

Thames Waste Management Limited

Annual report for the year ended 31 March 1997

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**Directors' report
for the year ended 31 March 1997**

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

Principal activity

The principal activity of the company is the provision of waste management services.

Review of business and future developments

The profit and loss account for the year is set out on page 4.

The company operates a landfill site near Chertsey, transport operations, liquid disposal facilities and a materials handling and digester cleaning operation.

During the year the company continued to develop its landfill site in Beddington and opened a second liquid waste treatment facility in Camberley, Surrey.

Both the level of business and the year end financial position were satisfactory, and the directors expect the present level of activity to be sustained for the foreseeable future.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the company at 31 March 1997, both of whom were directors for the whole year then ended, except as noted below:

B H A Howard

A G Cooper (appointed 30 July 1996)

J Hurcom who was a director of the company at 1 April 1996 resigned on 30 July 1996.

Directors' interests

No director held any interest in the shares of the company during the year.

The interests of the directors in the shares of the ultimate parent company, Thames Water Plc, are as follows:

	£1 ordinary shares		Options			
	31 March 1997	1 April 1996 or date of appointment, where later	31 March 1997	Granted in year	Exercised in year	1 April 1996 or date of appointment, where later
	Number	Number	Number	Number	Number	Number
B H A Howard	11,157	9,042	17,475	1,561	2,533	18,447
A G Cooper	721	200	-	-	-	-

Directors' responsibilities

The directors are required by UK company law to prepare financial statements for each financial year that 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 or loss of the company for that period.

The directors confirm that suitable accounting policies have been used and applied consistently and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1997. The directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The directors are responsible for keeping proper accounting records, for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

A resolution to reappoint the auditors, Coopers & Lybrand, will be proposed at the annual general meeting.

By order of the board



A G Cooper
Director

**Report of the auditors to the members of
Thames Waste Management Limited**

We have audited the financial statements on pages 4 to 16.

Respective responsibilities of directors and auditors

As described on page 2 the company's directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

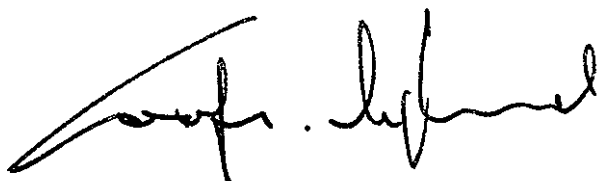
Basis of opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 1997 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand
Chartered Accountants and Registered Auditors
Reading

19 June 1997

**Profit and loss account
for the year ended 31 March 1997**

	Notes	1997 £	1996 £
Turnover	2	10,775,721	7,846,541
Cost of sales		(6,468,023)	(4,757,619)
Gross profit		4,307,698	3,088,922
Net operating expenses	3,4	(2,566,239)	(1,708,945)
Operating profit		1,741,459	1,379,977
Interest payable and similar charges	7	(30,655)	(306,806)
Profit on ordinary activities before taxation	2,8	1,710,804	1,073,171
Taxation	9	(968,000)	(687,500)
Retained profit for the year	20	742,804	385,671

The results for the years stated above are derived from continuing activities.

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

There is no difference between the profits on ordinary activities before taxation and the retained profits for the years stated above, and their historical cost equivalents.

Balance sheet at 31 March 1997

	Notes	1997 £	1996 £
Fixed assets			
Tangible assets	10	4,102,259	4,560,970
Investments	11	19,393	19,393
		<u>4,121,652</u>	<u>4,580,363</u>
Current assets			
Stocks	12	9,188	7,641
Debtors	13	3,107,387	2,553,144
Cash at bank and in hand		160,704	1,175
		<u>3,277,279</u>	<u>2,561,960</u>
Creditors: amounts falling due within one year	14	<u>3,476,176</u>	<u>3,862,487</u>
Net current liabilities		<u>(198,897)</u>	<u>(1,300,527)</u>
Total assets less current liabilities		<u>3,922,755</u>	<u>3,279,836</u>
Creditors: amounts falling due after more than one year	15	-	400,000
Provisions for liabilities and charges	16	<u>1,293,973</u>	<u>993,858</u>
Net assets		<u>2,628,782</u>	<u>1,885,978</u>
Capital and reserves			
Called up share capital	19	3,000,000	3,000,000
Share premium account		1,000,000	1,000,000
Profit and loss account (deficit)	20	<u>(1,371,218)</u>	<u>(2,114,022)</u>
Equity shareholders' funds	21	<u>2,628,782</u>	<u>1,885,978</u>

The financial statements on pages 4 to 16 were approved by the board of directors on 19 June 1997 and were signed on its behalf by:



A G Cooper
Director

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

1 Principal accounting policies

The financial statements have been prepared in accordance with applicable Accounting Standards in the United Kingdom. A summary of the more important accounting policies, which have been applied consistently, is set out below.

Basis of accounting

The financial statements are prepared in accordance with the historical cost convention.

Changes in presentation of financial statements

The disclosure requirements for directors emoluments and other benefits under schedule 6 of the Companies Act have been changed by SI 1997/570. Accordingly, disclosure of directors information and other benefits has been presented under the new format.

Financial Reporting Standard 8

FRS 8, "Related Party Disclosures", requires the disclosure of the details of material transactions between the reporting entity and any related parties. The new standard comes into effect for all accounting periods commencing on or after 23 December 1995. The company has adopted the provisions of FRS 8. However, transactions between the company and other group companies including their associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3 (c).

Consolidation

The financial statements contain information about Thames Waste Management Limited as an individual company and do not contain consolidated financial information as the parent of a group. The company is exempt under section 228 of the Companies Act 1985 from the requirement to prepare consolidated financial statements as it and its subsidiaries are included by full consolidation in the consolidated financial statements of its ultimate parent, Thames Water Plc, a company registered in England.

Development expenditure

Development expenditure relating to specific projects intended for commercial exploitation is carried forward so long as there is reasonable certainty that the project will proceed, and that the income that it will generate will be sufficient to cover the amortisation of such costs. Such expenditure is amortised over the period expected to benefit.

Operating leases

Costs in respect of operating leases are charged on a straight line basis over the lease term.

Tangible fixed assets

The cost of tangible fixed assets is their purchase cost, together with any incidental expenses of acquisition.

Depreciation is calculated so as to write off the cost of tangible fixed assets, less their estimated residual values, on a straight line basis over the expected useful economic lives of the assets concerned, which are principally as follows:

Buildings	- Freehold bungalows	50 years
	- Office	7 years
Short leasehold improvements		10 years
Plant and equipment		2-5 years
Office equipment		3 years
Vehicles		3-5 years

Freehold land is not depreciated.

Landfill sites

Landfill sites are included at cost less accumulated depreciation. The provision for depreciation is based upon the average cost per cubic metre of void space consumed by the deposit of waste. Provision is made for site restoration where it is anticipated that expenditure will be required at the end of the life of the site.

Goodwill

Goodwill arising on the acquisition of businesses is written off immediately against reserves.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off to reflect any permanent diminution in value.

Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a first in first out basis. Where necessary, provision is made for obsolete, slow moving and defective stocks.

Turnover

Turnover, which excludes value added tax and landfill tax, represents the invoiced value of services supplied.

Taxation

The charge or credit for taxation is based on the results for the year as adjusted for disallowable and non taxable items.

Consideration receivable or payable in respect of losses surrendered or claimed by way of group relief is dealt with in the profit and loss account.

Provision is made for deferred taxation, using the liability method, on all material timing differences to the extent that it is probable that a liability or asset will crystallise.

Pension costs

The company operates a defined contribution scheme. The assets of the scheme are held separately from those of the company in an independently administered fund.

In addition certain employees belong to pension schemes which are funded by both employer's and employees' contributions and which are of the defined benefits type. These schemes are funded through the Thames Water group pension schemes, whose assets are held separately from those of the company in independently administered funds. The pension costs are assessed in accordance with the advice of independent qualified actuaries. Any difference between the cost charged and the amounts paid is treated as a prepayment or accrual.

Cash flows

The company is a wholly owned subsidiary of Thames Water Plc and the cash flows of the company are included in the consolidated group cash flow statement of Thames Water Plc. Consequently, the company is exempt under the terms of Financial Reporting Standard No. 1 (revised), "Cash Flow Statements", from publishing a cash flow statement.

2 Turnover and profit on ordinary activities before taxation

Turnover and profit on ordinary activities before taxation are derived from the principal activity of the company, which is conducted in the UK.

3 Net operating expenses

	1997 £	1996 £
Administration expenses	2,592,571	1,735,082
Less: other operating income	(26,332)	(26,137)
Net operating expenses	<u>2,566,239</u>	<u>1,708,945</u>

4 Exceptional cost

Included in net operating expenses are costs of £300,000 relating to the write off of development expenditure during the year (1996: £nil).

5 Directors' emoluments

	1997 £	1996 £
Aggregate emoluments	<u>60,047</u>	<u>67,747</u>

Retirement benefits are accruing to one director under a defined benefit scheme.

6 Employee information

The average monthly number of persons (including executive directors) employed by the company during the year was:

	1997 Number	1996 Number
By function		
Administration	29	22
Waste management	49	45
	—	—
	78	67
	<u>—</u>	<u>—</u>
	1997 £	1996 £
Staff costs (for the above persons)		
Wages and salaries	1,634,574	1,319,422
Social security costs	157,973	96,518
Other pension costs (see note 18)	81,854	49,239
	<u>1,874,401</u>	<u>1,465,179</u>

7 Interest payable and similar charges

	1997 £	1996 £
Interest payable to group undertakings	9,797	273,540
Interest payable on bank overdrafts	20,858	33,266
	<u>30,655</u>	<u>306,806</u>

8 Profit on ordinary activities before taxation

	1997 £	1996 £
Profit on ordinary activities before taxation is stated after crediting:		
Profit on disposal of fixed assets	17,075	23,329
And after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	1,227,081	1,213,069
Landfill site restoration and aftercare provision	318,993	351,846
Auditors' remuneration - audit	16,500	16,000
Hire of land and buildings - operating leases	112,000	85,000
Hire of plant and machinery - operating leases	78,535	59,061

The auditors received £3,950 in respect of non audit services provided during the year (1996: £nil)

9 Taxation

	1997 £	1996 £
Consideration payable in respect of losses surrendered by way of group relief	965,000	687,000
Underprovision in respect of prior years' group relief payable	3,000	500
	968,000	687,500

The consideration payable in respect of group relief reflects the estimated present value of the losses as agreed with the surrendering companies.

The effective rate of taxation is higher than the statutory rate as the cost of land utilised in the landfill operations is permanently disallowable for tax purposes. The company has also made provision for future expenditure which has resulted in an increase in the unrecognised deferred tax assets.

10 Tangible fixed assets

	Freehold land and buildings £	Landfill sites £	Short leasehold improvements £	Plant and equipment £	Development expenditure £	Total £
Cost						
At 1 April 1996	430,486	4,929,284	382,510	2,225,017	1,056,396	9,023,693
Additions	-	241,970	418,212	422,324	54,717	1,137,223
Disposals	-	-	-	(350,205)	(327,819)	(678,024)
Reclassifications	-	-	-	27,695	(27,695)	-
At 31 March 1997	430,486	5,171,254	800,722	2,324,831	755,599	9,482,892
Depreciation						
At 1 April 1996	104,284	2,778,803	129,295	1,450,341	-	4,462,723
Charge for year	22,969	790,215	61,629	352,268	-	1,227,081
Eliminated in respect of disposals	-	-	-	(309,171)	-	(309,171)
At 31 March 1997	127,253	3,569,018	190,924	1,493,438	-	5,380,633
Net book value						
At 31 March 1997	<u>303,233</u>	<u>1,602,236</u>	<u>609,798</u>	<u>831,393</u>	<u>755,599</u>	<u>4,102,259</u>
Net book value						
At 31 March 1996	<u>326,202</u>	<u>2,150,481</u>	<u>253,215</u>	<u>774,676</u>	<u>1,056,396</u>	<u>4,560,970</u>

Included in the cost of freehold land and buildings is the cost of land amounting to £145,000.

11 Fixed asset investments

	Interests in group undertakings	Other investments	Total
	£	£	£
Cost and net book value			
At 1 April 1996 and 31 March 1997	18,895	498	19,393

Interests in group undertakings

The principal subsidiary undertakings of the company are:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held	Proportion held indirectly
Peter Bryant (Cesspits) Limited	Great Britain	Ordinary £1 shares	100%	-
South Bucks Effluent Company Limited	Great Britain	Ordinary £1 shares	100%	-
Sterling Water Services Limited (formerly South Bucks Skips Limited)	Great Britain	Ordinary £1 shares	-	100%
Stirling Water Limited (formerly South Bucks Effluent (Plant Services) Limited)	Great Britain	Ordinary £1 shares	-	100%

None of the subsidiaries traded during the year.

Other investments

The principal other investment of the company is:

Name of undertaking	Country of incorporation	Description of shares held	Proportion of nominal value of issued shares held
Thames Bull Limited	Great Britain	Ordinary £1 shares	50%

The capital and reserves of Thames Bull Limited at 31 March 1997 amounted to £1,000. The company did not trade during the year.

In the opinion of the directors, the value of the investments in all subsidiary companies and associated companies is not less than the amounts included in the balance sheet.

12 Stocks

	1997 £	1996 £
Raw materials and consumables	9,188	7,641

13 Debtors

	1997 £	1996 £
Amounts falling due within one year		
Trade debtors	1,547,293	1,749,538
Amounts owed by group undertakings	839,476	725,612
Other debtors	10,138	3,460
Prepayments and accrued income	710,480	74,534
	<u>3,107,387</u>	<u>2,553,144</u>

14 Creditors: amounts falling due within one year

	1997 £	1996 £
Bank overdraft	-	883,766
Trade creditors	486,876	988,730
Amounts owed to group undertakings	201,426	285,873
Group relief payable	965,000	724,851
Other taxation and social security payable	253,007	178,918
Other creditors	44,708	7,718
Accruals and deferred income	1,525,159	792,631
	<u>3,476,176</u>	<u>3,862,487</u>

15 Creditors: amounts falling due after more than one year

	1997 £	1996 £
Amounts owed to parent company	-	400,000

16 Provisions for liabilities and charges

Landfill site restoration and after care provisions:

	£
At 1 April 1996	993,858
Profit and loss account	318,993
Utilised during the year	(18,878)
At 31 March 1997	<u>1,293,973</u>

17 Deferred taxation

Deferred taxation provided in the financial statements, and the amount unprovided of the total potential (asset)/liability, are as follows:

	Amount provided		Amount unprovided	
	1997	1996	1997	1996
	£	£	£	£
Tax effect of timing differences because of:				
Excess of depreciation over tax allowances	-	-	(169,174)	(90,360)
Other	-	-	(448,953)	(344,158)
	-	-	(618,127)	(434,518)

18 Pension obligations

The company operates a defined contribution scheme for certain of its employees. The pension cost charge represents contributions payable by the company to the fund.

The majority of the company's employees participate in defined benefits pension schemes, funded through the Thames Water Group pension schemes whose assets are held separately from those of the company in independently administered funds. The pension cost relating to the schemes is assessed in accordance with advice received from Bacon & Woodrow, the consulting actuaries to the schemes.

Full descriptions of the schemes including the levels of funding are set out in the financial statements of the holding company, Thames Water Plc.

The total pension cost for the company was £81,854 (1996: £49,239).

19 Called up share capital

	1997 £	1996 £
Authorised		
3,500,000 ordinary shares of £1 each	3,500,000	3,500,000
	<u> </u>	<u> </u>
Allotted, called-up and fully paid		
3,000,000 ordinary shares of £1 each	3,000,000	3,000,000
	<u> </u>	<u> </u>

20 Profit and loss account (deficit)

	£
At 1 April 1996 (deficit)	(2,114,022)
Retained profit for the year	742,804
	<u> </u>
At 31 March 1997 (deficit)	(1,371,218)
	<u> </u>

The cumulative amount of goodwill written off directly to reserves is £936,110 (1996: £936,110).

21 Reconciliation of movements in shareholders' funds

	1997 £	1996 £
Opening shareholders' funds/(deficit)	1,885,978	(899,693)
Issue of shares	-	2,500,000
Profit for the financial year	742,804	385,671
Goodwill written off in respect of business acquired	-	(100,000)
	<u> </u>	<u> </u>
Closing shareholders' funds	2,628,782	1,885,978
	<u> </u>	<u> </u>

22 Capital commitments

	1997 £	1996 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>230,000</u>	<u>40,000</u>

23 Financial commitments

At 31 March 1997 the company had annual commitments under non-cancellable operating leases as follows:

	1997		1996	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiring within one year	-	6,366	1,000	9,972
Expiring between two and five years inclusive	110,000	93,066	64,600	59,463
Expiring in over five years	52,000	-	20,000	-
	<u>162,000</u>	<u>99,432</u>	<u>85,600</u>	<u>69,435</u>

24 Contingent liabilities

The company's banking facilities are part of a group facility arranged by Thames Water Plc. These include cross guarantees with other group undertakings.

25 Immediate and ultimate parent companies

The directors regard Thames Water Environmental Services Limited, a company incorporated in Great Britain, as the immediate parent company and Thames Water Plc, a company incorporated in Great Britain, as the ultimate parent company and ultimate controlling party. Copies of the ultimate parent company's consolidated financial statements may be obtained by writing to: Shareholder Enquiry Unit, Thames Water Plc, Nugent House, Vastern Road, Reading, Berkshire RG1 8DB.