

Registered no: 2366661

**Thames Water Utilities Limited**

Annual Report and Financial Statements  
including regulatory information

for the year ended 31 March 2000



# Thames Water Utilities Limited

## Annual report for the year ended 31 March 2000

	Pages
Directors and secretary	2
Chairman's review	3
Managing Director's review	4-5
Directors' report	6-9
Report of the auditors	10
Profit and loss account	11
Balance sheet	12
Notes to the financial statements	13-33
Supplementary regulatory information	34-60

# **Thames Water Utilities Limited**

## **Directors and secretary at 31 March 2000**

### **Directors**

W J Alexander (Chairman)  
D Badcock  
J K Boudier  
G A Chant  
D J Glendinning  
N Hester  
G J Holland  
D J Luffrum  
G W Maxwell (Managing Director)  
J V May  
J R Sexton

### **Secretary and registered office**

D Badcock  
Gainsborough House  
Manor Farm Road  
Reading  
RG2 0JN

# Thames Water Utilities Limited

## Chairman's review

Our sustained programme of investment and commitment to customer service has ensured that the Utility has continued to meet or exceed its regulatory targets. Customers' bills will be reduced by around 10% from April 2000, and we continue to provide the lowest average combined water and wastewater bills in England and Wales.

The final regulatory price determination in November 1999 proved to be particularly challenging and will result in a reduction in earnings in 2000/01 and the prospect of lower returns on the substantial capital employed in this business. However, we remain determined to improve upon the new regulatory targets as we have done successfully for the last ten years.

I would like to extend my thanks for the enthusiastic and loyal support of all our employees. We have some exciting and challenging times ahead. We are committed to delivering high standards of customer service and to the creation of real value.



**Bill Alexander**  
Chairman

# Thames Water Utilities Limited

## Managing Director's review

### Utility Operations and Capital Investment Achievements

Operating profit in the Utility was increased by 5% to £486m (1999: £464m) on turnover of £1,129m (1999: £1,095m). Profit margins were again improved to 43% (1999: 42%) reflecting the benefits of our efficiency improvements. £435m of capital investment was made during the year bringing the total to nearly £4bn since privatisation. This represents a total of £1,150 for each of the directly billed households we serve.

Against a background of continuing real growth in activity, operating costs before depreciation, at £456m (1999: £461m), were again reduced in real terms in the year. The substantial capital investment programme is reflected in the increased depreciation charge of £187m (1999: £169m).

### Customer Service, Prices and Competition

We remain committed to further improving efficiency and the provision of excellent customer service whilst, at the same time, taking maximum advantage of opportunities to add value provided by competition in the UK.

The latest five-year review of prices was completed in 1999 and, although Thames had met or exceeded all relevant operational targets, the Regulator elected to reduce prices by some 10%. This will produce a reduction in earnings from the Utility in 2000/01, which we will seek to offset progressively through continuous productivity improvement.

A reliable and high quality water supply is one of the highest priorities for our customers. We are now in our tenth year without water restrictions, having halved leakage since 1995 as we promised. We achieved this by developing innovative ways of maximising the resources we have available. Our water efficiency programme and development of a solution to central London's rising groundwater are examples of our effective water supply strategy. Not only have we made sure there is sufficient water, it is also at the highest quality we have ever achieved, 99.87% compliance with all water quality standards.

Thames' wastewater discharges are required to meet the highest standards in the United Kingdom. Our investment programme has ensured that we comply with current standards, whether for a major works like Mogden in Twickenham, serving 1.8 million people, or small rural works, which make a significant contribution to river flows and to improving the quality of the environment.

It is also important that we are responsive to service requests, particularly in emergencies. We have therefore installed new systems this year to provide our Customer Service Centre, and our operational teams in the field, with state of the art communications so that we can respond much faster to operational emergencies and customer enquiries. Our Customer Centre won *Utility Week's* customer service award for the second year running.

# Thames Water Utilities Limited

## Looking to the future

The Utility business remains the largest water and sewerage company in the United Kingdom currently serving London and the South East. We expect to continue to deliver real growth in its earnings from the new baseline set by the Regulator, and to maximise the value obtained from its unrivalled customer and asset base.

I would like to extend my personal thanks to all our employees for their hard work and commitment, and to welcome new employees who have joined us through the year.

A handwritten signature in black ink, appearing to read 'G Maxwell', written in a cursive style.

**Gordon Maxwell**  
Managing Director

# **Thames Water Utilities Limited**

## **Directors' report for the year ended 31 March 2000**

The Directors present their report and the audited financial statements for the year ended 31 March 2000.

### **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 Managing Director's Review on pages 4 to 5.

### **Results**

The results for the year are set out in the profit and loss account on page 11.

### **Dividends**

During the year, the Company paid an ordinary dividend of £117.2m (1999: £141.0m).

The underlying dividend payment has been reduced to reflect the additional interest costs so that there is a neutral cost of servicing capital finance following payment of the £750m special dividend in 1999.

### **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 2000.

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 Directors of the Company who served throughout the year except, where stated, are:-

W J Alexander (Chairman)  
G W Maxwell (Managing Director)  
D Badcock  
J K Boudier  
T J Boylin (from 5 July 1999 to 1 January 2000)  
G A Chant (from 1 January 2000)  
D J Glendinning (from 1 January 2000)  
N Hester (from 1 January 2000)  
G J Holland (from 1 January 2000)  
D J Luffrum  
W S Lunn (to 1 January 2000)  
J V May  
J R Sexton

D J Luffrum resigned from the Board on 30 April 2000.

## 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 Plc's subsidiary companies.

## Significant Contracts

During the year under review none of the Directors had significant contracts with Thames Water Plc or any other Group company other than their contracts of service.

## 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 main works 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. During the year the average amount due to trade creditors represented 41 days purchases received from these creditors.

## Employees

We recognise the contribution our employees make to the success of the Company. We seek to provide employees with the opportunity to fulfil their potential and contribute fully to our success. Our training and development strategy reflects this, with a range of programmes to suit all needs. We operate a successful graduate recruitment programme, attracting and developing specialists and the leaders of the future.

To bring success in the fast changing world in which our business operates, significant investment is also made in keeping Directors and Managers abreast of current thinking. We use formal programmes at Templeton College, Oxford and less formal networking and exchange opportunities. We also maintain strong links with top-class business schools including Harvard, IMD in Lausanne and the London Business School.



# Thames Water Utilities Limited

Employee involvement takes many forms in the Company, ranging from team briefings to formal consultation with recognised trade union representatives. Employees are encouraged to participate in cross-functional project teams and to transfer between business units in order to learn and spread best practice.

Our successful management of our employees has been recognised in the Investors in People award, most recently awarded to our water supply business. Several other business units are now pursuing the same external accreditation.

We are committed to the sharing of information with employees on key business issues. We have improved on this through a variety of channels, including the employee magazine "Thames Water News" and the holding of a successful "Way Forward" conference for key Utility employees following the outcome of the Periodic Review.

The Company recognises the importance of non-discriminatory employment and has strengthened its equal opportunities and disability policies to ensure commitment to best practice. The Company endeavours to continue to employ any person who has become disabled during the course of their employment.

## 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.

1999 saw the 25<sup>th</sup> anniversary of the Health and Safety at Work Act. This was marked by awareness campaigns sponsored by the Managing Director, and was celebrated by a number of events in the Company. A range of initiatives were accompanied by an ongoing commitment to providing health and safety training at all levels, and the avoidance of accidents and occupational ill-health. This year saw the lowest rate of reportable injuries since the advent of the Act.

## Research and Development

We are continually improving services to our customers and are committed to finding new and better ways of delivering value for money to them through our Research and Development programme.

At London's Millennium Dome we installed a water recycling system capturing rain from the twenty-acre roof, as well as recycling water from the hand-wash basins and exploiting rising groundwater from the site. It is an award-winning showcase for water efficiency, catering for up to 55,000 visitors each day using sophisticated membrane technology and the latest water saving devices.

## Corporate Governance

A statement on compliance with the provisions of the Code of Best Practice and the corporate response to the Turnbull Report is set out in the Annual Report of Thames Water Plc.

# Thames Water Utilities Limited

## 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.

## Year 2000

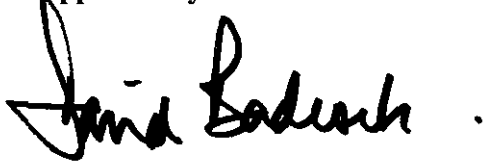
Following comprehensive systems testing, there have been no material customer service interruptions or systems problems relating to the millennium date change.

The estimated cost of our compliance programme is £14.5m, most of which has been incurred and capitalised as part of general systems upgrades. Expenditure of £1.2m was charged to the profit and loss account during the year.

## Auditors

Resolutions to reappoint PricewaterhouseCoopers as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting.

Approved by the Board



**David Badcock**  
Secretary and Legal 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 11 to 33.

### Respective responsibilities of Directors and auditors

The Directors are responsible for preparing the Annual Report. As described on page 9, this includes responsibility for preparing the financial statements, in accordance with applicable United Kingdom accounting standards. Our responsibilities, as independent auditors, are established in the United Kingdom by statute, the Auditing Practices Board and 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 United Kingdom Companies Act 1985. 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 the Directors' remuneration and transactions 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.

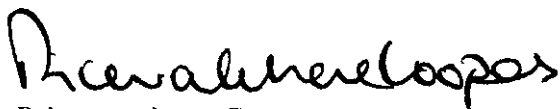
### Basis of audit opinion

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 adequacy of the presentation of information in the financial statements.

### Opinion

In our opinion the financial statements give a true and fair view of the state of the Company's affairs at 31 March 2000 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  
7 June 2000

# Thames Water Utilities Limited

## Profit and loss account for the year ended 31 March 2000

	Note	2000 £m	1999 £m
Turnover	2	1,128.5	1,094.5
Operating costs	2&3	<u>(642.9)</u>	<u>(630.3)</u>
<b>Operating profit</b>		<b>485.6</b>	<b>464.2</b>
Profit on sale of fixed assets	4	2.3	9.4
Net interest	6	<u>(123.3)</u>	<u>(77.6)</u>
<b>Profit on ordinary activities before taxation</b>	2	<b>364.6</b>	<b>396.0</b>
Taxation on profit on ordinary activities	7	<u>(47.4)</u>	<u>(75.9)</u>
<b>Profit for the financial year</b>		<b>317.2</b>	<b>320.1</b>
Dividends	8	<u>(117.2)</u>	<u>(891.0)</u>
<b>Profit/(deficit) for the year</b>	19	<u><b>200.0</b></u>	<u><b>(570.9)</b></u>

All amounts above relate to continuing operations.

The Company has no recognised gains and losses other than the profit or deficit 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 profit for the year stated above, and their historical cost equivalents.

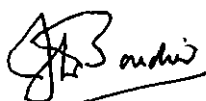
# Thames Water Utilities Limited

## Balance sheet at 31 March 2000

	Note	2000 £m	1999 (restated) £m
<b>Fixed assets</b>			
Tangible assets	9	4,207.5	3,955.0
Investments	10	0.1	0.1
		<u>4,207.6</u>	<u>3,955.1</u>
<b>Current assets</b>			
Stocks and work in progress	11	10.8	12.3
Debtors	12	340.4	286.3
Cash at bank and in hand		14.8	17.5
		<u>366.0</u>	<u>316.1</u>
<b>Creditors: amounts falling due within one year</b>	13	<u>(1,023.7)</u>	<u>(1,215.1)</u>
<b>Net current liabilities</b>		<u>(657.7)</u>	<u>(899.0)</u>
<b>Total assets less current liabilities</b>		<b>3,549.9</b>	<b>3,056.1</b>
<b>Creditors: amounts falling due after more than one year</b>	14	<u>(1,513.4)</u>	<u>(1,219.6)</u>
<b>Net assets</b>		<u>2,036.5</u>	<u>1,836.5</u>
<b>Capital and reserves</b>			
Called up share capital	17	1,029.0	1,029.0
Share premium	18	100.0	100.0
Profit and loss account	19	907.5	707.5
<b>Equity shareholders' funds</b>		<u>2,036.5</u>	<u>1,836.5</u>

The notes on pages 13 to 33 form part of these financial statements.

The financial statements were approved by the Board of Directors on 7 June 2000 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 2000

### 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) 15 and 16, issued by the Accounting Standards Board, during the year ended 31 March 2000. FRS 15 (tangible fixed assets) has led to a revision of the Company's accounting policy on infrastructure assets (see (d) below) and a reclassification of £9.5m to tangible fixed assets (see note 9) from debtors (see note 12). FRS 16 (current taxation) has not had a significant effect on 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 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 depreciation.

# Thames Water Utilities Limited

## Notes to the financial statements

### (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.* 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 estimated economic 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 economic 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 impairment in value.

Investments held as current assets are stated at the lower of cost and net realisable value.

# Thames Water Utilities Limited

## Notes to the financial statements

### (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.

### (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 (FRS) 1 (revised), no cash flow statement has been prepared. The information required under FRS 1 (revised) 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.

### (n) **Derivative financial instruments**

Interest rate and cross currency swaps are used to manage interest rate profiles and mitigate exchange risks. When matched with primary financial instruments, the net position is measured at the hedge rate and presented within creditors on the balance sheet. Incomes, costs, gains, losses and expenses are recognised within net interest payable in the profit and loss account over the life of the instruments.



# Thames Water Utilities Limited

## Notes to the financial statements

### 2 Segmental analysis by class of business

	Water supply	Sewerage services	Other trading activities	Total 2000	Total 1999
	£m	£m	£m	£m	£m
<b>Turnover</b>					
Measured charges	171.2	186.0	-	357.2	312.8
Unmeasured charges	275.0	432.0	-	707.0	708.4
Trade effluent charges	-	21.5	-	21.5	23.8
Developer services	1.8	4.2	1.2	7.2	10.9
Other income	3.5	7.5	24.6	35.6	38.6
<b>Total Turnover 2000</b>	<b>451.5</b>	<b>651.2</b>	<b>25.8</b>	<b>1,128.5</b>	
Total Turnover 1999	436.2	634.9	23.4		1,094.5
<b>Operating Costs</b>					
Operating costs before depreciation	(224.2)	(213.5)	(18.7)	(456.4)	(461.3)
Depreciation - Other	(66.3)	(77.2)	-	(143.5)	(128.3)
Depreciation - Infrastructure	(22.8)	(20.2)	-	(43.0)	(40.7)
<b>Total Operating costs 2000</b>	<b>(313.3)</b>	<b>(310.9)</b>	<b>(18.7)</b>	<b>(642.9)</b>	
Total Operating costs 1999	(307.6)	(301.9)	(20.8)		(630.3)
Operating profit	138.2	340.3	7.1	485.6	464.2
Profit/(loss) on sale of fixed assets	4.3	(2.0)	-	2.3	9.4
Net interest	(56.7)	(66.6)	-	(123.3)	(77.6)
<b>Profit on ordinary activities before taxation 2000</b>	<b>85.8</b>	<b>271.7</b>	<b>7.1</b>	<b>364.6</b>	
Profit on ordinary activities before taxation 1999	100.7	292.7	2.6		396.0

Turnover derives wholly from within the United Kingdom.

	2000 £m	1999 £m
<b>Net assets</b>		
Water supply	1,833.1	1,718.0
Sewerage services	2,151.9	1,987.6
Net operating assets	3,985.0	3,705.6
Net interest bearing liabilities	(1,948.5)	(1,869.1)
	<b>2,036.5</b>	<b>1,836.5</b>

# Thames Water Utilities Limited

## Notes to the financial statements

### 3 Operating costs

#### Analysis of operating costs by type of expense:

	2000 £m	1999 £m
Manpower costs	136.9	140.8
Other external charges	294.0	288.9
Materials and consumables	24.7	22.7
Other operating charges	24.6	26.9
Depreciation:		
- owned assets (non-infrastructure)	131.3	120.7
- infrastructure assets	43.0	40.7
- assets held under finance leases	12.2	7.6
Rentals under operating leases:		
- hire of plant and machinery	3.1	2.4
- other	3.7	4.1
Auditors' remuneration:		
- for audit work	0.2	0.2
- for non audit work (a)	0.5	0.4
Research and development	8.1	8.0
	<u>682.3</u>	<u>663.4</u>
Own work capitalised	<u>(39.4)</u>	<u>(33.1)</u>
	<u>642.9</u>	<u>630.3</u>

(a) In addition to these costs, the auditors received remuneration of £0.8m (1999: £Nil) for non-audit work which is included in the cost of capital projects.

### 4 Profit on sale of fixed assets

	2000 £m	1999 £m
Profit on disposal of fixed assets	2.3	7.8
Profit on disposal of assets related to the redevelopment of the Reading office	-	1.6
	<u>2.3</u>	<u>9.4</u>
Taxation attributable, included in the charge for the year	<u>0.1</u>	<u>0.1</u>

# Thames Water Utilities Limited

## Notes to the financial statements

### 5 Information regarding Directors and employees

#### Directors' remuneration

	2000 £'000	1999 £'000
Salary	554	400
Bonus	127	41
Other benefits	68	43
Aggregate emoluments	<u>749</u>	<u>484</u>

Retirement benefits are accruing to 8 (1999: 5) Directors under a defined benefit scheme.

<b>Highest paid Director</b>	2000 £'000	1999 £'000
G W Maxwell (1999: G W Maxwell)		
Aggregate emoluments and benefits	<u>162</u>	<u>115</u>
Accrued pension at end of year	<u>32</u>	<u>29</u>

The above details of Directors' remuneration do not include W J Alexander, D Badcock, and D J Luffrum, who are/(or were) remunerated by Thames Water Plc in respect of their services to the Group as a whole.

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.

#### Directors' interests

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

Director	At 31.03.99	Number of options exercised during the year	At 31.03.00	Exercise price	Market price on exercise	Date when exercisable	Expiry date
G A Chant	4,550	-	4,550	560p	n/a	08.12.98	07.12.05
J R Sexton	6,000	-	6,000	453p	n/a	08.12.97	07.12.04

No options were granted or lapsed during the year.

# Thames Water Utilities Limited

## Notes to the financial statements

### b) Long-Term Restricted Share Plan in respect of shares in Thames Water Plc

Director	Date of award	Number of shares - maximum	End of performance period
J K Boudier	09.07.97	1,647	31.03.2001
	11.08.98	1,520	31.03.2002
	04.08.99	1,934	31.03.2003
G A Chant	04.08.99	1,102	31.03.2003
N Hester	04.08.99	1,035	31.03.2003
G J Holland	04.08.99	1,027	31.03.2003
G W Maxwell	09.07.97	1,830	31.03.2001
	11.08.98	1,788	31.03.2002
	04.08.99	2,391	31.03.2003
J V May	09.07.97	1,627	31.03.2001
	11.08.98	1,502	31.03.2002
	04.08.99	1,902	31.03.2003
J R Sexton	09.07.97	1,627	31.03.2001
	11.08.98	1,538	31.03.2002
	04.08.99	1,956	31.03.2003

### 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

### 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
	2000	1999	
J K Boudier	-	3,340	-
G A Chant	2,750	1,954	420p-734p
D J Glendinning	1,917	2,272	420p-734p
N Hester	376	113	685p-734p
G J Holland	2,617	1,826	421p-734p
G W Maxwell	2,433	2,078	420p-734p
J R Sexton	-	3,340	-

The market price of the shares at 31 March 2000 was 709.5p and the range during the period 1 April 1999 to 31 March 2000 was 602p to 1102p.

# Thames Water Utilities Limited

## Notes to the financial statements

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

Director	Date of award	Number of shares - maximum	Notional value* £000	Earliest vesting date
J K Boudier	11.08.1998	363	2.9	11.08.2001
	04.08.1999	314	2.5	04.08.2002
D J Glendinning	11.08.1998	135	1.1	11.08.2001
	04.08.1999	121	1.0	04.08.2002
N Hester	11.08.1998	175	1.4	11.08.2001
	04.08.1999	148	1.2	04.08.2002
G J Holland	11.08.1998	143	1.1	11.08.2001
	04.08.1999	147	1.2	04.08.2002
G W Maxwell	11.08.1998	407	3.2	11.08.2001
	04.08.1999	347	2.8	04.08.2002
J V May	11.08.1998	362	2.9	11.08.2001
	04.08.1999	310	2.5	04.08.2002
J R Sexton	11.08.1998	362	2.9	11.08.2001
	04.08.1999	296	2.4	04.08.2002

\* the notional value of the shares is based upon the market price of Thames Water Plc shares at the close of business on 23 May 2000. The market price was 795.5p.

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

Beneficial owner	Shares held as at 31 March 2000	Shares held as at 31 March 1999, or date of appointment
J K Boudier	14,201	13,297
G A Chant	1,591	1,100
D J Glendinning	1,212	330
N Hester	88	88
G J Holland	168	168
G W Maxwell	6,378	6,359
J V May	36	36
J R Sexton	3,785	423

In addition to the shares noted above, J K Boudier (40), D J Glendinning (40), N Hester (40), G J Holland (40), G W Maxwell (40), J V May (40) and J R Sexton (40) have B shares held in trust under the Thames Water Profit Sharing Scheme.

W J Alexander, D Badcock and D J Luffrum were also Directors of Thames Water Plc at 31 March 2000 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

## Notes to the financial statements

### Employee information

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

	2000 Number	1999 Number
Water supply	2,991	3,145
Sewerage services	2,274	2,277
Total	5,265	5,422

### Employment costs including Executive Directors' remuneration were:

	2000 £m	1999 £m
Salaries and wages	127.5	125.9
Social security costs	11.0	10.6
Pension contributions (note 23)	0.7	9.8
Total	139.2	146.3

Total manpower costs, per note 3, exclude:

- £2.3m (1999: £1.7m) which is included in research and development; and
- £Nil (1999: £3.8m) is included in infrastructure depreciation due to the adoption of FRS 15.

## 6 Interest

	2000 £m	1999 £m
Bank loans, overdrafts and other loans:		
- bank loans	(29.2)	(31.8)
- other loans	(12.8)	(8.0)
- group loans	(73.1)	(29.5)
Finance charges in respect of finance leases	(16.2)	(16.7)
Interest payable and similar charges	(131.3)	(86.0)
Interest receivable	8.0	8.4
Net interest	(123.3)	(77.6)

# Thames Water Utilities Limited

## Notes to the financial statements

### 7 Taxation

	2000 £m	1999 £m
UK corporation tax at 30% (1999: 31%)	70.3	31.0
Amount payable to group companies in respect of tax saved by surrender of advance corporation tax	-	54.2
	<u>70.3</u>	<u>85.2</u>
Prior year items - current tax	(22.9)	(9.3)
	<u>47.4</u>	<u>75.9</u>

The corporation tax payable for the year has been reduced by £Nil (1999: £54.2m) because of ACT received from group companies.

### 8 Dividends

	2000 £m	1999 £m
Dividends paid	117.2	141.0
Additional dividend	-	750.0
	<u>117.2</u>	<u>891.0</u>

# Thames Water Utilities Limited

## Notes to the financial statements

### 9 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets (Restated) £m	Total (Restated) £m
<b>Cost</b>				
At 1 April 1999				
As previously reported	1,523.5	1,754.3	1,464.4	4,742.2
Adjustment for change in accounting policy	-	-	539.0	539.0
	<u>1,523.5</u>	<u>1,754.3</u>	<u>2,003.4</u>	<u>5,281.2</u>
Additions	54.4	212.1	211.7	478.2
Disposals	(2.6)	(17.4)	(0.6)	(20.6)
<b>At 31 March 2000</b>	<b><u>1,575.3</u></b>	<b><u>1,949.0</u></b>	<b><u>2,214.5</u></b>	<b><u>5,738.8</u></b>
<b>Capital contribution</b>				
At 1 April 1999	-	-	216.7	216.7
Additions	-	-	35.3	35.3
<b>At 31 March 2000</b>	<b><u>-</u></b>	<b><u>-</u></b>	<b><u>252.0</u></b>	<b><u>252.0</u></b>
<b>Depreciation</b>				
At 1 April 1999				
As previously reported	304.4	492.3	-	796.7
Adjustment for change in accounting policy	-	-	312.8	312.8
	<u>304.4</u>	<u>492.3</u>	<u>312.8</u>	<u>1,109.5</u>
Provided during the year	31.8	111.7	43.0	186.5
Disposals	(0.5)	(15.6)	(0.6)	(16.7)
<b>At 31 March 2000</b>	<b><u>335.7</u></b>	<b><u>588.4</u></b>	<b><u>355.2</u></b>	<b><u>1,279.3</u></b>
<b>Net book value</b>				
<b>At 31 March 2000</b>	<b><u>1,239.6</u></b>	<b><u>1,360.6</u></b>	<b><u>1,607.3</u></b>	<b><u>4,207.5</u></b>
At 31 March 1999	<u>1,219.1</u>	<u>1,262.0</u>	<u>1,473.9</u>	<u>3,955.0</u>

Infrastructure assets are restated following the adoption of FRS 15. The effect is to increase net book value by £9.5m.

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

	2000 £m	1999 £m
Freehold land and buildings	1,213.4	1,194.8
Leasehold over 50 years	19.7	20.1
under 50 years	6.5	4.2
	<u>1,239.6</u>	<u>1,219.1</u>



# Thames Water Utilities Limited

## Notes to the financial statements

No depreciation has been charged on freehold land included above at £6.4m (1999: £6.4m).

Tangible fixed assets at 31 March 2000 include £450.8m (1999: £306.4m) of assets in the course of construction.

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

	Cost		Net book value	
	2000 £m	1999 £m	2000 £m	1999 £m
Plant and equipment	<u>272.1</u>	<u>270.2</u>	<u>235.4</u>	<u>245.7</u>

### 10 Fixed asset investments

	2000 £m	1999 £m
Cost of shares in subsidiaries	<u>0.1</u>	<u>0.1</u>

At 31 March 2000 the Company held more than 10% of the allotted share capital of the following undertakings:

Name of undertaking	Nominal value and class of shares held	Proportion of nominal value of issued shares held	Activity
Gemwel Limited	£1 Ordinary	50%	Water and Sewerage Services
Thames Water Drainage Services Limited	£1 Ordinary	100%	Sewerage Management
CONNECT 2020 Limited	£1 Ordinary	100%	Procurement
Thames Water Utilities Finance Plc	£1 Ordinary	100%	Finance Company
New Power Company Limited	£1 Ordinary	50%	Wholesale of Green Electricity

At 31 March 2000 and 31 March 1999 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 £1,531k at 31 March 2000 (1999: £1,462k).

Gemwel Limited had a deficit on reserves of £103k at 31 March 2000 (1999: £35k).

New Power Company Limited had a deficit on reserves of £117k at 31 March 2000.

# Thames Water Utilities Limited

## Notes to the financial statements

### 11 Stocks and work in progress

	2000 £m	1999 £m
Raw materials and consumables	10.8	11.1
Work in progress	-	1.2
Total	<u>10.8</u>	<u>12.3</u>

### 12 Debtors

	2000 £m	1999 (Restated) £m
<b>Due within one year</b>		
Trade debtors	118.0	120.9
Amounts owed by group undertakings	30.4	23.4
Other debtors	22.6	4.7
Insurance claims receivable	46.7	30.2
Prepayments and accrued income	122.7	107.1
Total	<u>340.4</u>	<u>286.3</u>

Infrastructure renewals expenditure of £9.5m is now included within tangible fixed assets. The Company has also restated its debtors and creditors for 1999 in respect of recognising the gross liability for claims received and also showing as a debtor the related amount recoverable under insurance policies. The impact of these is to increase the figures in the balance sheet for debtors by £20.7m, creditors falling due within one year by £30.2m and fixed assets by £9.5m.

### 13 Creditors: amounts falling due within one year

	2000 £m	1999 (Restated) £m
Bank loans	16.8	96.6
Other loans	-	-
Obligations under finance leases	4.5	1.8
Progress claims and advance payments	75.8	71.9
Trade creditors:		
• Operating	54.2	40.9
• Capital	108.1	103.1
Amounts owed to group undertakings	525.9	665.8
Amounts payable in respect of group relief and advance corporation tax	17.2	54.3
Corporation tax	52.2	35.9
Insurance claims payable	46.7	30.2
Other taxation and social security payable	4.1	3.6
Accruals and deferred income	118.2	111.0
Total	<u>1,023.7</u>	<u>1,215.1</u>

# Thames Water Utilities Limited

## Notes to the financial statements

The Company has restated its debtors and creditors for 1999 as described in note 12.

Amounts owed to group undertakings includes an interest bearing loan of £373.7m (1999: £621.3m) which is repayable on normal commercial terms, and an interest bearing loan of £100.9m (1999: £Nil), see note 14. There are no interest free loans.

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

	2000 £m	1999 £m
Bank loans	390.2	356.9
Other loans	32.5	32.6
Obligations under finance leases	257.2	261.2
Amounts owed to group undertakings (see below)	787.5	516.2
Other creditors	2.1	8.8
Deferred income	43.9	43.9
Total	<u>1,513.4</u>	<u>1,219.6</u>

A subsidiary undertaking, Thames Water Utilities Finance Plc, has in issue £888.4m (1999: £516.2m) Guaranteed Bonds. The net proceeds were loaned to the Company under the same terms and £888.4m (1999: £516.2m) is included in amounts owed to group undertakings, split between creditors due within one year of £100.9m (1999: £Nil) and creditors due after more than one year of £787.5m (1999: £516.2m), 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

## Notes to the financial statements

### 15 Financial instruments

Financial Reporting Standard 13 requires the 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 and interest rate swaps are employed to manage the interest rate and currency risks arising from the primary financial instruments used to finance the Company's activities.

Group Treasury operations are managed centrally by a small specialist team, and are managed as a cost, not profit centre; no material open or speculative positions are taken. A full 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. There are no financial instruments bearing no interest, other than other creditors falling due after more than one year. These have been excluded from the financial instruments' disclosures as they are not considered significant at £2.1m (1999: £8.8m).

#### Financial assets

Interest rate risk profile	Total at floating rates		Total at fixed rates		Total at book value	
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m
Cash at bank/hand						
- £ Sterling	13.5	15.2	-	-	13.5	15.2
- Others	1.3	2.3	-	-	1.3	2.3
Total	<u>14.8</u>	<u>17.5</u>	<u>-</u>	<u>-</u>	<u>14.8</u>	<u>17.5</u>

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

# Thames Water Utilities Limited

## Notes to the financial statements

### Financial liabilities

Interest rate risk profile	Total at floating rates		Total at fixed rates		Total at book value		Fixed rate liabilities			
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
							2000 %	1999 %	2000 Years	1999 Years
Bank loans & overdraft - £ Sterling	30.0	110.5	377.0	343.0	407.0	453.5	7.6	8.0	7.7	8.4
Other loans & finance leases - £ Sterling	749.0	850.9	807.3	582.2	1,556.3	1,433.1	7.1	7.4	21.4	19.4
<b>Total</b>	<b>779.0</b>	<b>961.4</b>	<b>1,184.3</b>	<b>925.2</b>	<b>1,963.3</b>	<b>1,886.6</b>	<b>7.3</b>	<b>7.6</b>	<b>17.1</b>	<b>15.3</b>

The Company's interest rate and cross currency swaps convert £62.4m (1999: £63.4m) of floating rate borrowing to fixed rate and £45.1m (1999: £10m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £183.4m (1999: £11.2m) of foreign currency borrowing.

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 into consideration.

# Thames Water Utilities Limited

## Notes to the financial statements

### 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.

	Book value 2000 £m	Book value 1999 £m	Fair value 2000 £m	Fair value 1999 £m
<b>Primary financial instruments</b>				
<b>Financial assets</b>				
- Cash at bank/hand	14.8	17.5	14.8	17.5
<b>Financial liabilities</b>				
- Bank loans & overdrafts	(407.0)	(453.5)	(425.7)	(417.8)
- Other loans & finance leases	(1,556.3)	(1,433.1)	(1,545.0)	(1,553.8)
<b>Derivative financial instruments</b>				
- Interest rate swaps	-	-	(3.6)	(8.4)
- Cross currency swaps	-	-	2.0	0.1
<b>Total</b>	<b>(1,948.5)</b>	<b>(1,869.1)</b>	<b>(1,957.5)</b>	<b>(1,962.4)</b>

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 2000 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 borrowing 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 effect of revaluing foreign currency borrowing at closing rates is included in the fair valuation.

# Thames Water Utilities Limited

## Notes to the financial statements

Maturities	2000 £m	1999 £m
Bank loans and overdrafts		
- Within one year	16.8	96.6
- Between one and two years	17.5	16.8
- Between two and five years	108.1	80.2
- After more than five years	264.6	259.9
	<u>407.0</u>	<u>453.5</u>
Other loans and finance leases		
- Within one year	479.1	623.1
- Between one and two years	175.2	2.7
- Between two and five years	87.1	228.3
- After more than five years	814.9	579.0
	<u>1,556.3</u>	<u>1,433.1</u>
<b>Total borrowing</b>	<u><b>1,963.3</b></u>	<u><b>1,886.6</b></u>

- Loans are repayable between 2000 and 2032.
- Loans wholly repayable after more than five years hence are:

	2000 £m	1999 £m
- Bank loans	225.0	200.0
- Other loans	583.2	330.0
	<u>808.2</u>	<u>530.0</u>

- Other loans include:
  - £150m 10.5% Guaranteed Bonds due 2001
  - £330m 6.75% MTN Eurobonds due 2028
  - £200m 6.5% MTN Eurobonds due 2032
  - Loans totalling £32.4m (1999: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.
- Loans repayable by instalments after more than five years hence are :

	2000 £m	1999 £m
- Bank loans	39.6	59.9
- Finance leases	231.7	249.0
	<u>271.3</u>	<u>308.9</u>

- The range of interest rates on outstanding bank loans are 5.92% to 11.5% (1999: 5.92% to 11.5%) and other loans are 3% to 9% (1999: 3% to 9%). These interest rates are those contracted on the underlying borrowing before taking account of interest rate protection.

# Thames Water Utilities Limited

## Notes to the financial statements

### Borrowing facilities

The Company has committed borrowing facilities with a range of financial institutions totalling £420m (1999: £410m), expiring as below. At 31 March 2000 and 31 March 1999, no funds have been borrowed.

	2000 £m	1999 £m
Within one year	320.0	310.0
Between one and two years	100.0	-
After more than two years	-	100.0
	<u>420.0</u>	<u>410.0</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 2000, £738.4m (1999: 366.2m) had been borrowed in total by the Company, with a weighted average term of 22.4 years (1999: 27.1 years) at a weighted averaged rate of 6.5% (1999: 6.7%).

### 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:

	2000 £m	1999 £m
Accelerated capital allowances:		
- Infrastructure assets	344.5	316.6
- Other assets	424.8	377.1
Other timing differences	(3.2)	(4.2)
	<u>766.1</u>	<u>689.5</u>

### 17 Share capital

	2000 £m	1999 £m
<b>Authorised</b>		
1,029,050,000 (1999: 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 (1999: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>



# Thames Water Utilities Limited

## Notes to the financial statements

### 18 Share premium account

	2000 £m	1999 £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

	£m
At 1 April 1999	707.5
Profit for the year	<u>200.0</u>
<b>At 31 March 2000</b>	<u>907.5</u>

### 20 Reconciliation of movements in shareholders' funds

	2000 £m	1999 £m
Profit for the financial year	317.2	320.1
Dividends	(117.2)	(891.0)
	<u>200.0</u>	<u>(570.9)</u>
Shareholders' funds at the beginning of the year	1,836.5	2,407.4
Shareholders' funds at the end of the year	<u>2,036.5</u>	<u>1,836.5</u>

### 21 Capital commitments

	2000 £m	1999 £m
Contracted for but not provided	<u>105.7</u>	<u>107.5</u>

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

# Thames Water Utilities Limited

## Notes to the financial statements

### 22 Operating leases

At 31 March 2000 the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	2000		1999	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
<b>Leases which expire:</b>				
Within one year	0.1	-	-	0.9
Between one and two years	-	0.8	0.1	0.9
Between two and five years	0.2	1.6	0.2	0.6
After more than five years	3.6	-	3.8	-
	<u>3.9</u>	<u>2.4</u>	<u>4.1</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.

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

The total ongoing pension cost for the Company during the year ended 31 March 2000 was £0.4m (1999: £9.8m). 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 £18.5m (1999: £18.4m) and the actuarial surplus resulted in a variation amounting to a reduction in the pension cost of £18.5m (1999: £8.6m).

At 31 March 2000 an accrual in respect of the funded schemes amounting to £1.4m (1999: £5.8m) 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 2000 payments amounted to £2.0m (1999: £0.7m).

### 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 0NU.

# Thames Water Utilities Limited

## Supplementary Regulatory Information - 1999/2000

	Pages
Introduction	35
Directors' Certificate under Condition F6A of the Company's Appointment	36
Supplementary regulatory historical cost statements:	
Profit and loss account	37
Balance sheet	38
Reconciliation of Regulatory to Statutory historic cost balance sheet	39
Current cost accounting statements:	
Profit and loss account	40
Balance sheet	41
Notes to the supplementary regulatory financial statements	42-51
Rolling five-year summary:	
Current cost profit and loss account	52
Current cost balance sheet	53
Statement of cash flows	54-56
Regulatory Accounts Intra Group Trade	57
Supplementary Directors' interests information	58
Report of the auditors to the Director General of Water Services	59-60

# Thames Water Utilities Limited

## Supplementary Regulatory Information - 1999/2000

### 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 (RAG) 1.02 (Accounting for Current Costs), RAG 3.04 (Contents of Regulatory Accounts), RAG 4.01 (Analysis of Operating Costs and Assets), and RAG 5.02 (Transfer Pricing in the Water Industry). The presentation of the supplementary regulatory information differs from the financial information presented on pages 11 to 33 with respect to the treatment required under Financial Reporting Standard (FRS) 3 with respect to profit/(loss) on sale of fixed assets and FRS 15 with respect to infrastructure renewals accounting.

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 (AMP) 3 submission.

The auditors' letter of engagement provides that they shall provide such further explanation or clarification of their reports, and such further information in respect of the matters which are the subject of their reports, as the Director General may reasonably require.

### Appointed and non-appointed activities

Appointed business activities are those regulated activities defined in Condition A of the Licence to be the "functions of" and "duties imposed on" a water and sewerage undertaker by the Water Act 1989. The principal appointed business activities include the provision of a service in respect of water resources and treatment and distribution as well as sewerage, sewage treatment and sludge treatment and disposal.

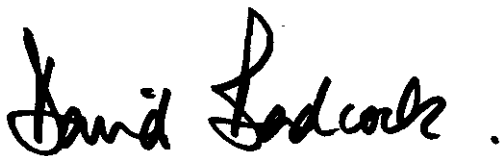
The non-appointed business has generated turnover in excess of 1% of total turnover and so further profit and loss information has been provided in accordance with RAG 3.04. The net assets of the non-appointed business are less than 1% of the Company's net assets, therefore there is no requirement to disclose separately, a non-appointed business balance sheet. The principle non-appointed business activities include the provision of services in respect of rents, technical information and renewable energy.

# Thames Water Utilities Limited

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

This is to certify that at their meeting on 5 June 2000 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, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment); and
- that in the opinion of the Directors, the Appointee will, for at least the next 12 months, 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 regulatory historical cost statements

### Profit and loss account for the year ended 31 March 2000

	2000			1999		
	Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	Total £m
<b>Turnover</b>	<b>1,102.7</b>	<b>25.8</b>	<b>1,128.5</b>	<b>1,071.1</b>	<b>23.4</b>	<b>1,094.5</b>
Operating costs	(624.2)	(18.7)	(642.9)	(609.5)	(20.8)	(630.3)
	<u>478.5</u>	<u>7.1</u>	<u>485.6</u>	<u>461.6</u>	<u>2.6</u>	<u>464.2</u>
Operating income	2.3	-	2.3	9.4	-	9.4
	<u>480.8</u>	<u>7.1</u>	<u>487.9</u>	<u>471.0</u>	<u>2.6</u>	<u>473.6</u>
Interest	(123.3)	-	(123.3)	(77.6)	-	(77.6)
	<u>357.5</u>	<u>7.1</u>	<u>364.6</u>	<u>393.4</u>	<u>2.6</u>	<u>396.0</u>
<b>Profit on ordinary activities before taxation</b>	<b>357.5</b>	<b>7.1</b>	<b>364.6</b>	<b>393.4</b>	<b>2.6</b>	<b>396.0</b>
Taxation on profit on ordinary activities	(45.3)	(2.1)	(47.4)	(75.1)	(0.8)	(75.9)
	<u>312.2</u>	<u>5.0</u>	<u>317.2</u>	<u>318.3</u>	<u>1.8</u>	<u>320.1</u>
<b>Profit for the financial year</b>	<b>312.2</b>	<b>5.0</b>	<b>317.2</b>	<b>318.3</b>	<b>1.8</b>	<b>320.1</b>
Dividends	(115.3)	(1.9)	(117.2)	(890.2)	(0.8)	(891.0)
	<u>196.9</u>	<u>3.1</u>	<u>200.0</u>	<u>(571.9)</u>	<u>1.0</u>	<u>(570.9)</u>
<b>Retained profit/(deficit)</b>	<b>196.9</b>	<b>3.1</b>	<b>200.0</b>	<b>(571.9)</b>	<b>1.0</b>	<b>(570.9)</b>

# Thames Water Utilities Limited

## Supplementary regulatory historical cost statements

Balance sheet at 31 March 2000

	2000	1999
	£m	(restated) £m
<b>Fixed assets</b>		
Tangible assets	4,197.9	3,945.5
Investments	0.1	0.1
	<u>4,198.0</u>	<u>3,945.6</u>
<b>Current assets</b>		
Stocks and work in progress	10.8	12.3
Debtors	350.0	295.8
Cash at bank and in hand	14.8	17.5
	<u>375.6</u>	<u>325.6</u>
<b>Creditors: amounts falling due within one year</b>	<u>(1,023.7)</u>	<u>(1,215.1)</u>
<b>Net current liabilities</b>	<u>(648.1)</u>	<u>(889.5)</u>
<b>Total assets less current liabilities</b>	<b>3,549.9</b>	<b>3,056.1</b>
<b>Creditors: amounts falling due after more than one year</b>	<u>(1,513.4)</u>	<u>(1,219.6)</u>
<b>Net assets</b>	<u>2,036.5</u>	<u>1,836.5</u>
<b>Capital and reserves</b>		
Called up share capital	1,029.0	1,029.0
Share premium	100.0	100.0
Profit and loss account	907.5	707.5
<b>Equity shareholders' funds</b>	<u>2,036.5</u>	<u>1,836.5</u>

# Thames Water Utilities Limited

## Reconciliation of Regulatory to Statutory historic cost balance sheet

In the preparation of its statutory accounts, the company has followed common industry practice and adopted the infrastructure renewals accounting basis as set out in Financial Reporting Standard (FRS) 15: tangible fixed assets. However for the purpose of the Regulatory Accounts, Ofwat has requested that FRS 15 is not applied for infrastructure renewals accounting, thereby providing a basis consistent with prior years. A reconciliation to the balance sheet shown in the statutory accounts is set out below:

	Infrastructure Assets £m	Other Assets £m	Total £m
<b>Cost</b>			
Cost at 31 March 2000 per Regulatory Accounts	1,849.7	3,524.3	5,374.0
Adjustment to opening balance	322.3	-	322.3
Infrastructure renewals expenditure capitalised in the year	43.1	-	43.1
Disposal	(0.6)	-	(0.6)
Cost at 31 March 2000 per Statutory Accounts	<u>2,214.5</u>	<u>3,524.3</u>	<u>5,738.8</u>
<b>Capital Contribution</b>			
Contributions at 31 March 2000 per Regulatory Accounts	252.0	-	252.0
Contributions at 31 March 2000 per Statutory Accounts	<u>252.0</u>	<u>-</u>	<u>252.0</u>
<b>Depreciation</b>			
At 31 March 2000 per Regulatory Accounts	-	924.1	924.1
Adjustment to opening balance	312.8	-	312.8
Depreciation charge for infrastructure renewals expenditure	43.0	-	43.0
Disposal	(0.6)	-	(0.6)
At 31 March 2000 per Statutory Accounts	<u>355.2</u>	<u>924.1</u>	<u>1,279.3</u>
<b>Net Book Value</b>			
At 31 March 2000 per Regulatory Accounts	1,597.7	2,600.2	4,197.9
Adjustment for infrastructure renewals accounting	9.6	-	9.6
At 31 March 2000 per Statutory Accounts	<u>1,607.3</u>	<u>2,600.2</u>	<u>4,207.5</u>
<b>Debtors</b>			
At 31 March 2000 per Regulatory Accounts			350.0
Less infrastructure renewals prepayment			(9.6)
At 31 March 2000 per Statutory Accounts			<u>340.4</u>



# Thames Water Utilities Limited

## Current cost accounting statements

Profit and loss account for the year ended 31 March 2000

	Note	2000			1999		Total £m
		Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	
Turnover	2	1,102.7	25.8	1,128.5	1,071.1	23.4	1,094.5
Current cost operating costs	3	(720.6)	(18.7)	(739.3)	(689.2)	(20.8)	(710.0)
Operating income	2	6.2	-	6.2	11.5	-	11.5
		<u>388.3</u>	<u>7.1</u>	<u>395.4</u>	<u>393.4</u>	<u>2.6</u>	<u>396.0</u>
Working capital adjustment	2	3.6	-	3.6	7.6	-	7.6
<b>Current cost operating profit</b>		<b>391.9</b>	<b>7.1</b>	<b>399.0</b>	<b>401.0</b>	<b>2.6</b>	<b>403.6</b>
Interest		(123.3)	-	(123.3)	(77.6)	-	(77.6)
Financing adjustment		51.3	-	51.3	18.4	-	18.4
<b>Current cost profit on ordinary activities before taxation</b>		<b>319.9</b>	<b>7.1</b>	<b>327.0</b>	<b>341.8</b>	<b>2.6</b>	<b>344.4</b>
Taxation		(45.3)	(2.1)	(47.4)	(75.1)	(0.8)	(75.9)
<b>Current cost profit attributable to shareholders</b>		<b>274.6</b>	<b>5.0</b>	<b>279.6</b>	<b>266.7</b>	<b>1.8</b>	<b>268.5</b>
Dividends		(115.3)	(1.9)	(117.2)	(890.2)	(0.8)	(891.0)
<b>Current cost retained profit/(deficit)</b>	6	<b>159.3</b>	<b>3.1</b>	<b>162.4</b>	<b>(623.5)</b>	<b>1.0</b>	<b>(622.5)</b>

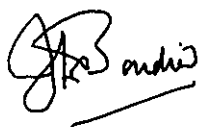
# Thames Water Utilities Limited

## Current cost accounting statements

Balance sheet at 31 March 2000

	Note	2000 £m	1999 (Restated) £m
<b>Fixed assets</b>			
Tangible assets	4	37,237.0	38,234.5
Third party contributions since 1989/90		(280.1)	(238.6)
		<u>36,956.9</u>	<u>37,995.9</u>
<b>Working capital</b>	5	(172.4)	(137.7)
<b>Net operating assets</b>		<u>36,784.5</u>	<u>37,858.2</u>
Cash and investments		14.9	(603.7)
Non-trade debtors due within one year		69.3	34.9
Non-trade creditors due within one year		(559.8)	(182.9)
Creditors due after more than one year		(1,513.4)	(1,219.6)
<b>Net assets employed</b>		<u>34,795.5</u>	<u>35,886.9</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	(75.9)	(238.3)
Current cost reserve	7	33,742.4	34,996.2
		<u>34,795.5</u>	<u>35,886.9</u>

The regulatory financial statements on pages 37 to 57 were approved by the Board of Directors on 7 June 2000 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 2000

### 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), 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 by cost centre as in previous years rather than on an activity based method, which is the preferred system under RAG 4.

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

The Company undertook a review of the "modern equivalent asset" (MEA) values at 31 March 1998 as one aspect of the 1999 Periodic Review. This involved a comprehensive review of the asset stock at the time, as well as the unit costs underpinning the valuations. In addition, improved information since that exercise has further reduced our estimate of the length of Section 24 sewers and the sewerage infrastructure valuation. This reduced gross current cost assets by £2,319.1m and accumulated current cost depreciation by £132.3m.

##### (ii) Tangible fixed assets

The assets have been valued in accordance with RAG 1.02, as amended by RD 4/96 on an MEA basis. Depreciation is charged over the estimated economic remaining life of the asset. 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.

The Asset Management Plan (AMP) adjustment represents the movement in net MEA book value following the incorporation of AMP 3 data.

##### • 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 at 31 March 1995 by professionally qualified employees of the Company.

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

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

- **Infrastructure assets**

Mains, sewers, impounding and pumped raw water storage reservoirs and sludge pipelines are valued at their MEA value, in a manner as described above. Due to the nature of these assets, MEA value is calculated based on the length of sewer or pipe, or the capacity of the asset.

Following the repeal of Section 24 of the Public Health Act 1936 by the Water Act 1989 the Company assumed responsibility for the maintenance and operation of a significant length of additional sewers. The Company has improved the mapping data underpinning the estimated length of these sewers. This has resulted in a lower estimated length of 18,000km (1999: 30,000km) with an MEA value of £4,495m (1999: £5,853m). The decrease in value resulting from the reduced length (£2,402m) has been offset by unit cost increases for this type of asset. Adjustments may be required to those estimates in future years as more accurate information becomes available.

- **Specialised/non-specialised assets**

Specialised operational assets include those assets used routinely in operating the business, which are directly attributable to water supply 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 deducted 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.

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

### (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 dividend is disclosed in the Directors' Report on pages 6-9.

### (e) Operating costs

In note 3, direct costs incurred with associated companies are less than 20% of the total operating costs of the business before interest and tax, therefore the costs have been allocated across the appropriate subjective headings as this is the required treatment under RAG 4.

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

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

	2000			1999		
	Water supply £m	Sewerage services £m	Appointed business £m	Water supply £m	Sewerage services £m	Appointed business £m
<b>Turnover</b>						
Measured	171.2	186.0	357.2	153.6	159.2	312.8
Unmeasured	275.0	432.0	707.0	273.6	434.8	708.4
Trade effluent	-	21.5	21.5	-	23.8	23.8
Other sources (excluding third parties)	0.9	8.2	9.1	5.0	12.5	17.5
Third party services	4.4	3.5	7.9	4.0	4.6	8.6
<b>Total turnover</b>	<b>451.5</b>	<b>651.2</b>	<b>1,102.7</b>	<b>436.2</b>	<b>634.9</b>	<b>1,071.1</b>
<b>Operating income</b>						
Current cost profit or loss on disposal of fixed assets	4.7	1.5	6.2	8.4	3.1	11.5
<b>Total operating income</b>	<b>4.7</b>	<b>1.5</b>	<b>6.2</b>	<b>8.4</b>	<b>3.1</b>	<b>11.5</b>
<b>Working capital adjustment</b>	<b>1.5</b>	<b>2.1</b>	<b>3.6</b>	<b>3.0</b>	<b>4.6</b>	<b>7.6</b>

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

### 3(a) Operating costs and associated fixed asset book values (year ended 31 March 2000)

Operating costs for the year ended 31 March 2000	Service analysis						Business analysis		
	Water supply		Sewerage services			Sewerage services subtotal	Customer services	Scientific services	Cost of regulation
	Resources and treatment	Distribution	Water supply	Sewerage treatment	Sludge treatment and disposal				
Direct costs	£m	£m	£m	£m	£m	£m	£m	£m	£m
Employment costs	11.8	19.2	31.0	3.4	8.4	4.1	12.5	15.9	
Power	5.2	11.3	16.5	2.3	9.7	4.1	13.8	16.1	
Hired and contracted services	5.4	33.0	38.4	18.4	17.1	16.5	33.6	52.0	
Associated companies	-	-	-	-	-	-	-	-	
Materials and consumables	4.2	4.3	8.5	0.4	3.5	4.5	8.0	8.4	
Service charges	9.3	-	9.3	1.3	2.6	-	2.6	3.9	
Other direct costs	1.8	4.1	5.9	0.4	0.6	0.4	1.0	1.4	
Total direct costs	37.7	71.9	109.6	26.2	41.9	29.6	71.5	97.7	37.2
General and support expenditure	19.6	23.7	43.3	10.0	21.3	11.7	33.0	43.0	17.5
Functional expenditure	57.3	95.6	152.9	36.2	63.2	41.3	104.5	140.7	54.7
Capital costs									
CC depreciation	53.2	26.9	80.1	21.1	96.7	25.9	122.6	143.7	
Infrastructure renewals expenditure	1.5	20.9	22.4	20.7	-	0.1	0.1	20.8	
Infrastructure renewals accrual / prepayment	(0.8)	1.2	0.4	(0.5)	-	(0.1)	(0.1)	(0.6)	
Functional cost	111.2	144.6	255.8	77.5	159.9	67.2	227.1	304.6	
Total including business analysis			287.6					337.3	
Rates			27.2					25.5	
Doubtful debts			7.5					11.5	
Business activities capital costs			6.9					9.2	
Service costs			329.2					383.5	
Services for third parties			4.8					3.1	
Total cost			334.0					386.6	
Fixed asset book values at 31 March 2000									
Service activities	1,778.4	6,203.0	7,981.4	26,608.6	2,173.5	395.9	2,569.4	29,178.0	
Business activities			39.7	8.5			29.4	37.9	
Service totals			8,021.1	26,617.1			2,598.8	29,215.9	
Total CCA values			8,021.1					29,215.9	

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

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

Operating costs for the year ended 31 March 1999	Service analysis						Business analysis			
	Water supply		Sewerage services			Sewerage T & D subtotal	Sewerage services subtotal	Customer services	Scientific services	Cost of regulation
	Resources and treatment	Distribution	Water supply subtotal	Sewerage treatment	Sludge treatment and disposal					
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<b>Direct costs</b>										
Employment costs	11.9	17.3	29.2	3.9	10.5	5.8	16.3	20.2		
Power	5.3	12.7	18.0	1.9	9.6	3.4	13.0	14.9		
Hired and contracted services	4.8	33.6	38.4	21.0	16.0	16.2	32.2	53.2		
Associated companies	-	-	-	-	-	-	-	-		
Materials and consumables	3.7	4.1	7.8	0.6	2.2	3.4	5.6	6.2		
Service charges	8.8	-	8.8	1.1	2.3	-	2.3	3.4		
Other direct costs	0.8	3.3	4.1	1.9	0.1	0.6	0.7	2.6		
Total direct costs	35.3	71.0	106.3	30.4	40.7	29.4	70.1	100.5	36.3	3.4
General and support expenditure	20.7	25.3	46.0	10.3	23.2	12.3	35.5	45.8	19.5	1.3
Functional expenditure	56.0	96.3	152.3	40.7	63.9	41.7	105.6	146.3	55.8	4.7
<b>Capital costs</b>										
CC depreciation	45.2	20.5	65.7	12.9	88.7	14.8	103.5	116.4		
Infrastructure renewals expenditure	1.9	18.3	20.2	24.5	-	-	-	24.5		
Infrastructure renewals accrual / prepayment	(1.1)	2.5	1.4	(5.4)	-	-	-	(5.4)		
Functional cost	102.0	137.6	239.6	72.7	152.6	56.5	209.1	281.8		
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		
<b>Service costs</b>			319.1					362.0		
Services for third parties			4.0					4.1		
Total cost			323.1					366.1		
<b>Fixed asset book values at 31 March 1999</b>										
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

### 4 (a) Tangible fixed assets by asset type at 31 March 2000

#### Water supply

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost</b>					
At 1 April 1999	2,574.7	89.3	5,589.8	96.1	8,349.9
AMP adjustment	(340.3)	(56.8)	807.5	56.8	467.2
RPI adjustment	67.0	2.3	145.3	2.5	217.1
Disposals	(52.2)	(0.8)	-	(25.0)	(78.0)
Additions	104.8	1.6	124.7	25.5	256.6
<b>At 31 March 2000</b>	<b>2,354.0</b>	<b>35.6</b>	<b>6,667.3</b>	<b>155.9</b>	<b>9,212.8</b>
<b>Depreciation</b>					
At 1 April 1999	774.3	34.8	-	73.4	882.5
AMP adjustment	283.2	(18.5)	-	12.6	277.3
RPI adjustment	20.1	0.9	-	1.9	22.9
Disposals	(52.2)	(0.8)	-	(25.0)	(78.0)
Charge for year	66.9	0.6	-	19.5	87.0
<b>At 31 March 2000</b>	<b>1,092.3</b>	<b>17.0</b>	<b>-</b>	<b>82.4</b>	<b>1,191.7</b>
<b>Net book amount at 31 March 2000</b>	<b>1,261.7</b>	<b>18.6</b>	<b>6,667.3</b>	<b>73.5</b>	<b>8,021.1</b>
Net book amount at 31 March 1999	1,800.4	54.5	5,589.8	22.7	7,467.4

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

### 4 (b) Tangible fixed assets by asset type at 31 March 2000

#### Sewerage services

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
<b>Gross replacement cost</b>					
At 1 April 1999	4,719.3	40.9	28,358.5	140.7	33,259.4
AMP adjustment	102.2	(6.3)	(2,966.8)	84.6	(2,786.3)
RPI adjustment	122.7	1.0	737.3	3.7	864.7
Disposals	(83.8)	(0.6)	-	(26.1)	(110.5)
Additions	124.9	0.9	26.6	26.1	178.5
<b>At 31 March 2000</b>	<b>4,985.3</b>	<b>35.9</b>	<b>26,155.6</b>	<b>229.0</b>	<b>31,405.8</b>
<b>Depreciation</b>					
At 1 April 1999	2,343.1	40.0	-	109.2	2,492.3
AMP adjustment	(408.7)	(21.4)	-	20.5	(409.6)
RPI adjustment	61.0	1.0	-	2.8	64.8
Disposals	(83.8)	(0.6)	-	(26.1)	(110.5)
Charge for year	124.5	0.8	-	27.6	152.9
<b>At 31 March 2000</b>	<b>2,036.1</b>	<b>19.8</b>	<b>-</b>	<b>134.0</b>	<b>2,189.9</b>
<b>Net book amount at 31 March 2000</b>	<b>2,949.2</b>	<b>16.1</b>	<b>26,155.6</b>	<b>95.0</b>	<b>29,215.9</b>
Net book amount at 31 March 1999	2,376.2	0.9	28,358.5	31.5	30,767.1

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

### 4 (c) Tangible fixed assets by asset type at 31 March 2000

<b>Total</b>	<b>Specialised operational assets £m</b>	<b>Non- specialised operational properties £m</b>	<b>Infra- structure assets £m</b>	<b>Other tangible assets £m</b>	<b>Total £m</b>
<b>Gross replacement cost</b>					
At 1 April 1999	7,294.0	130.2	33,948.3	236.8	41,609.3
AMP adjustment	(238.1)	(63.1)	(2,159.3)	141.4	(2,319.1)
RPI adjustment	189.7	3.3	882.6	6.2	1,081.8
Disposals	(136.0)	(1.4)	-	(51.1)	(188.5)
Additions	229.7	2.5	151.3	51.6	435.1
<b>At 31 March 2000</b>	<b>7,339.3</b>	<b>71.5</b>	<b>32,822.9</b>	<b>384.9</b>	<b>40,618.6</b>
<b>Depreciation</b>					
At 1 April 1999	3,117.4	74.8	-	182.6	3,374.8
AMP adjustment	(125.5)	(39.9)	-	33.1	(132.3)
RPI adjustment	81.1	1.9	-	4.7	87.7
Disposals	(136.0)	(1.4)	-	(51.1)	(188.5)
Charge for year	191.4	1.4	-	47.1	239.9
<b>At 31 March 2000</b>	<b>3,128.4</b>	<b>36.8</b>	<b>-</b>	<b>216.4</b>	<b>3,381.6</b>
<b>Net book amount at 31 March 2000</b>	<b>4,210.9</b>	<b>34.7</b>	<b>32,822.9</b>	<b>168.5</b>	<b>37,237.0</b>
Net book amount at 31 March 1999	4,176.6	55.4	33,948.3	54.2	38,234.5

### 5 Working capital

	<b>2000 £m</b>	<b>1999 £m</b>
Stocks	10.8	12.3
Trade debtors	118.0	120.9
Trade creditors	(54.2)	(40.9)
Short term capital creditors	(108.1)	(103.1)
Infrastructure renewals prepayment	9.6	9.5
Accruals	(170.4)	(146.9)
Trade payments in advance	(75.8)	(71.9)
Payroll related taxes and social security contributions	(4.1)	(3.6)
Group trade creditors	(20.9)	(21.1)
Prepayments	122.7	107.1
<b>Total working capital</b>	<b>(172.4)</b>	<b>(137.7)</b>

# Thames Water Utilities Limited

## Notes to the supplementary regulatory financial statements

### 6 Profit and loss account

	2000 £m	1999 £m
Balance at 1 April 1999	(238.3)	384.2
Current cost profit/(deficit)	162.4	(622.5)
<b>Balance at 31 March 2000</b>	<b>(75.9)</b>	<b>(238.3)</b>

### 7 Current cost reserve

	2000 £m	1999 £m
Balance at 1 April 1999	34,996.2	34,245.3
AMP adjustment (note 1a)	(2,186.8)	-
RPI adjustments		
- Fixed assets	994.1	781.1
- Grants and third party contributions	(6.2)	(4.2)
- Working capital	(3.6)	(7.6)
- Financing	(51.3)	(18.4)
<b>Balance at 31 March 2000</b>	<b>33,742.4</b>	<b>34,996.2</b>

# Thames Water Utilities Limited

## Rolling five-year summary

Current cost profit and loss account for the year ended 31 March 2000 with corresponding amounts at 2000 prices

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
<b>Turnover</b>	1,128.5	1,111.9	1,090.0	1,083.5	1,081.5
Current cost operating costs	(739.3)	(721.3)	(724.1)	(710.9)	(721.9)
Operating income	6.2	11.7	9.5	11.8	9.4
	<u>395.4</u>	<u>402.3</u>	<u>375.4</u>	<u>384.4</u>	<u>369.0</u>
Working capital adjustment	3.6	7.7	4.4	2.5	3.2
	<u>399.0</u>	<u>410.0</u>	<u>379.8</u>	<u>386.9</u>	<u>372.2</u>
<b>Current cost operating profit</b>	399.0	410.0	379.8	386.9	372.2
Interest	(123.3)	(78.8)	(53.1)	(48.2)	(49.2)
Financing adjustment	51.3	18.7	27.2	19.5	19.3
	<u>327.0</u>	<u>349.9</u>	<u>353.9</u>	<u>358.2</u>	<u>342.3</u>
<b>Current cost profit on ordinary activities before taxation</b>	327.0	349.9	353.9	358.2	342.3
Taxation	(47.4)	(77.1)	(67.2)	(47.7)	-
	<u>279.6</u>	<u>272.8</u>	<u>286.7</u>	<u>310.5</u>	<u>342.3</u>
<b>Current cost profit on ordinary activities after taxation</b>	279.6	272.8	286.7	310.5	342.3
Dividends	(117.2)	(905.2)	(674.2)	(147.9)	(719.1)
	<u>162.4</u>	<u>(632.4)</u>	<u>(387.5)</u>	<u>162.6</u>	<u>(376.8)</u>
<b>Current cost retained profit/(deficit)</b>	162.4	(632.4)	(387.5)	162.6	(376.8)

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 at 31 March 2000 with corresponding amounts at 2000 prices

	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
<b>Fixed assets</b>					
Tangible assets	37,237.0	39,236.4	38,956.0	38,616.5	39,040.6
Third party contributions since 1989/90	<u>(280.1)</u>	<u>(244.9)</u>	<u>(209.5)</u>	<u>(175.6)</u>	<u>(144.9)</u>
	36,956.9	38,991.5	38,746.5	38,440.9	38,895.7
<b>Working capital</b>	<u>(172.4)</u>	<u>(141.3)</u>	<u>(378.4)</u>	<u>(129.6)</u>	<u>(98.7)</u>
	36,784.5	38,850.2	38,368.1	38,311.3	38,797.0
<b>Net operating assets</b>					
Cash and investments	14.9	(619.5)	14.0	38.4	56.2
Non-trade debtors due within one year	69.3	35.8	13.9	9.7	11.9
Non-trade creditors due within one year	(559.8)	(187.7)	(124.2)	(50.5)	(95.4)
Creditors due after more than one year	<u>(1,513.4)</u>	<u>(1,251.5)</u>	<u>(823.2)</u>	<u>(800.0)</u>	<u>(741.5)</u>
	34,795.5	36,827.3	37,448.6	37,508.9	38,028.2
<b>Net assets employed</b>	<u>34,795.5</u>	<u>36,827.3</u>	<u>37,448.6</u>	<u>37,508.9</u>	<u>38,028.2</u>
<b>Financed by capital and reserves</b>					
Called up share capital	1,029.0	1,056.0	1,077.6	823.5	844.8
Share premium	100.0	102.6	104.7	108.4	111.2
Profit and loss account	(75.9)	(244.5)	402.4	817.1	671.1
Current cost reserve	<u>33,742.4</u>	<u>35,913.2</u>	<u>35,863.9</u>	<u>35,759.9</u>	<u>36,401.1</u>
	34,795.5	36,827.3	37,448.6	37,508.9	38,028.2

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 2000

	Note	2000 £m	1999 £m
<b>Net cash inflow from operating activities</b>	a	652.8	608.7
<b>Returns on investments and servicing of finance</b>			
Interest received		6.6	8.8
Interest paid		(108.8)	(59.9)
Interest in finance lease rentals		(15.2)	(15.7)
<b>Net cash outflow from returns on investments and servicing of finance</b>		(117.4)	(66.8)
<b>Taxation</b>			
UK corporation tax paid		(68.1)	(55.1)
<b>Capital expenditure and infrastructure renewals</b>			
Gross cost of purchased fixed assets		(428.2)	(463.1)
Receipt of grants and contributions		37.6	42.2
Infrastructure renewals expenditure		(43.1)	(44.7)
Disposal of fixed assets		6.2	13.8
<b>Net cash outflow from investment activities</b>		(427.5)	(451.8)
<b>Equity dividends paid</b>		(117.2)	(892.4)
<b>Net cash outflow before financing</b>		(77.4)	(857.4)
<b>Financing</b>			
Capital element in finance lease rentals		(3.3)	(1.5)
New loans		422.2	933.4
Repayment of loans		(344.2)	(70.3)
<b>Net cash inflow from financing</b>		74.7	861.6
<b>(Decrease)/increase in cash</b>	b, c	(2.7)	4.2

# Thames Water Utilities Limited

## Notes to the cash flow statement

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

	2000	1999
	£m	(Restated) £m
Current cost operating profit	399.0	403.6
Working capital adjustment	(3.6)	(7.6)
Decrease in stocks and work in progress	1.5	-
Current cost depreciation	239.9	208.0
Current cost profit on sale of assets	(6.2)	(11.5)
(Increase) in debtors and prepaid expenses	(52.7)	(76.6)
Increase in creditors and accrued expenses	34.2	54.3
Infrastructure renewals expenditure	43.0	40.7
Effect of other deferrals and accruals on operating activity cash flow	(2.3)	(2.2)
<b>Net cash inflow from operating activities</b>	<u>652.8</u>	<u>608.7</u>

The Company has restated its debtors and creditors for 1999 in respect of recognising the gross liability for claims received and also showing as a debtor the related amount recoverable under insurance policies. The impact of this policy is to increase the figures in the balance sheet for debtors and creditors falling due within one year by £30.2m.

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

	2000	1999
	£m	£m
Balance at 1 April 1999	17.5	13.3
Net cash (outflow)/inflow	(2.7)	4.2
<b>Balance at 31 March 2000</b>	<u>14.8</u>	<u>17.5</u>

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

	2000	1999	Change in year
	£m	£m	£m
Cash at bank and in hand	<u>14.8</u>	<u>17.5</u>	<u>(2.7)</u>



# Thames Water Utilities Limited

## Notes to the cash flow statement

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

	Loan from parent undertaking £m	Loan from subsidiary undertaking £m	Loans and finance lease obligations £m	Total £m
Balance at 31 March 1998	209.5	150.0	662.7	1,022.2
Net cash inflow from financing	411.8	366.2	85.1	863.1
Finance leases raised during the year	-	-	1.3	1.3
Balance at 31 March 1999	621.3	516.2	749.1	1,886.6
Net cash inflow/(outflow) from financing	(247.6)	372.2	(46.6)	78.0
Finance leases raised during the year	-	-	(1.3)	(1.3)
<b>Balance at 31 March 2000</b>	<b>373.7</b>	<b>888.4</b>	<b>701.2</b>	<b>1,963.3</b>

### (e) Analysis of net debt

	1999 £m	Cashflow £m	Non-cash changes £m	2000 £m
Cash at bank and in hand	17.5	(2.7)	-	14.8
Debt due within 1 year	(717.9)	243.3	-	(474.6)
Debt due after 1 year	(905.7)	(321.3)	-	(1,227.0)
Finance leases	(263.0)	3.3	(2.0)	(261.7)
	(1,886.6)	(74.7)	(2.0)	(1,963.3)
Total	(1,869.1)	(77.4)	(2.0)	(1,948.5)

# Thames Water Utilities Limited

## Regulatory Accounts Intra Group Trade - Year Ended 31 March 2000

Company	Service	Turnover of Associate (£000)	Terms of Supply	Value (£000)
Thames Water Services	Sewerage Partnership	N/A	Tendered	12,140
Subterra Pipelines	Pipeworks	63,490	Tendered	37,170
Subterra Rehabilitation	Pipeline Rehabilitation	45,220	Tendered	12,468
Engenica	Maintenance Services	29,140	Market tested	18,066
ISIS	Insurance	13,037	Market tested	10,837

The contracts disclosed are all above the RAG 5.02 requirement of 0.5% of Turnover (£5m).

This contract was awarded to the following associate company following competitive tender exercises and is their sole contract with the Appointed business. The financial value of this contract has not been disclosed as this could have potentially detrimental commercial implications for this associate and so is classified as commercial in confidence:

Procurement services awarded to CONNECT 2020 Limited.

# Thames Water Utilities Limited

## Supplementary Directors' interests information (in accordance with RAG 5.02)

Listed below are details of directorships held by Thames Water Utilities Directors at 31 March 2000 in associated companies that have traded with the Regulated business during the year.

### Directorships held in Associated Companies

W J Alexander	Thames Water Plc Thames Water International Services Limited Thames Water Overseas Consultancy Limited
D Badcock	Isis Insurance Company Limited Thames Water Plc
N Hester	Thames Water Drainage Services Limited
D J Luffrum	Isis Insurance Company Limited Innova Park Management Company Limited Kennet Properties Limited PCI Membrane Systems Limited Thames Water Developments Limited Thames Water Environmental Services Limited Thames Water International Services Limited Thames Water Investments Limited Thames Water Overseas Consultancy Limited Thames Water Plc Thames Water Property Limited St James Homes 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 Thames Water Utilities Finance Plc

Thames Water Utilities Limited conducts its Appointed Business so as to ensure arm's 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 11 to 33 and the supplementary regulatory information on pages 37 to 56.

### Respective responsibilities of Directors and auditors

As described on page 9 the Company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

### Basis of opinion

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

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

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 as appropriate. With regard to the latter, the historical cost regulatory balance sheet on page 38 has been drawn up in accordance with Ofwat's instruction of 6 April 2000, that infrastructure renewals accounting as applied in previous years should be continued and the relevant sections of Financial Reporting Standards 12 and 15 disapplied. The effect of this instruction and a reconciliation of the statutory to regulatory historic cost balance sheet is given on page 39.

### Opinion

In our opinion the financial statements for the year to 31 March 2000 contain the information required to be published and submitted to you by Thames Water Utilities Limited to comply with Condition F of the Instrument of Appointment by the Secretary of State for the Environment of the company as a water (and sewerage) undertaker under the Water Act 1991.

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

- (a) proper accounting records have been kept by the Appointee as required by paragraph 3 of Condition F of the Instrument;
- (b) the information is in agreement with the Appointee's accounting records, and has been properly prepared in accordance with the requirements of Condition F of the Instrument and the Regulatory Accounting Guidelines 1-4 issued by the Office of Water Services;

# Thames Water Utilities Limited

- (c) the financial statements on pages 11 to 33 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 37 to 56 has been properly prepared in accordance with the Regulatory Accounting Guideline 1.02, Accounting for current costs, issued in May 1992 by the Office of Water Services.



PricewaterhouseCoopers

Chartered Accountants and Registered Auditors

Reading

7 June 2000