

Thames Water Utilities Limited

Annual Report and Financial Statements
including regulatory information

for the year ended 31 March 2001

Registered no: 2366661



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Thames Water Utilities Limited

Annual report for the year ended 31 March 2001

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Thames Water Utilities Limited

Directors and secretary at 31 March 2001

Directors

W J Alexander (Chairman)
J K Boudier
G A Chant
J Cherrett
D J Glendinning
G J Holland
G W Maxwell (Managing Director)
J R Sexton

Secretary and registered office

K G Johnson
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 key regulatory and customer targets. Customers' bills were reduced by around 10% from April 2000, and we continue to have the lowest average combined water and wastewater charges in England and Wales.

The regulatory price determination in November 1999 proved to be particularly challenging and resulted, as expected, in a reduction in earnings in 2000/01 with lower returns on the substantial capital employed in the business. However, we continued to improve customer service winning *Utility Week's* Customer Service of the Year Award for the third successive year. We intend to improve upon the new regulatory targets as we have done successfully in the past.

On 9 November 2000 the recommended offer made by RWE AG, one of Europe's largest utility companies, to purchase Thames Water Utilities Ltd's parent company, Thames Water Plc, was accepted by shareholders. Subsequently, in consultation with OFWAT our operating licence was modified to further protect the interests of our utility customers. I would like to extend my thanks for the enthusiastic and loyal support of all our employees during this challenging time.

Looking forward the merger with RWE AG will provide many new and exciting opportunities for the group and its employees, whilst at the same time providing the financial resources we need to continue to invest in improving customer service and environmental performance in the future.



Bill Alexander
Chairman

Thames Water Utilities Limited

Managing Director's review

Customer Service

We continued to provide value to our customers through innovative solutions, maintaining the lowest average combined single company water and wastewater bills in England and Wales. Our key operations were successfully delivered through the autumn fuel crisis and the foot and mouth outbreak. We will seek to offset the Regulator's reduction in our earnings and return on capital progressively through continuous productivity improvements. We remain committed to the provision of excellent customer service.

A reliable and high quality water supply is one of the highest priorities for our customers. We are now in our eleventh year without water restrictions, having reduced leakage by over 40% over the last five years. The wettest autumn and winter since records began, together with cold weather, led to an increase in average leakage and posed particular problems for our leakage reduction activities in the uniquely challenging operating environment of London. We believe the increase in average leakage will be temporary. We view leakage control as one key element in managing supply and demand at least cost, and we continue to develop innovative and sustainable ways of maximising the resources we have available. Our water efficiency programme, aquifer recharge schemes 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, 99.89% compliance with all water quality standards.

Our wastewater discharges are required to meet the highest standards in the United Kingdom. Our investment programme and operating practice has ensured that we comply with current standards, and we have achieved 99.89% compliance with the discharge consents at our treatment works, many of which make a significant contribution to river flows and to improving the quality of the environment. The exceptionally wet weather has led to flooding of rivers and of some sewers, affecting customers' premises. In spite of the reductions made by Ofwat in the Periodic Review to our proposed programme to deal with this serious problem we are investing in cost-effective ways of alleviating sewer flooding, and we are discussing with the Regulator ways of ensuring adequate funding in the future.

It is important that we are responsive to service requests, particularly in emergencies. Our Customer Service Centre, and our operational teams in the field have brought in enhancements to our 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 third year running.

Utility Operations and Capital Investment Achievements

As a result of the regulatory price review, operating profit in the Utility reduced by 22.6% to £376.0m (2000: £485.6m) on turnover of £1,029.1m (2000: £1,128.5m). This was reflected in reduced profit margins of 36.5% (2000: 43.0%) but this was mitigated by the benefits of our continued efficiency improvements. Against a background of continuing real growth in activity, operating costs before depreciation at £452.3m (2000: £456.4m), were again reduced in real terms year on year. £313.5m of capital investment was made during the year, and this substantial programme is reflected in the increased depreciation charge of £200.8m (2000: £186.5m).

Thames Water Utilities Limited

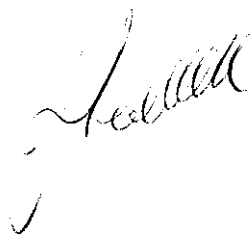
Environment, Conservation and Social Responsibility

The Company takes its environmental responsibilities very seriously. Our continuing investment in wastewater treatment technology has enabled our discharges to contribute to improved river water quality. We have received external recognition for our environmental performance, in the Dow Jones Sustainability Group Index we were nominated as joint Utility leader, for the second year running achieving an above average sustainability performance. Also both Farnoor Water Treatment Work and Deephams Sewage Treatment Works gained accreditation to the internationally recognised ISO 14001 environmental management system. We work with and support a wide range of voluntary bodies in the environmental and conservation fields, and ensure that as far as possible our operational land and water assets are made available for public access and recreation. This was recognised by the River Thames Society awarding us with their Annual Trophy for the creation of the Pinkhill and Shrike Meadow nature reserves over the last two years.

Looking to the future

Following the merger with RWE AG, Thames Water Utilities Ltd is proud to be part of a major international multi-utility business. We are the largest water and sewerage company in the United Kingdom, currently serving London and the South East, and welcome the opportunities of increasing competition throughout the country.

Our employees have continued to play a key role in the success of the Company this year, demonstrating a flexible approach and a willingness to embrace change. Many of them show commitment above and beyond their contract of employment, in maintaining and improving service to customers. I would like to extend my personal thanks to all our employees for their hard work and commitment, and to welcome new colleagues who have joined us through the year.



Gordon Maxwell
Managing Director

Thames Water Utilities Limited

Directors' report for the year ended 31 March 2001

The Directors present their report and the audited financial statements for the year ended 31 March 2001.

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 5.3 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 £122.5m (2000: £117.2m).

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 2001.

The Directors have prepared a certificate under Condition F6A of the Licence stating that the Company will have available to it sufficient financial and management resources and facilities to enable it to carry out, for at least twelve months, its regulated activities. Modifications to Condition F were agreed with the Director General, Office of Water Services in November 2000, which came into effect on 2 May 2001. In line with these, the certificate also confirms that all contracts entered into with any Associated Company included all necessary provisions and requirements concerning the standard of service to be supplied to the Company to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

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 (to 1 January 2001)
J K Boudier
G A Chant
J Cherrett (from 11 July 2000)
D J Glendinning
N Hester (to 28 February 2001)
G J Holland
D J Luffrum (to 30 April 2000)
J V May (to 7 July 2000)
J R Sexton

Directors' Interests

Note 5 to the financial statements details the interests of the Directors in the shares of Thames Water Plc during the year covered by this report. 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 RWE AG, 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 that are established in advance of purchases. During the year the average amount due to trade creditors represented 53 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 skills training programmes to suit all needs. We operate a successful graduate recruitment programme, attracting and developing specialists and the leaders of the future. We are supporting a number of people in continuing professional development, including MBAs and MAs in business-related disciplines. For Directors and Managers, we continue to offer development through Templeton College, Oxford and through our links with UK and international business schools.

Thames Water Utilities Limited

Employee involvement takes many forms in the Company, ranging from team briefings to formal consultation. A new "Partnership" agreement with recognised trade unions and employees balances the need for further changes to working practices and terms and conditions, with a commitment from the Company to address topical issues such as work life balance, training and development in key skills, and employability.

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 magazines "Thames Water News" and "FACT," together with the holding of team building conferences and events.

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

Thames Water Utilities Limited has a dynamic, mature safety culture for which it is recognised as a key player and innovator in the Utilities sector. The Company has in place a safety policy statement that is supplemented at business unit and local plant level with detailed organisation and arrangements for achieving proactive health and safety management. During the year the effectiveness of safety policy implementation has been audited both by the internal Health and Safety Group and through a corporate review initiated by the Chief Executive.

No health and safety prosecutions or enforcement notices were served on the Company during the year and there have been no reportable fatalities. No occupational diseases were reported during the year. Over the past 11 years our annualised accident incidence rate has progressively reduced from 2,690 to 1,377 injuries per 100,000 employees.

The Company's Joint Health and Safety Forum has met regularly during the year, as have other safety committees at business unit level. Arrangements for employee safety representatives are well established. Key performance targets have been agreed and an annual health and safety report produced.

Research and Development

Among the projects linked to key operational and customer service requirements has been the successful operation of advanced water recycling and membrane desalination technology at the Millennium Dome, potentially reducing fresh water use for large buildings by 50%.

More efficient solutions to reduce phosphate and ammonia levels in wastewater effluent have been developed to further improve the quality of rivers in our region.

Fundamental research with four Universities has enhanced our understanding of the impact climate and ground conditions have on the condition and performance of our vast buried pipe network under London. The results are being used in our leakage reduction programme and to improve planning of future investments.

Corporate Governance

On 9 November 2000 the offer by RWE AG to acquire the Company's parent Thames Water Plc became unconditional. Modifications to the Company's Instrument of Appointment were agreed with Ofwat, under which the Company will conduct its appointed business as if the Company were a

Thames Water Utilities Limited

separate Plc. A process has commenced to recruit three independent non-executive Directors, and in the conduct of its appointed business the Company will have particular regard to the Principles of Good Governance and Code of Best Practice as approved for the purposes of the Listings Rules of the Financial Services Authority.

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, for safeguarding the assets of the Company and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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



K G Johnson
Company Secretary

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 34.

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 2001 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

11 June 2001

Thames Water Utilities Limited

Profit and loss account for the year ended 31 March 2001

	Note	2001 £m	2000 £m
Turnover	2	1,029.1	1,128.5
Operating costs	2&3	<u>(653.1)</u>	<u>(642.9)</u>
Operating profit		376.0	485.6
Profit on sale of fixed assets	4	22.9	2.3
Net interest	6	<u>(139.9)</u>	<u>(123.3)</u>
Profit on ordinary activities before taxation	2	259.0	364.6
Taxation on profit on ordinary activities	7	<u>(156.7)</u>	<u>(47.4)</u>
Profit for the year		102.3	317.2
Dividends	8	<u>(122.5)</u>	<u>(117.2)</u>
(Deficit)/retained profit for the year	19	<u>(20.2)</u>	<u>200.0</u>

All amounts above relate to continuing operations.

The Company has no recognised gains and losses other than the deficit or profit 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.

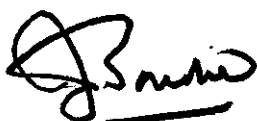
Thames Water Utilities Limited

Balance sheet at 31 March 2001

	Note	2001 £m	2000 £m
Fixed assets			
Tangible assets	9	4,325.9	4,207.5
Investments	10	0.1	0.1
		<u>4,326.0</u>	<u>4,207.6</u>
Current assets			
Stocks and work in progress	11	10.2	10.8
Debtors	12	325.0	340.4
Cash at bank and in hand		7.1	14.8
		<u>342.3</u>	<u>366.0</u>
Creditors: amounts falling due within one year	13	<u>(1,093.6)</u>	<u>(1,023.7)</u>
Net current liabilities		<u>(751.3)</u>	<u>(657.7)</u>
Total assets less current liabilities		3,574.7	3,549.9
Creditors: amounts falling due after more than one year	14	<u>(1,558.4)</u>	<u>(1,513.4)</u>
Net assets		<u>2,016.3</u>	<u>2,036.5</u>
Capital and reserves			
Called up share capital	17	1,029.0	1,029.0
Share premium	18	100.0	100.0
Profit and loss account	19	887.3	907.5
Equity shareholders' funds		<u>2,016.3</u>	<u>2,036.5</u>

The notes on pages 13 to 34 form part of these financial statements.

The financial statements were approved by the Board of Directors on 11 June 2001 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 2001

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 considered the requirements of the new Financial Reporting Standards, FRS 17, 18 and 19, issued by the Accounting Standards Board during the year ended 31 March 2001. There are no requirements within these standards which are mandatory for the year ended 31 March 2001. Accordingly, the new FRS's have not been applied and these Financial Statements have been prepared on a basis consistent with the prior year.

(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, which is a wholly owned subsidiary of RWE AG.

(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 2001	Total 2000
	£m	£m	£m	£m	£m
Turnover					
Measured charges	165.5	168.7	-	334.2	357.2
Unmeasured charges	260.2	375.4	-	635.6	707.0
Trade effluent charges	-	13.1	-	13.1	21.5
Developer services	2.7	3.7	1.2	7.6	7.2
Other income	4.0	8.9	25.7	38.6	35.6
Total Turnover 2001	432.4	569.8	26.9	1,029.1	
Total Turnover 2000	451.5	651.2	25.8		1,128.5
Operating Costs					
Operating costs before depreciation	(228.6)	(201.7)	(22.0)	(452.3)	(456.4)
Depreciation – Other	(73.2)	(87.1)	(0.7)	(161.0)	(143.5)
Depreciation - Infrastructure	(29.8)	(10.0)	-	(39.8)	(43.0)
Total Operating costs 2001	(331.6)	(298.8)	(22.7)	(653.1)	
Total Operating costs 2000	(313.3)	(310.9)	(18.7)		(642.9)
Operating profit	100.8	271.0	4.2	376.0	485.6
Profit on sale of fixed assets	3.8	19.1	-	22.9	2.3
Net interest	(67.7)	(72.7)	0.5	(139.9)	(123.3)
Profit on ordinary activities before taxation 2001	36.9	217.4	4.7	259.0	
Profit on ordinary activities before taxation 2000	85.8	271.7	7.1		364.6

Turnover derives wholly from within the United Kingdom.

	2001 £m	2000 £m
Net assets		
Water supply	2,018.6	1,833.1
Sewerage services	2,166.8	2,151.9
Net operating assets	4,185.4	3,985.0
Net interest bearing liabilities	(2,169.1)	(1,948.5)
	2,016.3	2,036.5

Thames Water Utilities Limited

Notes to the financial statements

3 Operating costs

Analysis of operating costs by type of expense:

	2001 £m	2000 £m
Manpower costs	134.7	136.9
Other external charges	294.1	294.0
Materials and consumables	20.8	24.7
Other operating charges	22.5	24.6
Depreciation:		
- owned assets (non-infrastructure)	149.9	131.3
- infrastructure assets	39.8	43.0
- assets held under finance leases	11.1	12.2
Rentals under operating leases:		
- hire of plant and machinery	3.3	3.1
- other	4.4	3.7
Auditors' remuneration:		
- for audit work	0.2	0.2
- for non audit work (a)	0.1	0.5
Research and development	8.0	8.1
	<u>688.9</u>	<u>682.3</u>
Own work capitalised	<u>(35.8)</u>	<u>(39.4)</u>
	<u>653.1</u>	<u>642.9</u>

(a) In addition to these costs, the auditors received remuneration of £nil (2000: £0.8m) for non-audit work which is included in the cost of capital projects.

4 Profit on sale of fixed assets

	2001 £m	2000 £m
Profit on disposal of fixed assets	<u>22.9</u>	<u>2.3</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

	2001 £'000	2000 £'000
Salary	717	554
Bonus	193	127
Other benefits	106	68
Compensation for loss of office	117	-
Aggregate emoluments	<u>1,133</u>	<u>749</u>

Retirement benefits are accruing to 7 (2000: 8) Directors under a defined benefit scheme.

Highest paid Director	2001 £'000	2000 £'000
G W Maxwell (2000: G W Maxwell)		
Aggregate emoluments and benefits	<u>211</u>	<u>162</u>
Accrued pension at end of year	<u>35</u>	<u>32</u>

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

Directors' interests

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

Director	At 31.03.00	Number of options exercised during the year	At 31.03.01	Exercise price
G A Chant	4,550	4,550	-	560p
J R Sexton	6,000	6,000	-	453p

No options were granted or lapsed during the year. Consideration for each share option that was exercised in the year was 1,215p upon acceptance of the RWE AG offer on 9 November 2001.

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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	Number of shares vested in year	Balance at 31.3.01
J K Boudier	09.07.97	1,647	1,647	-
	11.08.98	1,520	1,520	-
	04.08.99	1,934	1,934	-
	20.06.00	2,175	2,175	-
G A Chant	04.08.99	1,102	1,102	-
	20.06.00	1,475	1,475	-
J Cherrett	11.07.00	1,128	1,128	-
D J Glendinning	20.06.00	1,388	1,388	-
N Hester	04.08.99	1,035	1,035	-
	20.06.00	1,388	1,388	-
G J Holland	04.08.99	1,027	1,027	-
	20.06.00	1,388	1,388	-
G W Maxwell	09.07.97	1,830	1,830	-
	11.08.98	1,788	1,788	-
	04.08.99	2,391	2,391	-
	20.06.00	3,425	3,425	-
J V May	09.07.97	1,627	1,627	-
	11.08.98	1,502	1,502	-
	04.08.99	1,902	1,902	-
J R Sexton	09.07.97	1,627	1,627	-
	11.08.98	1,538	1,538	-
	04.08.99	1,956	1,956	-
	20.06.00	2,430	2,430	-

Notes

Following the acquisition of the Company by RWE AG, under the terms of the long term plan the share bonuses were deemed to have vested at 9 November 2000. The cash consideration received was 1,215p per share.

Thames Water Utilities Limited

Notes to the financial statements

c) Thames Water Sharesave Scheme

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

Director	At 1.4.00 or date of appointment	Options granted	Options exercised	Options lapsed/cancelled	At 31.3.01	Exercise Price
J K Boudier	-	-	-	-	-	-
G A Chant	2,750	1,423	1,111	3,062	-	420p-734p
J Cherrett	2,062	508	850	1,720	-	442p-887p
D J Glendinning	1,917	583	1,390	1,110	-	420p-734p
N Hester	376	291	113	554	-	685p-734p
G J Holland	1,798	875	549	2,124	-	421p-734p
G W Maxwell	2,433	875	1,642	1,666	-	420p-734p
J R Sexton	-	1,458	-	1,458	-	664p

Consideration for each share option that was exercised in the year was 1,215p upon acceptance of the RWE AG offer on 9 November 2000.

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

Director	Date of award	Number of shares – maximum	Number of shares vested in year	Balance at 31.3.01
J K Boudier	11.08.1998	363	363	-
	04.08.1999	314	314	-
	20.06.2000	690	690	-
G A Chant	20.06.2000	155	155	-
	20.06.2000	66	66	-
D J Glendinning	11.08.1998	135	135	-
	04.08.1999	121	121	-
	20.06.2000	376	376	-
N Hester	11.08.1998	175	175	-
	04.08.1999	148	148	-
	20.06.2000	581	581	-
G J Holland	11.08.1998	143	143	-
	04.08.1999	147	147	-
	20.06.2000	581	581	-
G W Maxwell	11.08.1998	407	407	-
	04.08.1999	347	347	-
	20.06.2000	1,316	1,316	-
J V May	11.08.1998	362	362	-
	04.08.1999	310	310	-
J R Sexton	11.08.1998	362	362	-
	04.08.1999	296	296	-
	20.06.2000	837	837	-

Following the acquisition of the Company by RWE AG, under the terms of the share bonus plan the share bonuses were deemed to have vested at 9 November 2000. The cash consideration received was 1,215p per share.

Thames Water Utilities Limited

Notes to the financial statements

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

Beneficial owner	Shares held as at 31 March 2001	Shares held as at 31 March 2000, or date of appointment
J K Boudier	-	14,201
G A Chant	-	1,591
J Cherrett	-	90
D J Glendinning	-	1,212
N Hester	-	88
G J Holland	-	987
G W Maxwell	-	6,378
J V May	-	36
J R Sexton	-	3,785

On 9 November 2000 the offer from RWE AG to purchase the entire share capital of Thames Water Plc for a consideration of 1,215p per share became unconditional.

W J Alexander was also a Director of Thames Water Plc at 31 March 2001 and his 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:

	2001 Number	2000 Number
Water supply	2,886	2,991
Sewerage services	2,275	2,274
Total	<u>5,161</u>	<u>5,265</u>

Employment costs including Executive Directors' remuneration were:

	2001 £m	2000 £m
Salaries and wages	125.4	127.5
Social security costs	11.7	11.0
Pension contributions (note 23)	-	0.7
Total	<u>137.1</u>	<u>139.2</u>

Total manpower costs, per note 3, exclude £2.4m (2000: £2.3m) which is included in research and development.

6 Interest

	2001 £m	2000 £m
Bank loans, overdrafts and other loans:		
- group loans	(79.4)	(73.1)
- bank loans	(33.9)	(29.2)
- other interest	(24.2)	(12.8)
Finance charges in respect of finance leases	<u>(12.8)</u>	<u>(16.2)</u>
Interest payable and similar charges	(150.3)	(131.3)
Interest receivable	<u>10.4</u>	<u>8.0</u>
Net interest	<u>(139.9)</u>	<u>(123.3)</u>

Other Interest payable includes £10.5m (2000: £nil) in respect of interest on the late payment of Corporation Tax. This arose from a decision to disclaim capital allowances in prior years in order to utilise ACT credits available within the group.

Thames Water Utilities Limited

Notes to the financial statements

7 Taxation

	2001 £m	2000 £m
UK corporation tax at 30% (2000: 30%)	-	70.3
	<u>-</u>	<u>70.3</u>
Prior year items:		
Current tax	83.9	(6.7)
Advance corporation tax	72.8	(16.2)
	<u>156.7</u>	<u>47.4</u>

The prior year items arose because the Company disclaimed capital allowances in respect of prior years; this resulted in additional liabilities for current tax and for advance corporation tax surrendered by group companies.

The corporation tax payable for the year is £nil as a result of increased capital allowances being available after disclaiming prior year capital allowances.

8 Dividends

	2001 £m	2000 £m
Dividends paid	<u>122.5</u>	<u>117.2</u>

Thames Water Utilities Limited

Notes to the financial statements

9 Tangible fixed assets

	Land and buildings £m	Plant and equipment £m	Infrastructure assets £m	Total £m
Cost				
At 1 April 2000	1,575.3	1,949.0	2,214.5	5,738.8
Additions	55.6	196.3	104.4	356.3
Disposals	(0.6)	(16.1)	(0.1)	(16.8)
At 31 March 2001	1,630.3	2,129.2	2,318.8	6,078.3
Capital contributions (note 1 e)				
At 1 April 2000	-	-	252.0	252.0
Additions	-	-	37.0	37.0
At 31 March 2001	-	-	289.0	289.0
Depreciation				
At 1 April 2000	335.7	588.4	355.2	1,279.3
Provided during the year	31.2	129.8	39.8	200.8
Disposals	(0.6)	(16.0)	(0.1)	(16.7)
At 31 March 2001	366.3	702.2	394.9	1,463.4
Net book value				
At 31 March 2001	1,264.0	1,427.0	1,634.9	4,325.9
At 31 March 2000	1,239.6	1,360.6	1,607.3	4,207.5

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

	2001 £m	2000 £m
Freehold land and buildings	1,239.6	1,213.4
Leasehold over 50 years	18.3	19.7
under 50 years	6.1	6.5
	1,264.0	1,239.6

No depreciation has been charged on freehold land included above at £6.8m (2000: £6.4m).

Tangible fixed assets at 31 March 2001 include £410.1m (2000: £450.8m) of assets in the course of construction.

Thames Water Utilities Limited

Notes to the financial statements

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

	Cost		Net book value	
	2001 £m	2000 £m	2001 £m	2000 £m
Plant and equipment	<u>272.5</u>	<u>272.1</u>	<u>224.6</u>	<u>235.4</u>

10 Fixed asset investments

	2001 £m	2000 £m
Cost of shares in subsidiaries	<u>0.1</u>	<u>0.1</u>

At 31 March 2001 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

All of the above companies were incorporated and are registered in Great Britain.

At 31 March 2001 and 31 March 2000 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 £1,498k at 31 March 2001 (2000: £1,531k).

Gemwel Limited had a deficit on reserves of £278k at 31 March 2001 (2000: £103k).

New Power Company Limited had an unaudited deficit on reserves of £282k at 31 March 2001 (2000: £117k). Subsequent to 31 March 2001, the company has made a petition for the voluntary liquidation of New Power Company Limited. The net liabilities and results of New Power Company Limited are not material to Thames Water Utilities Limited, in either year.

Thames Water Utilities Limited

Notes to the financial statements

11 Stocks and work in progress

	2001 £m	2000 £m
Raw materials and consumables	10.2	10.8
Total	10.2	10.8

12 Debtors

	2001 £m	2000 £m
Due within one year		
Trade debtors	123.3	118.0
Amounts owed by group undertakings	29.7	30.4
Other debtors	14.0	22.6
Insurance claims receivable	41.6	46.7
Prepayments and accrued income	116.4	122.7
Total	325.0	340.4

13 Creditors: amounts falling due within one year

	2001 £m	2000 £m
Bank loans	17.5	16.8
Other loans	0.1	-
Obligations under finance leases	5.5	4.5
Progress claims and advance payments	74.4	75.8
Trade creditors:		
• Operating	47.8	54.2
• Capital	91.2	108.1
Amounts owed to group undertakings	702.2	525.9
Amounts payable in respect of group relief and advance corporation tax	1.4	17.2
Corporation tax	2.4	52.2
Insurance claims payable	41.6	46.7
Other taxation and social security payable	4.4	4.1
Accruals and deferred income	105.1	118.2
Total	1,093.6	1,023.7

Thames Water Utilities Limited

Notes to the financial statements

Amounts owed to group undertakings includes an interest bearing loan of £480.8m (2000: £373.7m) which is repayable on normal commercial terms, and an interest bearing loan of £169.5m (2000: £100.9m) with Thames Water Utilities Finance Plc, described in more detail in note 14. There are no interest free loans.

14 Creditors: amounts falling due after more than one year

	2001 £m	2000 £m
Bank loans	522.6	390.2
Other loans	32.4	32.5
Obligations under finance leases	254.8	257.2
Amounts owed to group undertakings (see below)	693.0	787.5
Other creditors	5.1	2.1
Deferred income	50.5	43.9
Total	<u>1,558.4</u>	<u>1,513.4</u>

A subsidiary undertaking, Thames Water Utilities Finance Plc, has in issue £862.5m (2000: £888.4m) Guaranteed Bonds. The net proceeds were loaned to the Company under the same terms and £862.5m (2000: £888.4m) is included in amounts owed to group undertakings, split between creditors due within one year of £169.5m (2000: £100.9m) and creditors due after more than one year of £693.0m (2000: £787.5m), in respect of this loan. The Company has guaranteed the principal and interest payments of the subsidiary undertaking due under the terms of the bonds.

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

Thames Water Plc'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.

Thames Water Plc's Treasury operations are managed centrally by a small specialist team and are managed as a cost, not a profit centre; no material open or speculative positions are taken.

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 £5.1m (2000: £2.1m).

Financial assets

Interest rate risk profile	Total at floating rates		Total at fixed rates		Total at book value	
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m
Cash at bank/hand						
- £ Sterling	7.1	13.5	-	-	7.1	13.5
- Others	-	1.3	-	-	-	1.3
Total	<u>7.1</u>	<u>14.8</u>	<u>-</u>	<u>-</u>	<u>7.1</u>	<u>14.8</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			
	2001 £m	2000 £m	2001 £m	2000 £m	2001 £m	2000 £m	Weighted average interest rate		Weighted average period until maturity for which rate is fixed	
							2001 %	2000 %	2001 Years	2000 Years
Bank loans & overdraft - £ Sterling	130.0	30.0	410.2	377.0	540.2	407.0	7.3	7.6	7.2	7.7
Other loans & finance leases - £ Sterling	872.4	749.0	763.7	807.3	1,636.1	1,556.3	6.8	7.1	20.5	21.4
Total	1,002.4	779.0	1,173.9	1,184.3	2,176.3	1,963.3	7.0	7.3	15.9	17.1

The Company's interest rate and cross currency swaps convert £61.2m (2000: £62.4m) of floating rate borrowing to fixed rate and £45.1m (2000: £45.1m) of fixed rate borrowing to floating rate. Cross currency swaps hedge currency risk on £82.5m (2000: £183.4m) 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 2001 £m	Book value 2000 £m	Fair value 2001 £m	Fair value 2000 £m
Primary financial instruments				
Financial assets				
- Cash at bank/hand	7.1	14.8	7.1	14.8
Financial liabilities				
- Bank loans & overdrafts	(540.2)	(407.0)	(577.4)	(425.7)
- Other loans & finance leases	(1,636.1)	(1,556.3)	(1,696.0)	(1,545.0)
Derivative financial instruments				
- Interest rate swaps	-	-	(7.6)	(3.6)
- Cross currency swaps	-	-	(4.2)	2.0
Total	(2,169.2)	(1,948.5)	(2,278.1)	(1,957.5)

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 2001 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	2001 £m	2000 £m
Bank loans and overdrafts		
- Within one year	17.5	16.8
- Between one and two years	17.6	17.5
- Between two and five years	105.3	108.1
- After more than five years	399.8	264.6
	<u>540.2</u>	<u>407.0</u>
Other loans and finance leases		
- Within one year	655.9	479.1
- Between one and two years	50.3	175.2
- Between two and five years	115.6	87.1
- After more than five years	814.3	814.9
	<u>1,636.1</u>	<u>1,556.3</u>
Total borrowing	<u>2,176.3</u>	<u>1,963.3</u>

- Loans are repayable between 2001 and 2032.

- Loans wholly repayable after more than five years hence are:

	2001 £m	2000 £m
- Bank loans	375.0	225.0
- Other loans	583.2	583.2
	<u>958.2</u>	<u>808.2</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 (2000: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.

- Loans repayable by instalments after more than five years hence are :

	2001 £m	2000 £m
- Bank loans	24.8	39.6
- Finance leases	231.1	231.7
	<u>255.9</u>	<u>271.3</u>

- The ranges of interest rates on outstanding bank loans are 5.58% to 11.5% (2000: 5.92% to 11.5%) and other loans are 3% to 9% (2000: 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 £370m (2000: £420m), expiring as below. At 31 March 2001 and 31 March 2000, no funds have been borrowed.

	2001 £m	2000 £m
Within one year	270.0	320.0
Between one and two years	100.0	100.0
	<u>370.0</u>	<u>420.0</u>

Thames Water Plc 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 2001, £712.5m (2000: £738.4m) had been borrowed in total by the Company, with a weighted average term of 22.5 years (2000: 22.4 years) at a weighted averaged rate of 5.9% (2000: 6.5%).

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:

	2001 £m	2000 £m
Accelerated capital allowances:		
- Infrastructure assets	332.7	344.5
- Other assets	310.6	424.8
Tax losses carried forward	(18.9)	-
Other timing differences	(3.9)	(3.2)
	<u>620.5</u>	<u>766.1</u>

17 Share capital

	2001 £m	2000 £m
Authorised		
1,029,050,000 (2000: 1,029,050,000) ordinary shares of £1 each	<u>1,029.0</u>	<u>1,029.0</u>
Allotted, called up and fully paid		
1,029,050,000 (2000: 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

	2001 £m	2000 £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 2000	907.5
Deficit for the year	<u>(20.2)</u>
At 31 March 2001	<u>887.3</u>

20 Reconciliation of movements in shareholders' funds

	2001 £m	2000 £m
Profit for the financial year	102.3	317.2
Dividends	<u>(122.5)</u>	<u>(117.2)</u>
	(20.2)	200.0
Shareholders' funds at the beginning of the year	<u>2,036.5</u>	<u>1,836.5</u>
Shareholders' funds at the end of the year	<u>2,016.3</u>	<u>2,036.5</u>

21 Capital commitments

	2001 £m	2000 £m
Contracted for but not provided	<u>139.6</u>	<u>105.7</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 2001 the Company was committed to making the following payments during the next year in respect of non-cancellable operating leases:

	2001		2000	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Leases which expire:				
Within one year	-	-	0.1	-
Between one and two years	-	0.8	-	0.8
Between two and five years	0.2	1.1	0.2	1.6
After more than five years	3.6	-	3.6	-
	<u>3.8</u>	<u>1.9</u>	<u>3.9</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 2001 was £nil (2000: £0.7m). The pension cost is assessed in accordance with advice received from Bacon and Woodrow, the independent and professionally qualified consulting actuaries to the schemes.

The regular cost of benefits amounted to £18.5m (2000: £18.5m) and the actuarial surplus resulted in a variation amounting to a reduction in the pension cost of £18.5m (2000: £18.5m).

At 31 March 2001 a prepayment in respect of the funded schemes amounting to £2.9m was included in debtors. At 31 March 2000, £1.4m 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 2001 payments amounted to £0.4m (2000: £2.0m).

24 Ultimate parent company and controlling party

The ultimate parent company and controlling party is RWE AG, a company incorporated in Germany. The Company's results are included in the consolidated financial statements of the immediate parent company, Thames Water Plc and the ultimate parent company RWE AG. The Company has taken advantage of the exemption provided by Financial Reporting Standard 8 and has not disclosed details of transactions with other RWE AG Group companies. Copies of Thames Water Plc's consolidated financial statements may be obtained from The Company Secretary, Thames Water Plc, 14 Cavendish Place, London W1M 0NU. Copies of the ultimate parent company's accounts may be obtained from RWE Aktiengesellschaft, Opernplatz 1, D-45128 Essen, Germany.

Thames Water Utilities Limited

Supplementary Regulatory Information - 2000/2001

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Thames Water Utilities Limited

Supplementary Regulatory Information - 2000/2001

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 5.03 (Transfer Pricing in the Water Industry). The presentation of the supplementary regulatory information differs from the financial information presented on pages 11 to 34 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 11 June 2001 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; and
- that in the opinion of the Directors, all contracts entered into with any Associated Company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and sewerage undertaker.

A handwritten signature in black ink, appearing to read 'K G Johnson', with a stylized flourish at the end.

K G Johnson
Company Secretary

Thames Water Utilities Limited

Supplementary regulatory historical cost statements

Profit and loss account for the year ended 31 March 2001

	2001			2000		
	Appointed business £m	Non- appointed business £m	Total £m	Appointed business £m	Non- appointed business £m	Total £m
Turnover	1,002.2	26.9	1,029.1	1,102.7	25.8	1,128.5
Operating costs	<u>(630.4)</u>	<u>(22.7)</u>	<u>(653.1)</u>	<u>(624.2)</u>	<u>(18.7)</u>	<u>(642.9)</u>
Operating income	371.8	4.2	376.0	478.5	7.1	485.6
	<u>22.9</u>	<u>-</u>	<u>22.9</u>	<u>2.3</u>	<u>-</u>	<u>2.3</u>
Operating profit	394.7	4.2	398.9	480.8	7.1	487.9
Interest	<u>(140.4)</u>	<u>0.5</u>	<u>(139.9)</u>	<u>(123.3)</u>	<u>-</u>	<u>(123.3)</u>
Profit on ordinary activities before taxation	254.3	4.7	259.0	357.5	7.1	364.6
Taxation on profit on ordinary activities	<u>(155.3)</u>	<u>(1.4)</u>	<u>(156.7)</u>	<u>(45.3)</u>	<u>(2.1)</u>	<u>(47.4)</u>
Profit for the financial year	99.0	3.3	102.3	312.2	5.0	317.2
Dividends	<u>(118.6)</u>	<u>(3.9)</u>	<u>(122.5)</u>	<u>(115.3)</u>	<u>(1.9)</u>	<u>(117.2)</u>
(Deficit)/retained profit	<u>(19.6)</u>	<u>(0.6)</u>	<u>(20.2)</u>	<u>196.9</u>	<u>3.1</u>	<u>200.0</u>

Thames Water Utilities Limited

Supplementary regulatory historical cost statements

Balance sheet at 31 March 2001

	2001 £m	2000 £m
Fixed assets		
Tangible assets	4,313.3	4,197.9
Investments	0.1	0.1
	<u>4,313.4</u>	<u>4,198.0</u>
Current assets		
Stocks and work in progress	10.2	10.8
Debtors	337.6	350.0
Cash at bank and in hand	7.1	14.8
	<u>354.9</u>	<u>375.6</u>
Creditors: amounts falling due within one year	(1,093.6)	(1,023.7)
	<u>(738.7)</u>	<u>(648.1)</u>
Net current liabilities		
	<u>(738.7)</u>	<u>(648.1)</u>
Total assets less current liabilities	3,574.7	3,549.9
Creditors: amounts falling due after more than one year	(1,558.4)	(1,513.4)
	<u>(1,558.4)</u>	<u>(1,513.4)</u>
Net assets	<u>2,016.3</u>	<u>2,036.5</u>
Capital and reserves		
Called up share capital	1,029.0	1,029.0
Share premium	100.0	100.0
Profit and loss account	887.3	907.5
	<u>2,016.3</u>	<u>2,036.5</u>
Equity shareholders' funds	<u>2,016.3</u>	<u>2,036.5</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
Cost			
Cost at 31 March 2001 per Regulatory Accounts	1,911.3	3,759.5	5,670.8
Infrastructure renewals expenditure capitalised in prior years	364.8	-	364.8
Infrastructure renewals expenditure capitalised in the year	42.8	-	42.8
Disposal	(0.1)	-	(0.1)
Cost at 31 March 2001 per Statutory Accounts	<u>2,318.8</u>	<u>3,759.5</u>	<u>6,078.3</u>
Capital Contribution			
Contributions at 31 March 2001 per Regulatory Accounts	289.0	-	289.0
Contributions at 31 March 2001 per Statutory Accounts	<u>289.0</u>	<u>-</u>	<u>289.0</u>
Depreciation			
At 31 March 2001 per Regulatory Accounts	-	1,068.5	1,068.5
Depreciation charge for infrastructure renewals expenditure in prior years	355.2	-	355.2
Depreciation charge for infrastructure renewals expenditure	39.8	-	39.8
Disposal	(0.1)	-	(0.1)
At 31 March 2001 per Statutory Accounts	<u>394.9</u>	<u>1,068.5</u>	<u>1,463.4</u>
Net Book Value			
At 31 March 2001 per Regulatory Accounts	1,622.3	2,691.0	4,313.3
Adjustment for infrastructure renewals accounting	12.6	-	12.6
At 31 March 2001 per Statutory Accounts	<u>1,634.9</u>	<u>2,691.0</u>	<u>4,325.9</u>
Debtors			
At 31 March 2001 per Regulatory Accounts			337.6
Less infrastructure renewals prepayment			(12.6)
At 31 March 2001 per Statutory Accounts			<u>325.0</u>

Thames Water Utilities Limited

Current cost accounting statements

Profit and loss account for the year ended 31 March 2001

	Note	Appointed business £m	2001 Non- appointed business £m	Total £m	Appointed business £m	2000 Non- appointed business £m	Total £m
Turnover	2	1,002.2	26.9	1,029.1	1,102.7	25.8	1,128.5
Current cost operating costs	3	(723.8)	(22.7)	(746.5)	(720.6)	(18.7)	(739.3)
Operating income	2	23.0	-	23.0	6.2	-	6.2
		<u>301.4</u>	<u>4.2</u>	<u>305.6</u>	<u>388.3</u>	<u>7.1</u>	<u>395.4</u>
Working capital adjustment	2	4.0	-	4.0	3.6	-	3.6
Current cost operating profit		305.4	4.2	309.6	391.9	7.1	399.0
Interest		(140.4)	0.5	(139.9)	(123.3)	-	(123.3)
Financing adjustment		45.7	-	45.7	51.3	-	51.3
Current cost profit on ordinary activities before taxation		210.7	4.7	215.4	319.9	7.1	327.0
Taxation		(155.3)	(1.4)	(156.7)	(45.3)	(2.1)	(47.4)
Current cost profit attributable to shareholders		55.4	3.3	58.7	274.6	5.0	279.6
Dividends		(118.6)	(3.9)	(122.5)	(115.3)	(1.9)	(117.2)
Current cost (deficit)/ retained profit	6	(63.2)	(0.6)	(63.8)	159.3	3.1	162.4

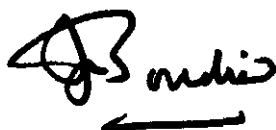
Thames Water Utilities Limited

Current cost accounting statements

Balance sheet at 31 March 2001

	Note	2001 £m	2000 £m
Fixed assets			
Tangible assets	4	38,152.5	37,237.0
Third party contributions since 1989/90		<u>(323.4)</u>	<u>(280.1)</u>
		37,829.1	36,956.9
Working capital	5	<u>(84.9)</u>	<u>(172.4)</u>
Net operating assets		37,744.2	36,784.5
Cash and investments		7.2	14.9
Non-trade debtors due within one year		55.6	69.3
Non-trade creditors due within one year		(716.5)	(559.8)
Creditors due after more than one year		<u>(1,558.4)</u>	<u>(1,513.4)</u>
Net assets employed		<u>35,532.1</u>	<u>34,795.5</u>
Financed by Capital and reserves			
Called up share capital		1,029.0	1,029.0
Share premium		100.0	100.0
Profit and loss account	6	(139.7)	(75.9)
Current cost reserve	7	<u>34,542.8</u>	<u>33,742.4</u>
		<u>35,532.1</u>	<u>34,795.5</u>

The regulatory financial statements on pages 38 to 57 were approved by the Board of Directors on 11 June 2001 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 2001

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.

(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 remaining economic 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 the replacement assets.

The Asset Management Plan (AMP) adjustment (note 7) represents the movement in net MEA book value following the incorporation of AMP 3 data, in the year to 31 March 2000

• 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 estimated the length of these pipes in order to include their asset values in these accounts. The value is £4,598m (2000: £4,495m) based upon a pipe length of 18,000km (2000: 18,000km). 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

	2001			2000		
	Water supply £m	Sewerage services £m	Appointed business £m	Water supply £m	Sewerage services £m	Appointed business £m
Turnover						
Measured	165.5	168.7	334.2	171.2	186.0	357.2
Unmeasured	260.2	375.4	635.6	275.0	432.0	707.0
Trade effluent	-	13.1	13.1	-	21.5	21.5
Other sources (excluding third parties)	1.3	9.6	10.9	0.9	8.2	9.1
Third party services	5.4	3.0	8.4	4.4	3.5	7.9
Total turnover	432.4	569.8	1,002.2	451.5	651.2	1,102.7
Operating income						
Current cost profit on disposal of fixed assets	3.8	19.2	23.0	4.7	1.5	6.2
Total operating income	3.8	19.2	23.0	4.7	1.5	6.2
Working capital adjustment	1.6	2.4	4.0	1.5	2.1	3.6

Notes to the supplementary regulatory financial statements

3(a) Operating costs and associated fixed asset book values (year ended 31 March 2001)

Operating costs for the year ended 31 March 2001	Service analysis										Business analysis			
	Water supply			Sewerage services			Sewerage services			Business analysis				
	Resources and treatment	Distribution	Water supply subtotal	Sewerage	Sewerage treatment	Sludge treatment and disposal	Sewerage T & D subtotal	Sewerage services subtotal	Customer services	Scientific services	Cost of regulation	£m	£m	£m
Direct costs														
Employment costs	12.6	17.2	29.8	5.1	8.5	4.2	12.7	17.8						
Power	6.3	14.3	20.6	4.1	10.5	4.0	14.5	18.6						
Hired and contracted services	4.4	29.4	33.8	20.6	12.8	15.2	28.0	48.6						
Associated companies	-	-	-	-	-	-	-	-						
Materials and consumables	3.3	1.0	4.3	0.6	2.7	3.9	6.6	7.2						
Service charges	8.7	-	8.7	0.9	1.9	-	1.9	2.8						
Other direct costs	1.2	3.6	4.8	0.9	0.8	0.4	1.2	2.1						
Total direct costs	36.5	65.5	102.0	32.2	37.2	27.7	64.9	97.1						
General and support expenditure	16.6	31.7	48.3	11.4	18.6	11.9	30.5	41.9						
Functional expenditure	53.1	97.2	150.3	43.6	55.8	39.6	95.4	139.0						
Capital costs														
CC depreciation	56.3	30.2	86.5	19.6	96.7	30.3	127.0	146.6						
Infrastructure renewals expenditure	1.4	30.6	32.0	10.8	-	-	-	10.8						
Infrastructure renewals accrual / prepayment	0.6	(2.8)	(2.2)	(0.8)	-	-	-	(0.8)						
Functional cost	111.4	155.2	266.6	73.2	152.5	69.9	222.4	295.6						
Total including business analysis			305.6					328.1						
Rates			26.9					18.8						
Doubtful debts			7.5					10.9						
Business activities capital costs			7.7					10.1						
Service costs			347.7					367.9						
Services for third parties			5.2					3.0						
Total cost			352.9					370.9						
Fixed asset book values at 31 March 2001														
Service activities	1,797.7	6,448.3	8,246.0	27,303.6	2,025.7	499.7	2,525.4	29,829.0						
Business activities			39.8	8.5			29.2	37.7						
Service totals			8,285.8	27,312.1			2,554.6	29,866.7						
Total CCA values			8,285.8					29,866.7						

Notes to the supplementary regulatory financial statements

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

	Service analysis										Business analysis		
	Water supply			Sewerage services				Customer services			Scientific services		Cost of regulation
	Resources and treatment	Distribution	Water supply subtotal	Sewerage treatment	Sludge treatment and disposal	T & D subtotal	Sewerage services subtotal	Customer services	Scientific services	£m	£m		
Operating costs for the year ended 31 March 2000	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Direct costs													
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					
General and support expenditure	19.6	23.7	43.3	10.0	21.3	11.7	33.0	43.0			37.2	3.5	2.5
											17.5	2.6	1.2
Functional expenditure	57.3	95.6	152.9	36.2	63.2	41.3	104.5	140.7			54.7	6.1	3.7
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		29.4	37.9					
Service totals			8,021.1	26,617.1	2,598.8		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

4 (a) Tangible fixed assets by asset type at 31 March 2001

Water supply

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 1 April 2000	2,354.0	35.6	6,667.3	155.9	9,212.8
RPI adjustment	54.2	0.8	153.3	3.6	211.9
Disposals	(57.6)	(0.9)	-	(19.1)	(77.6)
Additions	78.1	1.2	76.7	19.1	175.1
At 31 March 2001	2,428.7	36.7	6,897.3	159.5	9,522.2
Depreciation					
At 1 April 2000	1,092.3	17.0	-	82.4	1,191.7
RPI adjustment	25.1	0.4	-	1.9	27.4
Disposals	(57.6)	(0.9)	-	(19.1)	(77.6)
Charge for year	72.5	0.8	-	21.6	94.9
At 31 March 2001	1,132.3	17.3	-	86.8	1,236.4
Net book amount at 31 March 2001	1,296.4	19.4	6,897.3	72.7	8,285.8
Net book amount at 31 March 2000	1,261.7	18.6	6,667.3	73.5	8,021.1

Thames Water Utilities Limited

Notes to the supplementary regulatory financial statements

4 (b) Tangible fixed assets by asset type at 31 March 2001

Sewerage services

	Specialised operational assets £m	Non- specialised operational properties £m	Infra- structure assets £m	Other tangible assets £m	Total £m
Gross replacement cost					
At 1 April 2000	4,985.3	35.9	26,155.6	229.0	31,405.8
RPI adjustment	114.6	0.8	601.6	5.3	722.3
Disposals	(61.5)	(0.4)	-	(20.6)	(82.5)
Additions	99.4	0.7	17.7	20.6	138.4
At 31 March 2001	5,137.8	37.0	26,774.9	234.3	32,184.0
Depreciation					
At 1 April 2000	2,036.1	19.8	-	134.0	2,189.9
RPI adjustment	46.8	0.5	-	3.1	50.4
Disposals	(61.5)	(0.4)	-	(20.6)	(82.5)
Charge for year	129.4	1.0	-	29.1	159.5
At 31 March 2001	2,150.8	20.9	-	145.6	2,317.3
Net book amount at 31 March 2001	2,987.0	16.1	26,774.9	88.7	29,866.7
Net book amount at 31 March 2000	2,949.2	16.1	26,155.6	95.0	29,215.9

Thames Water Utilities Limited

Notes to the supplementary regulatory financial statements

4 (c) Tangible fixed assets by asset type at 31 March 2001

Total	Specialised	Non-	Infra-	Other	Total
	operational	specialised	structure	tangible	
	assets	operational	assets	assets	
	£m	properties	£m	£m	£m
		£m			
Gross replacement cost					
At 1 April 2000	7,339.3	71.5	32,822.9	384.9	40,618.6
RPI adjustment	168.8	1.6	754.9	8.9	934.2
Disposals	(119.1)	(1.3)	-	(39.7)	(160.1)
Additions	177.5	1.9	94.4	39.7	313.5
At 31 March 2001	7,566.5	73.7	33,672.2	393.8	41,706.2
Depreciation					
At 1 April 2000	3,128.4	36.8	-	216.4	3,381.6
RPI adjustment	71.9	0.9	-	5.0	77.8
Disposals	(119.1)	(1.3)	-	(39.7)	(160.1)
Charge for year	201.9	1.8	-	50.7	254.4
At 31 March 2001	3,283.1	38.2	-	232.4	3,553.7
Net book amount at 31 March 2001	4,283.4	35.5	33,672.2	161.4	38,152.5
Net book amount at 31 March 2000	4,210.9	34.7	32,822.9	168.5	37,237.0

5 Working capital

	2001	2000
	£m	£m
Stocks	10.2	10.8
Trade debtors	123.3	118.0
Trade creditors	(47.8)	(54.2)
Short term capital creditors	(91.2)	(108.1)
Infrastructure renewals prepayment	12.6	9.6
Accruals	(107.5)	(170.4)
Trade payments in advance	(74.4)	(75.8)
Payroll related taxes and social security contributions	(4.4)	(4.1)
Group trade creditors	(22.1)	(20.9)
Prepayments	116.4	122.7
Total working capital	(84.9)	(172.4)

Thames Water Utilities Limited

Notes to the supplementary regulatory financial statements

6 Profit and loss account

	2001 £m	2000 £m
Balance at 1 April 2000	(75.9)	(238.3)
Current cost (loss)/profit	(63.8)	162.4
Balance at 31 March 2001	(139.7)	(75.9)

7 Current cost reserve

	2001 £m	2000 £m
Balance at 1 April 2000	33,742.4	34,996.2
AMP adjustment (note 1a)	-	(2,186.8)
RPI adjustments		
- Fixed assets	856.4	994.1
- Grants and third party contributions	(6.3)	(6.2)
- Working capital	(4.0)	(3.6)
- Financing	(45.7)	(51.3)
Balance at 31 March 2001	34,542.8	33,742.4

Thames Water Utilities Limited

Rolling five-year summary

Current cost profit and loss account for the year ended 31 March 2001 with corresponding amounts at 2001 prices

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Turnover	1,029.1	1,161.7	1,144.6	1,122.1	1,115.4
Current cost operating costs	(746.5)	(761.1)	(742.5)	(745.4)	(731.8)
Operating income	<u>23.0</u>	<u>6.4</u>	<u>12.0</u>	<u>9.8</u>	<u>12.1</u>
Working capital adjustment	<u>4.0</u>	<u>3.7</u>	<u>8.0</u>	<u>4.5</u>	<u>2.6</u>
Current cost operating profit	309.6	410.7	422.1	391.0	398.3
Interest	(139.9)	(126.9)	(81.2)	(54.6)	(49.6)
Financing adjustment	<u>45.7</u>	<u>52.8</u>	<u>19.3</u>	<u>27.9</u>	<u>20.1</u>
Current cost profit on ordinary activities before taxation	215.4	336.6	360.2	364.3	368.8
Taxation	<u>(156.7)</u>	<u>(48.8)</u>	<u>(79.4)</u>	<u>(69.2)</u>	<u>(49.2)</u>
Current cost profit on ordinary activities after taxation	58.7	287.8	280.8	295.1	319.6
Dividends	<u>(122.5)</u>	<u>(120.6)</u>	<u>(931.8)</u>	<u>(694.0)</u>	<u>(152.2)</u>
Current cost retained (loss)/profit	<u>(63.8)</u>	<u>167.2</u>	<u>(651.0)</u>	<u>(398.9)</u>	<u>167.4</u>

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 2001 with corresponding amounts at 2001 prices

	2001 £m	2000 £m	1999 £m	1998 £m	1997 £m
Fixed assets					
Tangible assets	38,152.5	38,077.3	40,121.8	39,835.1	39,487.9
Third party contributions since 1989/90	(323.4)	(286.4)	(250.4)	(214.3)	(179.5)
	37,829.1	37,790.9	39,871.4	39,620.8	39,308.4
Working capital	(84.9)	(176.3)	(144.5)	(386.9)	(132.6)
Net operating assets	37,744.2	37,614.6	39,726.9	39,233.9	39,175.8
Cash and investments	7.2	15.2	(633.5)	14.4	39.2
Non-trade debtors due within one year	55.6	70.9	4.9	14.2	9.9
Non-trade creditors due within one year	(716.5)	(572.4)	(160.2)	(127.0)	(51.6)
Creditors due after more than one year	(1,558.4)	(1,547.6)	(1,279.8)	(841.9)	(818.0)
Net assets employed	35,532.1	35,580.7	37,658.3	38,293.6	38,355.3
Financed by capital and reserves					
Called up share capital	1,029.0	1,052.2	1,079.8	1,102.0	842.2
Share premium	100.0	102.3	104.9	107.1	110.8
Profit and loss account	(139.7)	(77.6)	(250.1)	411.4	835.5
Current cost reserve	34,542.8	34,503.8	36,723.7	36,673.1	36,566.8
	35,532.1	35,580.7	37,658.3	38,293.6	38,355.3

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 2001

	Note	2001 £m	2000 £m
Net cash inflow from operating activities	a	559.3	652.8
Returns on investments and servicing of finance			
Interest received		10.7	6.6
Interest paid		(127.8)	(108.8)
Interest in finance lease rentals		(14.1)	(15.2)
Net cash outflow from returns on investments and servicing of finance		(131.2)	(117.4)
Taxation			
UK corporation tax paid		(222.4)	(68.1)
Capital expenditure and infrastructure renewals			
Gross cost of purchased fixed assets		(330.0)	(428.2)
Receipt of grants and contributions		46.3	37.6
Infrastructure renewals expenditure		(42.8)	(43.1)
Disposal of fixed assets		23.0	6.2
Net cash outflow from investment activities		(303.5)	(427.5)
Equity dividends paid		(122.5)	(117.2)
Net cash outflow before financing		(220.3)	(77.4)
Financing			
Capital element in finance lease rentals		(1.8)	(3.3)
New loans		655.8	422.2
Repayment of loans		(441.4)	(344.2)
Net cash inflow from financing	d, f	212.6	74.7
Decrease in cash	b, c	(7.7)	(2.7)

Thames Water Utilities Limited

Notes to the cash flow statement

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

	2001	2000
	£m	£m
Current cost operating profit	309.6	399.0
Working capital adjustment	(4.0)	(3.6)
Decrease in stocks and work in progress	0.6	1.5
Current cost depreciation	254.4	239.9
Current cost profit on sale of assets	(23.0)	(6.2)
Decrease (Increase) in debtors and prepaid expenses	13.7	(52.7)
(Decrease) Increase in creditors and accrued expenses	(29.0)	34.2
Infrastructure renewals expenditure	39.8	43.0
Effect of other deferrals and accruals on operating activity cash flow	(2.8)	(2.3)
Net cash inflow from operating activities	<u>559.3</u>	<u>652.8</u>

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

	2001	2000
	£m	£m
Balance at 1 April 2000	14.8	17.5
Net cash outflow	(7.7)	(2.7)
Balance at 31 March 2001	<u>7.1</u>	<u>14.8</u>

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

	2001	2000	Change in year
	£m	£m	£m
Cash at bank and in hand	<u>7.1</u>	<u>14.8</u>	<u>(7.7)</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 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)
Balance at 31 March 2000	373.7	888.4	701.2	1,963.3
Net cash inflow/(outflow) from financing	107.1	(25.9)	131.4	212.6
Finance leases raised during the year	-	-	0.4	0.4
Balance as at 31 March 2001	480.8	862.5	833.0	2,176.3

(e) Analysis of net debt

	2000 £m	Cashflow £m	Non-cash changes £m	2001 £m
Cash at bank and in hand	14.8	(7.7)	-	7.1
Debt due within 1 year	(474.6)	(199.3)	-	(673.9)
Debt due after 1 year	(1,227.0)	(15.1)	-	(1,242.1)
Finance leases	(261.7)	1.8	(0.4)	(260.3)
	<u>(1,963.3)</u>	<u>(212.6)</u>	<u>(0.4)</u>	<u>(2,176.3)</u>
Total	<u>(1,948.5)</u>	<u>(220.3)</u>	<u>(0.4)</u>	<u>(2,169.2)</u>

(f) Reconciliation to net debt

	2001 £m	2000 £m
Net debt due 1 April	(1,948.5)	(1,869.1)
Decrease in cash	(7.7)	(2.7)
Movement on borrowings	(212.6)	(74.7)
Other non cash changes	(0.4)	(2.0)
Net debt at 31 March	<u>(2,169.2)</u>	<u>(1,948.5)</u>

The Company includes as liquid resources term deposits of less than one year and fixed and floating rate securities. The Company has not held any such investments during the year, or in the prior year.

Thames Water Utilities Limited

Regulatory Accounts Intra Group Trade - Year Ended 31 March 2001

Company	Service	Turnover of Associate in the year (£000)	Terms of Supply	Value of Turnover with TWUL in the year (£000)
Thames Water Services	Sewerage Partnership	N/A	Tendered	5,852
Subterra	Pipeworks	84,426	Tendered	38,757
Engenica	Maintenance Services	30,191	Market tested	18,926
ISIS	Insurance	15,040	Market tested	12,839

The contracts disclosed are all above the RAG 5.03 requirement of 0.5% of Turnover (£5m).

The following contract has not been disclosed :- Procurement Services.

This contract was awarded to CONNECT 2020 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.

Thames Water Utilities Limited

Supplementary Directors' interests information (in accordance with RAG 5.03)

Listed below are details of directorships held by Thames Water Utilities Directors at 31 March 2001 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 Thames Water Overseas Limited
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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
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 34 and the supplementary regulatory information on pages 38 to 57.

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 39 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 40.

Opinion

In our opinion the financial statements for the year to 31 March 2001 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 34 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 38 to 57 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

11 June 2001