         | (75.9)         | (62.6)                | (1.5)                         | (64.1)         |
|   | <u>318.3</u>          | <u>1.8</u>                    | <u>320.1</u>   | <u>312.5</u>          | <u>3.3</u>                    | <u>315.8</u>   |
| <b>Profit for the financial year</b>                                | 318.3                 | 1.8                           | 320.1          | 312.5                 | 3.3                           | 315.8          |
| Dividends   | (890.2)               | (0.8)                         | (891.0)        | (641.9)               | (1.5)                         | (643.4)        |
|   | <u>(571.9)</u>        | <u>1.0</u>                    | <u>(570.9)</u> | <u>(329.4)</u>        | <u>1.8</u>                    | <u>(327.6)</u> |
| <b>(Deficit)/retained profit<br/>transferred (from)/to reserves</b> | (571.9)               | 1.0                           | (570.9)        | (329.4)               | 1.8                           | (327.6)        |

# Thames Water Utilities Limited

## Current cost accounting statements

Profit and loss account for the year ended 31 March 1999

|   | Notes | Appointed<br>business<br>£m | 1999<br>Non-<br>appointed<br>business<br>£m | Total<br>£m    | Appointed<br>business<br>£m | 1998<br>Non-<br>appointed<br>business<br>£m | Total<br>£m    |
|---|-------|-----------------------------|---|----------------|-----------------------------|---|----------------|
| <b>Turnover</b>   | 2     | 1,071.1                     | 23.4  | 1,094.5        | 1,016.2                     | 24.0  | 1,040.2        |
| Current cost operating costs                                      | 3     | (689.2)                     | (20.8)                                      | (710.0)        | (671.8)                     | (19.2)                                      | (691.0)        |
| Operating income  | 2     | 11.5                        | -   | 11.5           | 9.1                         | -   | 9.1            |
|   |       | <u>393.4</u>                | <u>2.6</u>                                  | <u>396.0</u>   | <u>353.5</u>                | <u>4.8</u>                                  | <u>358.3</u>   |
| Working capital adjustment  | 2     | 7.6                         | -   | 7.6            | 4.2                         | -   | 4.2            |
| <b>Current cost operating profit</b>                              |       | 401.0                       | 2.6   | 403.6          | 357.7                       | 4.8   | 362.5          |
| Interest  |       | (77.6)                      | -   | (77.6)         | (50.7)                      | -   | (50.7)         |
| Financing adjustment  |       | 18.4                        | -   | 18.4           | 25.9                        | -   | 25.9           |
| <b>Current cost profit on ordinary activities before taxation</b> |       | 341.8                       | 2.6   | 344.4          | 332.9                       | 4.8   | 337.7          |
| Taxation  |       | (75.1)                      | (0.8)                                       | (75.9)         | (62.6)                      | (1.5)                                       | (64.1)         |
| <b>Current cost profit attributable to shareholders</b>           |       | 266.7                       | 1.8   | 268.5          | 270.3                       | 3.3   | 273.6          |
| Dividends   |       | (890.2)                     | (0.8)                                       | (891.0)        | (641.9)                     | (1.5)                                       | (643.4)        |
| <b>Current cost (deficit)/retained profit</b>                     | 6     | <u>(623.5)</u>              | <u>1.0</u>                                  | <u>(622.5)</u> | <u>(371.6)</u>              | <u>1.8</u>                                  | <u>(369.8)</u> |

# Thames Water Utilities Limited

## Current cost accounting statements

Balance sheet at 31 March 1999

|   | Notes | 1999<br>£m      | 1998<br>£m      |
|---|-------|-----------------|-----------------|
| <b>Fixed assets</b>                     |       |                 |                 |
| Tangible assets                         | 4     | 38,234.5        | 37,197.9        |
| Third party contributions since 1989/90 |       | (238.6)         | (200.1)         |
|   |       | <u>37,995.9</u> | <u>36,997.8</u> |
| <b>Working capital</b>                  | 5     | (137.7)         | (361.3)         |
| <b>Net operating assets</b>             |       | 37,858.2        | 36,636.5        |
| Cash and investments                    |       | (603.7)         | 13.4            |
| Non-trade debtors                       |       | 4.7             | 13.3            |
| Non-trade creditors due within one year |       | (152.7)         | (117.2)         |
| Dividends payable                       |       | -               | (1.4)           |
| Creditors due after more than one year  |       | (1,219.6)       | (786.1)         |
| <b>Net assets employed</b>              |       | <u>35,886.9</u> | <u>35,758.5</u> |
| <b>Financed by Capital and reserves</b> |       |                 |                 |
| Called up share capital                 |       | 1,029.0         | 1,029.0         |
| Share premium                           |       | 100.0           | 100.0           |
| Profit and loss account                 | 6     | (238.3)         | 384.2           |
| Current cost reserve                    | 7     | 34,996.2        | 34,245.3        |
|   |       | <u>35,886.9</u> | <u>35,758.5</u> |

The accounting statements on pages 33 to 53 were approved by the Board of Directors on 7 June 1999 and were signed on its behalf by:



J K Boudier  
Director

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 1 Accounting policies

These financial statements have been prepared in accordance with guidance issued by the Director General of Water Services for modified real terms financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of assets which are valued at their current cost value to the business.

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

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

#### (a) Valuation bases for determining the current cost of fixed assets

##### (i) Review of asset valuations

A review of the "modern equivalent asset" (MEA) values as at 31 March 1993 was undertaken as part of the 1994 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 their 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.

##### • 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.

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

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 the manner 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 £5,853m (1998: £5,733m) 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(e) and 9 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.

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### (b) Real Finance 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) 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.

### (d) Dividend

The basis on which the value of the dividend has been established is included in the Directors' Report on pages 5-8.

### (e) Operating costs

In note 3, direct costs incurred with associated companies have been allocated across the appropriate subjective headings as this is the preferred treatment under RAG4.



# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 2 Analysis of turnover and operating income for the appointed business

|   | 1999                 |                         |                          | 1998                 |                         |                          |
|---|----------------------|-------------------------|--------------------------|----------------------|-------------------------|--------------------------|
|   | Water Services<br>£m | Sewerage Services<br>£m | Appointed Business<br>£m | Water Services<br>£m | Sewerage Services<br>£m | Appointed Business<br>£m |
| <b>Turnover</b>   |                      |                         |                          |                      |                         |                          |
| Measured  | 153.6                | 159.2                   | 312.8                    | 129.2                | 139.1                   | 268.3                    |
| Unmeasured  | 273.6                | 434.8                   | 708.4                    | 265.1                | 435.0                   | 700.1                    |
| Trade effluent  | -                    | 23.8                    | 23.8                     | -                    | 24.6                    | 24.6                     |
| Other sources (excluding third parties)                 | 5.0                  | 12.5                    | 17.5                     | -                    | 2.0                     | 2.0                      |
| Third party services                                    | 4.0                  | 4.6                     | 8.6                      | 6.7                  | 14.5                    | 21.2                     |
| <b>Total turnover</b>                                   | <b>436.2</b>         | <b>634.9</b>            | <b>1,071.1</b>           | <b>401.0</b>         | <b>615.2</b>            | <b>1,016.2</b>           |
| <b>Operating income</b>                                 |                      |                         |                          |                      |                         |                          |
| Current cost profit or loss on disposal of fixed assets | 8.4                  | 3.1                     | 11.5                     | 7.3                  | 1.8                     | 9.1                      |
| <b>Total operating income</b>                           | <b>8.4</b>           | <b>3.1</b>              | <b>11.5</b>              | <b>7.3</b>           | <b>1.8</b>              | <b>9.1</b>               |
| Working capital adjustment                              | 3.0                  | 4.6                     | 7.6                      | 1.6                  | 2.6                     | 4.2                      |

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 3(a) Operating costs and associated fixed asset book values (year ended 31 March 1999)

|  | Service analysis        |              |                       |                   |                    |                               |                       |                            |                   |                     | Business analysis   |     |                    |
|--|-------------------------|--------------|-----------------------|-------------------|--------------------|-------------------------------|-----------------------|----------------------------|-------------------|---------------------|---------------------|-----|--------------------|
|  | Water supply            |              |                       | Sewerage services |                    |                               |                       | Customer services          |                   |                     | Scientific services |     | Cost of regulation |
|  | Resources and treatment | Distribution | Water supply subtotal | Sewerage          | Sewerage treatment | Sludge 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                | £m                  | £m                  |     |                    |
| Direct costs                                 | 11.9                    | 17.3         | 29.2                  | 3.9               | 10.5               | 5.8                           | 16.3                  | 20.2                       |                   |                     |                     |     |                    |
| Employment costs                             | 5.3                     | 12.7         | 18.0                  | 1.9               | 9.6                | 3.4                           | 13.0                  | 14.9                       |                   |                     |                     |     |                    |
| Power  | 4.8                     | 33.6         | 38.4                  | 21.0              | 16.0               | 16.2                          | 32.2                  | 53.2                       |                   |                     |                     |     |                    |
| Hired and contracted services                | -                       | -            | -                     | -                 | -                  | -                             | -                     | -                          |                   |                     |                     |     |                    |
| Associated companies                         | 3.7                     | 4.1          | 7.8                   | 0.6               | 2.2                | 3.4                           | 5.6                   | 6.2                        |                   |                     |                     |     |                    |
| Materials and consumables                    | 8.8                     | -            | 8.8                   | 1.1               | 2.3                | -                             | 2.3                   | 3.4                        |                   |                     |                     |     |                    |
| Service charges                              | 0.8                     | 3.3          | 4.1                   | 1.9               | 0.1                | 0.6                           | 0.7                   | 2.6                        |                   |                     |                     |     |                    |
| Other direct costs                           | 35.3                    | 71.0         | 106.3                 | 30.4              | 40.7               | 29.4                          | 70.1                  | 100.5                      |                   |                     | 36.3                | 3.4 |                    |
| Total direct costs                           | 20.7                    | 25.3         | 46.0                  | 10.3              | 23.2               | 12.3                          | 35.5                  | 45.8                       |                   |                     | 19.5                | 1.3 |                    |
| General and support expenditure              | 56.0                    | 96.3         | 152.3                 | 40.7              | 63.9               | 41.7                          | 105.6                 | 146.3                      |                   |                     | 55.8                | 4.7 |                    |
| Functional expenditure                       |                         |              |                       |                   |                    |                               |                       |                            |                   |                     |                     |     |                    |
| Capital costs                                | 45.2                    | 20.5         | 65.7                  | 12.9              | 88.7               | 14.8                          | 103.5                 | 116.4                      |                   |                     |                     |     |                    |
| CC depreciation                              | 1.9                     | 18.3         | 20.2                  | 24.5              | -                  | -                             | -                     | 24.5                       |                   |                     |                     |     |                    |
| Infrastructure renewal expenditure           | (1.1)                   | 2.5          | 1.4                   | (5.4)             | -                  | -                             | -                     | (5.4)                      |                   |                     |                     |     |                    |
| Infrastructure renewals accrual / prepayment | 102.0                   | 137.6        | 239.6                 | 72.7              | 152.6              | 56.5                          | 209.1                 | 281.8                      |                   |                     |                     |     |                    |
| Functional cost                              |                         |              |                       |                   |                    |                               |                       |                            |                   |                     |                     |     |                    |
| Total including business analysis            |                         |              | 274.2                 |                   |                    |                               |                       | 313.3                      |                   |                     |                     |     |                    |
| Rates  |                         |              | 26.5                  |                   |                    |                               |                       | 21.2                       |                   |                     |                     |     |                    |
| Doubtful debts                               |                         |              | 7.8                   |                   |                    |                               |                       | 12.2                       |                   |                     |                     |     |                    |
| Business activities capital costs            |                         |              | 10.6                  |                   |                    |                               |                       | 15.3                       |                   |                     |                     |     |                    |
| Service costs                                |                         |              | 319.1                 |                   |                    |                               |                       | 362.0                      |                   |                     |                     |     |                    |
| Services for third parties                   |                         |              | 4.0                   |                   |                    |                               |                       | 4.1                        |                   |                     |                     |     |                    |
| Total cost                                   |                         |              | 323.1                 |                   |                    |                               |                       | 366.1                      |                   |                     |                     |     |                    |
| Fixed asset book values at 31 March 1999     |                         |              |                       |                   |                    |                               |                       |                            |                   |                     |                     |     |                    |
| Service activities                           | 1,410.5                 | 6,034.2      | 7,444.7               | 28,583.9          | 1,797.5            | 354.2                         | 2,151.7               | 30,735.6                   |                   |                     |                     |     |                    |
| Business activities                          |                         |              | 22.7                  | 0.2               |                    |                               | 31.3                  | 31.5                       |                   |                     |                     |     |                    |
| Service totals                               |                         |              | 7,467.4               | 28,584.1          |                    |                               | 2,183.0               | 30,767.1                   |                   |                     |                     |     |                    |
| Total CCA values                             |                         |              | 7,467.4               |                   |                    |                               |                       | 30,767.1                   |                   |                     |                     |     |                    |

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 3(b) Operating costs and associated fixed asset book values (year ended 31 March 1998)

| Operating costs for the<br>Year ended 31 March 1998 | Service analysis                    |                    |                                   |                             |   |                                     |                            |                              |  |                            | Business analysis            |  |                             |  |  |
|---|-------------------------------------|--------------------|-----------------------------------|-----------------------------|---|-------------------------------------|----------------------------|------------------------------|--|----------------------------|------------------------------|--|-----------------------------|--|--|
|   | Water supply                        |                    |                                   | Sewerage services           |   |                                     |                            | Customer services            |  |                            | Scientific services          |  | Cost of<br>regulation<br>£m |  |  |
|   | Resources<br>and<br>treatment<br>£m | Distribution<br>£m | Water<br>supply<br>subtotal<br>£m | Sewerage<br>treatment<br>£m | Sludge<br>treatment<br>and disposal<br>£m | Sewerage<br>T & D<br>subtotal<br>£m | Customer<br>services<br>£m | Scientific<br>services<br>£m | Sewerage<br>services<br>subtotal<br>£m | Customer<br>services<br>£m | Scientific<br>services<br>£m |  |                             |  |  |
| Direct Costs  | 12.2                                | 6.9                | 19.1                              | 3.3                         | 9.8                                       | 4.7                                 | 14.5                       | 17.8                         |  |                            |                              |  |                             |  |  |
| Employment costs                                    | 6.8                                 | 13.5               | 20.3                              | 2.6                         | 9.6                                       | 4.9                                 | 14.5                       | 17.1                         |  |                            |                              |  |                             |  |  |
| Power   | 5.1                                 | 31.5               | 36.6                              | 22.3                        | 17.0                                      | 9.4                                 | 26.4                       | 48.7                         |  |                            |                              |  |                             |  |  |
| Hired and contracted services                       | -                                   | -                  | -                                 | -                           | -   | -                                   | -                          | -                            |  |                            |                              |  |                             |  |  |
| Associated companies                                | 5.1                                 | 5.8                | 10.9                              | 1.3                         | 3.1                                       | 2.0                                 | 5.1                        | 6.4                          |  |                            |                              |  |                             |  |  |
| Materials and consumables                           | 6.8                                 | -                  | 6.8                               | 1.0                         | 2.0                                       | -                                   | 2.0                        | 3.0                          |  |                            |                              |  |                             |  |  |
| Service charges                                     | 2.1                                 | 14.7               | 16.8                              | 2.4                         | 5.7                                       | 1.9                                 | 7.6                        | 10.0                         |  |                            |                              |  |                             |  |  |
| Other direct costs                                  | 38.1                                | 72.4               | 110.5                             | 32.9                        | 47.2                                      | 22.9                                | 70.1                       | 103.0                        |  |                            |                              |  |                             |  |  |
| Total direct costs                                  | 17.3                                | 25.7               | 43.0                              | 9.1                         | 17.4                                      | 11.4                                | 28.8                       | 37.9                         |  |                            |                              |  |                             |  |  |
| General and support expenditure                     | 55.4                                | 98.1               | 153.5                             | 42.0                        | 64.6                                      | 34.3                                | 98.9                       | 140.9                        |  |                            |                              |  |                             |  |  |
| Functional expenditure                              |                                     |                    |                                   |                             |   |                                     |                            |                              |  |                            |                              |  |                             |  |  |
| Capital costs                                       | 43.2                                | 15.4               | 58.6                              | 12.3                        | 86.5                                      | 10.7                                | 97.2                       | 109.5                        |  |                            |                              |  |                             |  |  |
| CC depreciation                                     | 1.6                                 | 17.3               | 18.9                              | 17.5                        | -   | -                                   | -                          | 17.5                         |  |                            |                              |  |                             |  |  |
| Infrastructure renewal expenditure                  | (0.9)                               | 2.9                | 2.0                               | 1.0                         | -   | -                                   | -                          | 1.0                          |  |                            |                              |  |                             |  |  |
| Infrastructure renewals accrual / prepayment        | 99.3                                | 133.7              | 233.0                             | 72.8                        | 151.1                                     | 45.0                                | 196.1                      | 268.9                        |  |                            |                              |  |                             |  |  |
| Functional cost                                     |                                     |                    |                                   |                             |   |                                     |                            |                              |  |                            |                              |  |                             |  |  |
| Total including business analysis                   |                                     |                    | 267.4                             |                             |   |                                     |                            | 298.1                        |  |                            |                              |  |                             |  |  |
| Rates   |                                     |                    | 26.4                              |                             |   |                                     |                            | 20.4                         |  |                            |                              |  |                             |  |  |
| Doubtful debts                                      |                                     |                    | 9.9                               |                             |   |                                     |                            | 12.3                         |  |                            |                              |  |                             |  |  |
| Business activities capital costs                   |                                     |                    | 8.8                               |                             |   |                                     |                            | 12.0                         |  |                            |                              |  |                             |  |  |
| Service costs                                       |                                     |                    | 312.5                             |                             |   |                                     |                            | 342.8                        |  |                            |                              |  |                             |  |  |
| Services for third parties                          |                                     |                    | 5.0                               |                             |   |                                     |                            | 11.5                         |  |                            |                              |  |                             |  |  |
| Total cost  |                                     |                    | 317.5                             |                             |   |                                     |                            | 354.3                        |  |                            |                              |  |                             |  |  |
| Fixed asset book values<br>at 31 March 1998         |                                     |                    |                                   |                             |   |                                     |                            |                              |  |                            |                              |  |                             |  |  |
| Service activities                                  | 1,368.8                             | 5,731.5            | 7,100.3                           | 28,112.6                    | 1,728.2                                   | 181.4                               | 1,909.6                    | 30,022.2                     |  |                            |                              |  |                             |  |  |
| Business activities                                 |                                     |                    | 30.8                              | 0.2                         |   |                                     | 44.4                       | 44.6                         |  |                            |                              |  |                             |  |  |
| Service totals                                      |                                     |                    | 7,131.1                           | 28,112.8                    |   |                                     | 1,954.0                    | 30,066.8                     |  |                            |                              |  |                             |  |  |
| Total CCA values                                    |                                     |                    | 7,131.1                           |                             |   |                                     |                            | 30,066.8                     |  |                            |                              |  |                             |  |  |

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 4 (a) Tangible fixed assets by asset type at 31 March 1999

#### Water Services

|   | Specialised<br>operational<br>assets<br>£m | Non-<br>specialised<br>operational<br>properties<br>£m | Infra-<br>structure<br>assets<br>£m | Other<br>tangible<br>assets<br>£m | Total<br>£m    |
|---|--|--|-------------------------------------|-----------------------------------|----------------|
| <b>Gross replacement cost</b>               |  |  |                                     |                                   |                |
| At 1 April 1998                             | 2,452.8                                    | 85.1   | 5,357.7                             | 94.1                              | 7,989.7        |
| RPI adjustment                              | 51.5                                       | 1.8  | 112.5                               | 2.0                               | 167.8          |
| Disposals                                   | (66.3)                                     | (2.3)  | -                                   | (1.8)                             | (70.4)         |
| Additions                                   | 136.7                                      | 4.7  | 119.6                               | 1.8                               | 262.8          |
| <b>At 31 March 1999</b>                     | <b>2,574.7</b>                             | <b>89.3</b>  | <b>5,589.8</b>                      | <b>96.1</b>                       | <b>8,349.9</b> |
| <b>Depreciation</b>                         |  |  |                                     |                                   |                |
| At 1 April 1998                             | 760.1                                      | 35.2   | -                                   | 63.3                              | 858.6          |
| RPI adjustment                              | 16.0                                       | 0.7  | -                                   | 1.3                               | 18.0           |
| Disposals                                   | (66.3)                                     | (2.3)  | -                                   | (1.8)                             | (70.4)         |
| Charge for year                             | 64.5                                       | 1.2  | -                                   | 10.6                              | 76.3           |
| <b>At 31 March 1999</b>                     | <b>774.3</b>                               | <b>34.8</b>  | <b>-</b>                            | <b>73.4</b>                       | <b>882.5</b>   |
| <b>Net book amount<br/>at 31 March 1999</b> | <b>1,800.4</b>                             | <b>54.5</b>  | <b>5,589.8</b>                      | <b>22.7</b>                       | <b>7,467.4</b> |
| Net book amount<br>at 31 March 1998         | 1,692.7                                    | 49.9   | 5,357.7                             | 30.8                              | 7,131.1        |

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 4 (b) Tangible fixed assets by asset type at 31 March 1999

#### Sewerage services

|   | Specialised<br>operational<br>assets<br>£m | Non-<br>specialised<br>operational<br>properties<br>£m | Infra-<br>structure<br>assets<br>£m | Other<br>tangible<br>assets<br>£m | Total<br>£m     |
|---|--|--|-------------------------------------|-----------------------------------|-----------------|
| <b>Gross replacement cost</b>               |  |  |                                     |                                   |                 |
| At 1 April 1998                             | 4,537.8                                    | 39.3   | 27,754.4                            | 137.8                             | 32,469.3        |
| RPI adjustment                              | 95.2                                       | 0.9  | 582.8                               | 2.9                               | 681.8           |
| Disposals                                   | (90.3)                                     | (0.8)  | -                                   | (1.3)                             | (92.4)          |
| Additions                                   | 176.6                                      | 1.5  | 21.3                                | 1.3                               | 200.7           |
| <b>At 31 March 1999</b>                     | <b>4,719.3</b>                             | <b>40.9</b>  | <b>28,358.5</b>                     | <b>140.7</b>                      | <b>33,259.4</b> |
| <b>Depreciation</b>                         |  |  |                                     |                                   |                 |
| At 1 April 1998                             | 2,270.0                                    | 39.3   | -                                   | 93.2                              | 2,402.5         |
| RPI adjustment                              | 47.7                                       | 0.8  | -                                   | 2.0                               | 50.5            |
| Disposals                                   | (90.3)                                     | (0.8)  | -                                   | (1.3)                             | (92.4)          |
| Charge for year                             | 115.7                                      | 0.7  | -                                   | 15.3                              | 131.7           |
| <b>At 31 March 1999</b>                     | <b>2,343.1</b>                             | <b>40.0</b>  | <b>-</b>                            | <b>109.2</b>                      | <b>2,492.3</b>  |
| <b>Net book amount<br/>at 31 March 1999</b> | <b>2,376.2</b>                             | <b>0.9</b>   | <b>28,358.5</b>                     | <b>31.5</b>                       | <b>30,767.1</b> |
| Net book amount<br>at 31 March 1998         | 2,267.8                                    | -  | 27,754.4                            | 44.6                              | 30,066.8        |

Included in the gross replacement cost of Infrastructure assets is £5,853m (1998: £5,733m) 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.

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 4 (c) Tangible fixed assets by asset type at 31 March 1999

| Total                                       | Specialised<br>operational<br>assets<br>£m | Non-<br>specialised<br>operational<br>properties<br>£m | Infra-<br>structure<br>assets<br>£m | Other<br>tangible<br>assets<br>£m | Total<br>£m     |
|---|--|--|-------------------------------------|-----------------------------------|-----------------|
| <b>Gross replacement cost</b>               |  |  |                                     |                                   |                 |
| At 1 April 1998                             | 6,990.6                                    | 124.4  | 33,112.1                            | 231.9                             | 40,459.0        |
| RPI adjustment                              | 146.7                                      | 2.7  | 695.3                               | 4.9                               | 849.6           |
| Disposals                                   | (156.6)                                    | (3.1)  | -                                   | (3.1)                             | (162.8)         |
| Additions                                   | 313.3                                      | 6.2  | 140.9                               | 3.1                               | 463.5           |
| <b>At 31 March 1999</b>                     | <b>7,294.0</b>                             | <b>130.2</b>   | <b>33,948.3</b>                     | <b>236.8</b>                      | <b>41,609.3</b> |
| <b>Depreciation</b>                         |  |  |                                     |                                   |                 |
| At 1 April 1998                             | 3,030.1                                    | 74.5   | -                                   | 156.5                             | 3,261.1         |
| RPI adjustment                              | 63.7                                       | 1.5  | -                                   | 3.3                               | 68.5            |
| Disposals                                   | (156.6)                                    | (3.1)  | -                                   | (3.1)                             | (162.8)         |
| Charge for year                             | 180.2                                      | 1.9  | -                                   | 25.9                              | 208.0           |
| <b>At 31 March 1999</b>                     | <b>3,117.4</b>                             | <b>74.8</b>  | <b>-</b>                            | <b>182.6</b>                      | <b>3,374.8</b>  |
| <b>Net book amount<br/>at 31 March 1999</b> | <b>4,176.6</b>                             | <b>55.4</b>  | <b>33,948.3</b>                     | <b>54.2</b>                       | <b>38,234.5</b> |
| Net book amount<br>at 31 March 1998         | 3,960.5                                    | 49.9   | 33,112.1                            | 75.4                              | 37,197.9        |

### 5 Working capital

|   | 1999<br>£m     | 1998<br>£m     |
|---|----------------|----------------|
| Stocks  | 12.3           | 12.3           |
| Trade debtors   | 120.9          | 104.9          |
| Trade creditors   | (40.9)         | (31.7)         |
| Short term capital creditors                            | (103.1)        | (108.5)        |
| Infrastructure renewals prepayment                      | 9.5            | 5.5            |
| Accruals  | (146.9)        | (134.8)        |
| Trade payments in advance                               | (71.9)         | (65.6)         |
| Payroll related taxes and social security contributions | (3.6)          | (3.3)          |
| Group trade (debtors)/creditors                         | (21.1)         | (219.0)        |
| Prepayments   | 107.1          | 78.9           |
| <b>Total working capital</b>                            | <b>(137.7)</b> | <b>(361.3)</b> |

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements for the year ended 31 March 1999

### 6 Profit and loss account

|                                 | 1999<br>£m            | 1998<br>£m          |
|---------------------------------|-----------------------|---------------------|
| Balance at 1 April 1998         | 384.2                 | 754.0               |
| Current cost deficit            | <u>(622.5)</u>        | <u>(369.8)</u>      |
| <b>Balance at 31 March 1999</b> | <b><u>(238.3)</u></b> | <b><u>384.2</u></b> |

### 7 Current cost reserve

|  | 1999<br>£m             | 1998<br>£m             |
|--|------------------------|------------------------|
| Balance at 1 April 1998                | 34,245.3               | 32,999.3               |
| MEA adjustment                         | -                      | 23.9                   |
| RPI adjustments                        |                        |                        |
| - Fixed assets                         | 781.1                  | 1,257.7                |
| - Grants and third party contributions | (4.2)                  | (5.5)                  |
| - Working capital                      | (7.6)                  | (4.2)                  |
| - Financing                            | <u>(18.4)</u>          | <u>(25.9)</u>          |
| <b>Balance at 31 March 1999</b>        | <b><u>34,996.2</u></b> | <b><u>34,245.3</u></b> |

# Thames Water Utilities Limited

## Rolling five-year summary

Current cost profit and loss account for the year ended 31 March 1999 with corresponding amounts at 1999 prices

|   | 1999<br>£m            | 1998<br>£m            | 1997<br>£m          | 1996<br>£m            | 1995<br>£m          |
|---|-----------------------|-----------------------|---------------------|-----------------------|---------------------|
| <b>Turnover</b>   | <b>1,094.5</b>        | 1,072.4               | 1,066.9             | 1,064.4               | 1,035.8             |
| Current cost operating costs                                      | (710.0)               | (712.4)               | (699.9)             | (710.5)               | (718.6)             |
| Operating income  | <u>11.5</u>           | <u>9.4</u>            | <u>11.6</u>         | <u>9.3</u>            | <u>6.2</u>          |
| Working capital adjustment  | <u>396.0</u>          | <u>369.4</u>          | <u>378.6</u>        | <u>363.2</u>          | <u>323.4</u>        |
|   | <u>7.6</u>            | <u>4.3</u>            | <u>2.5</u>          | <u>3.2</u>            | <u>2.8</u>          |
| <b>Current cost operating profit</b>                              | <b>403.6</b>          | 373.7                 | 381.1               | 366.4                 | 326.2               |
| Interest  | (77.6)                | (52.3)                | (47.4)              | (48.4)                | (55.1)              |
| Financing adjustment  | <u>18.4</u>           | <u>26.7</u>           | <u>19.2</u>         | <u>18.9</u>           | <u>26.3</u>         |
| <b>Current cost profit on ordinary activities before taxation</b> | <b>344.4</b>          | 348.1                 | 352.9               | 336.9                 | 297.4               |
| Taxation  | <u>(75.9)</u>         | <u>(66.1)</u>         | <u>(47.0)</u>       | <u>0.0</u>            | <u>(0.3)</u>        |
| <b>Current cost profit on ordinary activities after taxation</b>  | <b>268.5</b>          | 282.0                 | 305.9               | 336.9                 | 297.1               |
| Extraordinary income  | <u>-</u>              | <u>-</u>              | <u>-</u>            | <u>-</u>              | <u>-</u>            |
| <b>Current cost profit attributable to shareholders</b>           | <b>268.5</b>          | 282.0                 | 305.9               | 336.9                 | 297.1               |
| Dividends   | <u>(891.0)</u>        | <u>(663.3)</u>        | <u>(145.6)</u>      | <u>(707.7)</u>        | <u>(149.9)</u>      |
| <b>Current cost retained (deficit)/profit</b>                     | <b><u>(622.5)</u></b> | <b><u>(381.3)</u></b> | <b><u>160.3</u></b> | <b><u>(370.8)</u></b> | <b><u>147.2</u></b> |

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



# Thames Water Utilities Limited

## Rolling five-year summary

Current cost balance sheet as at 31 March 1999 with corresponding amounts at 1999 prices

|   | 1999<br>£m      | 1998<br>£m      | 1997<br>£m      | 1996<br>£m      | 1995<br>£m      |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Fixed assets</b>                     |                 |                 |                 |                 |                 |
| Tangible assets                         | 38,234.5        | 37,979.1        | 37,631.0        | 38,037.8        | 43,288.6        |
| Third party contributions since 1989/90 | (238.6)         | (204.3)         | (171.1)         | (141.1)         | (123.7)         |
|   | <u>37,995.9</u> | <u>37,774.8</u> | <u>37,459.9</u> | <u>37,896.7</u> | <u>43,164.9</u> |
| <b>Working capital</b>                  | (137.7)         | (368.9)         | (126.3)         | (96.2)          | (120.6)         |
| <b>Net operating assets</b>             | <u>37,858.2</u> | <u>37,405.9</u> | <u>37,333.6</u> | <u>37,800.5</u> | <u>43,044.3</u> |
| Cash and investments                    | (603.7)         | 13.7            | 37.3            | 54.8            | 5.8             |
| Non-trade debtors due within one year   | 4.7             | 13.6            | 9.4             | 11.6            | 6.9             |
| Non-trade creditors due within one year | (152.7)         | (121.1)         | (49.2)          | (93.0)          | (50.2)          |
| Creditors due after more than one year  | (1,219.6)       | (802.6)         | (779.5)         | (722.5)         | (681.4)         |
| <b>Net assets employed</b>              | <u>35,886.9</u> | <u>36,509.5</u> | <u>36,551.6</u> | <u>37,051.4</u> | <u>42,325.4</u> |
| <b>Financed by</b>                      |                 |                 |                 |                 |                 |
| <b>Capital reserves</b>                 |                 |                 |                 |                 |                 |
| Called up share capital                 | 1,029.0         | 1,050.6         | 802.6           | 823.1           | 400.7           |
| Share premium                           | 100.0           | 102.1           | 105.6           | 108.3           | -               |
| Profit and loss account                 | (238.3)         | 392.3           | 796.2           | 653.9           | 1,050.3         |
| Current cost reserve                    | <u>34,996.2</u> | <u>34,964.5</u> | <u>34,847.2</u> | <u>35,466.1</u> | <u>40,874.4</u> |
|   | <u>35,886.9</u> | <u>36,509.5</u> | <u>36,551.6</u> | <u>37,051.4</u> | <u>42,325.4</u> |

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

# Thames Water Utilities Limited

## Statement of cash flows for the year ended 31 March 1999

|  | Notes | 1999<br>£m | 1998<br>£m |
|--|-------|------------|------------|
| <b>Net cash inflow from operating activities</b>                               | a     | 608.7      | 560.9      |
| <b>Returns on investments and servicing of finance</b>                         |       |            |            |
| Interest received  |       | 8.8        | 5.6        |
| Interest paid  |       | (59.9)     | (42.3)     |
| Interest in finance lease rentals  |       | (15.7)     | (6.3)      |
| <b>Net cash (outflow) from returns on investments and servicing of finance</b> |       | (66.8)     | (43.0)     |
| <b>Taxation</b>  |       |            |            |
| UK corporation tax paid  |       | (55.1)     | (38.9)     |
| <b>Capital expenditure and infrastructure renewals</b>                         |       |            |            |
| Gross cost of purchased fixed assets   |       | (463.1)    | (443.1)    |
| Receipt of grants and contributions  |       | 42.2       | 34.7       |
| Infrastructure renewals expenditure  |       | (44.7)     | (36.6)     |
| Disposal of fixed assets   |       | 13.8       | 12.6       |
| <b>Net cash (outflow) from investment activities</b>                           |       | (451.8)    | (432.4)    |
| <b>Equity dividends paid</b>   |       | (892.4)    | (651.5)    |
| <b>Management of liquid resources</b>  |       |            |            |
| Withdrawals from short term deposits   |       | -          | 25.0       |
| Purchase of other liquid investments   |       | -          | 11.5       |
| <b>Net cash inflow from management of liquid resources</b>                     |       | -          | 36.5       |
| <b>Net cash (outflow) before financing</b>                                     |       | (857.4)    | (568.4)    |
| <b>Financing</b>   |       |            |            |
| Capital element in finance lease rentals                                       |       | (1.5)      | (1.2)      |
| New loans  |       | 933.4      | 313.5      |
| Repayment of bank loans  |       | (70.3)     | (9.9)      |
| Proceeds from share issues   |       | -          | 269.0      |
| <b>Net cash inflow from financing</b>  |       | 861.6      | 571.4      |
| <b>Increase in cash</b>  | b, c  | 4.2        | 3.0        |

# Thames Water Utilities Limited

## Notes to the cash flow statement

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

|  | 1999<br>£m   | 1998<br>£m   |
|--|--------------|--------------|
| Current cost operating profit  | 403.6        | 362.5        |
| Working capital adjustment   | (7.6)        | (4.2)        |
| Decrease in stocks and work in progress                                | -            | 0.3          |
| Current cost depreciation  | 208.0        | 189.9        |
| Current cost profit on sale of assets                                  | (11.5)       | (9.1)        |
| (Increase) in debtors and prepaid expenses                             | (46.4)       | (22.9)       |
| Increase in creditors and accrued expenses                             | 24.1         | 6.7          |
| Infrastructure renewals expenditure                                    | 40.7         | 39.4         |
| Effect of other deferrals and accruals on operating activity cash flow | (2.2)        | (1.7)        |
| <b>Net cash inflow from operating activities</b>                       | <b>608.7</b> | <b>560.9</b> |

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

|                                 | 1999<br>£m  | 1998<br>£m  |
|---------------------------------|-------------|-------------|
| Balance at 1 April 1998         | 13.3        | 10.3        |
| Net cash inflow                 | 4.2         | 3.0         |
| <b>Balance at 31 March 1999</b> | <b>17.5</b> | <b>13.3</b> |

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

|                          | 1999<br>£m | 1998<br>£m | Change<br>in year<br>£m |
|--------------------------|------------|------------|-------------------------|
| Cash at bank and in hand | 17.5       | 13.3       | 4.2                     |

# Thames Water Utilities Limited

## Notes to the cash flow statement

### (d) Analysis of changes in financing during the year

|                                       | Loan from<br>parent<br>undertaking<br>£m | Loan from<br>subsidiary<br>undertaking<br>£m | Loans and<br>finance lease<br>obligations<br>£m | Current<br>asset<br>investments<br>£m | Total<br>£m           |
|---------------------------------------|--|--|---|---------------------------------------|-----------------------|
| Balance at 31 March 1997              | -  | 150.0  | 553.0   | (36.5)                                | 666.5                 |
| Net cash inflow from financing        | 209.5                                    | -  | 92.9  | 36.5                                  | 338.9                 |
| Finance leases raised during the year | -  | -  | 16.8  | -                                     | 16.8                  |
| Balance at 31 March 1998              | <u>209.5</u>                             | <u>150.0</u>                                 | <u>662.7</u>                                    | <u>-</u>                              | <u>1,022.2</u>        |
| Net cash inflow from financing        | 411.8                                    | 366.2  | 85.1  | -                                     | 863.1                 |
| Finance leases raised during the year | -  | -  | 1.3   | -                                     | 1.3                   |
| <b>Balance at 31 March 1999</b>       | <b><u>621.3</u></b>                      | <b><u>516.2</u></b>                          | <b><u>749.1</u></b>                             | <b><u>-</u></b>                       | <b><u>1,886.6</u></b> |

### Analysis of net debt

|                          | 1998<br>£m              | Cashflow<br>£m        | Non-cash<br>changes<br>£m | 1999<br>£m              |
|--------------------------|-------------------------|-----------------------|---------------------------|-------------------------|
| Cash at bank and in hand | 13.3                    | 4.2                   | -                         | 17.5                    |
|                          |                         | <u>4.2</u>            |                           |                         |
| Debt due after 1 year    | (480.5)                 | (441.1)               | 15.9                      | (905.7)                 |
| Debt due within 1 year   | (280.0)                 | (422.0)               | (15.9)                    | (717.9)                 |
| Finance leases           | (261.7)                 | 1.5                   | (2.8)                     | (263.0)                 |
|                          |                         | <u>(861.6)</u>        |                           |                         |
| <b>Total</b>             | <b><u>(1,008.9)</u></b> | <b><u>(857.4)</u></b> | <b><u>(2.8)</u></b>       | <b><u>(1,869.1)</u></b> |

# Thames Water Utilities Limited

## Regulatory Accounts Intra Group Trade - Year Ended 31 March 1999

| Company                   | Service                 | Turnover of Associate (£000) | Terms of Supply | Value (£000) |
|---------------------------|-------------------------|------------------------------|-----------------|--------------|
| Thames Water Services     | Sewerage Partnership    |                              | Tendered        | 11,368       |
| Total Pipeline Solutions  | Contracting             | 53,530                       | Tendered        | 42,193       |
|                           | Contracting             |                              | Negotiated      | 6,294        |
| Subterra                  | Pipeline rehabilitation | 34,230                       | Tendered        | 12,063       |
| Metro Rod / Morgan Collis | Blockage Clearance      | 12,590                       | Tendered        | 2,038        |
|                           | CCTV                    |                              | Tendered        | 1,417        |
| Engenica                  | Maintenance Services    | 21,980                       | Negotiated      | 18,049       |
| Thames Waste Management   | Waste Management        | 21,870                       | Tendered        | 8,044        |
|                           | Incineration            |                              | Market tested   | 1,621        |
|                           | Intersite Tankering     |                              | Market tested   | 2,207        |
| T M Products              | Service fittings        | 22,570                       | Tendered        | 2,261        |
| Simon Hartley             | Sludge Hydrolysis       | 16,030                       | Market tested   | 2,710        |
| TW Property               | Property Services       | 3,440                        | Negotiated      | 2,350        |
| ISIS                      | Insurance               | 13,390                       | Market tested   | 12,291       |

The contracts below were awarded to the following associate companies following competitive tender exercises and is their sole contract with the Appointed business. The financial value of these contracts have not been disclosed as this could have potentially detrimental commercial implications for these associates and so is classified as commercial in confidence:

Grounds maintenance services awarded to Brophy Grounds Maintenance; and  
Procurement services awarded to CONNECT 2020

# Thames Water Utilities Limited

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

Listed below are details of directorships held by Thames Water Utilities Directors at 31 March 1999 in associated companies that have traded with the Regulated business during the year.

### Directorships held in Associated Companies

|               |  |
|---------------|--|
| W J Alexander | Thames Water Plc<br>Thames Water International Services Limited  |
| D Badcock     | Isis Insurance Company Limited<br>Thames Water Plc   |
| D J Luffrum   | Isis Insurance Company Limited<br>Kennet Properties Limited<br>Thames Water Developments Limited<br>Thames Water Services Limited<br>Thames Water International Services Limited<br>Thames Water Investments Limited<br>Thames Water Plc<br>Thames Water Products Limited<br>Thames Water Property Limited |

### Directorships held in Thames Water Utilities Limited wholly owned subsidiary companies

|               |  |
|---------------|--|
| W J Alexander | Thames Water Utilities Finance Plc                         |
|               |  |
| G W Maxwell   | CONNECT 2020 Limited                                       |
|               |  |
| D J Luffrum   | Thames Water Utilities Finance Plc                         |
|               |  |
| J K Boudier   | CONNECT 2020 Limited<br>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.

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.

# Thames Water Utilities Limited

## Report of the auditors to the Director General of Water Services

We have audited the financial statements on pages 10 to 31 and 33 to 51.

### Respective responsibilities of directors and auditors

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

### Basis of opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit 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 1999 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 Appointees' 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;

# Thames Water Utilities Limited

- (c) the financial statements on pages 10 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 33 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.



**PricewaterhouseCoopers**

**Chartered Accountants and Registered Auditors**

**Reading**

10 June 1999