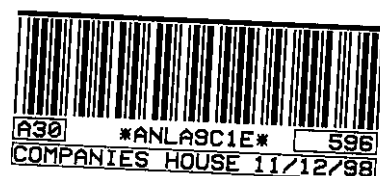


Registered no: 2518607

Thames Water Services Limited
(formerly Thames Waste Management Limited)
Annual report
for the year ended 31 March 1998



Thames Water Services Limited
(formerly Thames Waste Management Limited)

**Annual report
for the year ended 31 March 1998**

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Thames Water Services Limited

(formerly Thames Waste Management Limited)

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Directors' report for the year ended 31 March 1998

The directors present their report and the audited financial statements for the year ended 31 March 1998.

Principal activity

The principal activity of the company in the year ended 31 March 1998 was the provision of waste management services.

Change of name

On 1 April 1998 the name of the company was changed from Thames Waste Management Limited to Thames Water Services Limited.

Review of business and future developments

The profit and loss account for the year is set out on page 5.

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.

Both the level of business and the year end financial position were satisfactory.

On 1 April 1998 the company acquired the trade, assets and liabilities of certain other Thames Water subsidiaries. This is expected to have a significant impact on future trading levels.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the company, all of whom were directors for the whole year ended 31 March 1998, except as noted below were:

B H A Howard	
A G Cooper	
J E Seal	(appointed 18 July 1997)
C Anderson	(appointed 1 June 1998)
C Johnson	(appointed 1 May 1998)
G Mallett	(appointed 1 May 1998)
M O'Hanlon	(appointed 1 May 1998)
C Spratt	(appointed 1 April 1998)
A Whiteside	(appointed 1 May 1998)
J Earle	(appointed 1 July 1998)
T Jones	(appointed 1 July 1998)

Thames Water Services Limited

(formerly Thames Waste Management Limited)

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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 1998	1 April 1997 or date of appointment, where later	31 March 1998	Granted in year	Exercised in year	1 April 1997 or date of appointment, where later
	Number	Number	Number	Number	Number	Number
B H A Howard	9,277	11,157	17,475	-	-	17,475
A G Cooper	721	721	-	-	-	-
J E Seal	57	57	831	503	-	328

Subsequent events

On 1 April 1998 the company acquired 100% of the issued share capital of:-

	Consideration £'000
Thames Water Contracting PLC	14,000
Thames Incineration and Recycling Limited	4,326
Metro Rod PLC	4,592
Subterra Limited	4,000
Morgan Collis Group Limited	1,080

Subsequent to this the trading assets and liabilities of those companies acquired were transferred to Thames Water Services Limited. Further details are provided in note 25.

Year 2000

Year 2000 computer issues are under review by a working party specially formed for the purpose and it is anticipated that there will be no adverse effect on the company as we move to a new Millennium.

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 1998. 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.

By order of the board

A handwritten signature in black ink, appearing to read 'A G Cooper', written over a horizontal line.

A G Cooper
Director

Report of the auditors to the members of Thames Water Services Limited

We have audited the financial statements on pages 5 to 17.

Respective responsibilities of directors and auditors

As described on page 3 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 1998 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

4 September 1998

Thames Water Services Limited
(formerly Thames Waste Management Limited)

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**Profit and loss account
for the year ended 31 March 1998**

	Notes	1998 £	1997 £
Turnover	2	10,325,920	10,775,721
Cost of sales		(5,622,080)	(6,468,023)
Gross profit		4,703,840	4,307,698
Net operating expenses	3,4	(2,677,774)	(2,583,314)
Operating profit		2,026,066	1,724,384
Profit on sale of assets		142,811	17,075
Profit on ordinary activities before interest		2,168,877	1,741,459
Interest receivable/(payable)	7	70,546	(30,655)
Profit on ordinary activities before taxation	2,8	2,239,423	1,710,804
Taxation	9	(470,000)	(968,000)
Retained profit for the year	19	1,769,423	742,804

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.

Thames Water Services Limited
(formerly Thames Waste Management Limited)

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**Balance sheet
at 31 March 1998**

	Notes	1998 £	1997 £
Fixed assets			
Tangible assets	10	4,870,266	4,102,259
Investments	11	19,393	19,393
		<u>4,889,659</u>	<u>4,121,652</u>
Current assets			
Stocks	12	13,740	9,188
Debtors	13	2,970,305	3,107,387
Cash at bank and in hand		1,360,419	160,704
		<u>4,344,464</u>	<u>3,277,279</u>
Creditors: amounts falling due within one year	14	3,327,923	3,476,176
Net current assets/(liabilities)		<u>1,016,541</u>	<u>(198,897)</u>
Total assets less current liabilities		<u>5,906,200</u>	<u>3,922,755</u>
Provisions for liabilities and charges	15	1,507,995	1,293,973
Net assets		<u>4,398,205</u>	<u>2,628,782</u>
Capital and reserves			
Called up share capital	18	3,000,000	3,000,000
Share premium account		1,000,000	1,000,000
Profit and loss account	19	398,205	(1,371,218)
Equity shareholders' funds	20	<u>4,398,205</u>	<u>2,628,782</u>

The financial statements on pages 5 to 17 were approved by the board of directors on 3rd September 1998 and were signed on its behalf by:



A G Cooper
Director

Thames Water Services Limited

(formerly Thames Waste Management Limited)

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Notes to the financial statements for the year ended 31 March 1998

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.

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. 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 Water Services 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.

Thames Water Services Limited

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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.

Thames Water Services Limited

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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

	1998 £	1997 £
Administration expenses	2,724,654	2,609,646
Less: other operating income	(46,880)	(26,332)
Net operating expenses	<u>2,677,774</u>	<u>2,583,314</u>

Thames Water Services Limited

(formerly Thames Waste Management Limited)

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4 Exceptional cost

Included in net operating expenses are costs of £Nil relating to the write off of development expenditure during the year (1997: £300,000).

5 Directors' emoluments

	1998 £	1997 £
Aggregate emoluments	<u>118,461</u>	<u>60,047</u>

Retirement benefits are accruing to two directors 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:

	1998 Number	1997 Number
By function		
Administration	27	29
Waste management	50	49
	—	—
	77	78
	<u>—</u>	<u>—</u>
	1998 £	1997 £
Staff costs (for the above persons)		
Wages and salaries	1,790,558	1,634,574
Social security costs	146,666	157,973
Other pension costs (see note 17)	81,479	81,854
	<u>2,018,703</u>	<u>1,874,401</u>

Thames Water Services Limited
(formerly Thames Waste Management Limited)

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7 Interest receivable/(payable)

	1998 £	1997 £
Interest payable to group undertakings	-	(9,797)
Interest payable on bank overdrafts	-	(20,858)
Interest receivable on bank deposits	70,546	-
	<u>70,546</u>	<u>(30,655)</u>

8 Profit on ordinary activities before taxation

	1998 £	1997 £
Profit on ordinary activities before taxation is stated after charging:		
Depreciation charge for the year:		
Tangible owned fixed assets	1,230,703	1,227,081
Landfill site restoration and aftercare provision	294,566	318,993
Auditors' remuneration - audit	17,000	16,500
Hire of land and buildings - operating leases	184,000	112,000
Hire of plant and machinery - operating leases	84,785	78,535
	<u>1,830,054</u>	<u>1,752,109</u>

The auditors received £8,725 in respect of non audit services provided during the year (1997: £3,950).

9 Taxation

	1998 £	1997 £
Consideration payable in respect of losses surrendered by way of group relief	770,000	965,000
(Over)/underprovision in respect of prior years' group relief payable	(300,000)	3,000
	<u>470,000</u>	<u>968,000</u>

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 also has a provision for future expenditure which has resulted in an unrecognised deferred tax asset.

Thames Water Services Limited

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10 Tangible fixed assets

	Freehold land and buildings £	Landfill sites £	Short leasehold improvements £	Plant and equipment £	Development expenditure £	Total £
Cost						
At 1 April 1997	430,486	5,171,254	800,722	2,324,831	755,599	9,482,892
Additions	-	345,828	49,924	1,510,719	108,351	2,014,822
Disposals	-	-	-	(227,021)	-	(227,021)
Reclassification	-	755,599	-	-	(755,599)	-
At 31 March 1998	430,486	6,272,681	850,646	3,608,529	108,351	11,270,693
Depreciation						
At 1 April 1997	127,253	3,569,018	190,924	1,493,438	-	5,380,633
Charge for year	22,947	702,261	126,918	378,577	-	1,230,703
Eliminated in respect of disposals	-	-	-	(210,909)	-	(210,909)
At 31 March 1998	150,200	4,271,279	317,842	1,661,106	-	6,400,427
Net book value						
At 31 March 1998	280,286	2,001,402	532,804	1,947,423	108,351	4,870,266
Net book value						
At 31 March 1997	303,233	1,602,236	609,798	831,393	755,599	4,102,259

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

Thames Water Services Limited

(formerly Thames Waste Management Limited)

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11 Fixed asset investments

	Interests in group undertakings £	Other investments £	Total £
Cost and net book value At 1 April 1997 and 31 March 1998	18,895	498	19,393

Interests in group undertakings

The principal subsidiary undertakings of the company at 31 March 1998 were:

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	Great Britain	Ordinary £1 shares	-	100%
Stirling Water 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 1998 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.

Thames Water Services Limited
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12 Stocks

	1998 £	1997 £
Raw materials and consumables	13,740	9,188

13 Debtors

	1998 £	1997 £
Amounts falling due within one year		
Trade debtors	1,680,615	1,547,293
Amounts owed by group undertakings	683,212	839,476
Other debtors	13,217	10,138
Prepayments and accrued income	593,261	710,480
	<u>2,970,305</u>	<u>3,107,387</u>

14 Creditors: amounts falling due within one year

	1998 £	1997 £
Trade creditors	502,733	486,876
Amounts owed to group undertakings	124,929	201,426
Group relief payable	783,000	965,000
Other taxation and social security payable	300,076	253,007
Other creditors	74,842	44,708
Accruals and deferred income	1,542,343	1,525,159
	<u>3,327,923</u>	<u>3,476,176</u>

15 Provisions for liabilities and charges

Landfill site restoration and after care provisions:

	£
At 1 April 1997	1,293,973
Profit and loss account	294,566
Utilised during the year	(80,544)
At 31 March 1998	<u>1,507,995</u>

Thames Water Services Limited

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16 Deferred taxation

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

	Amount provided		Amount unprovided	
	1998	1997	1998	1997
	£	£	£	£
Tax effect of timing differences because of:				
Excess of depreciation over tax allowances	-	-	(164,627)	(169,174)
Other	-	-	(159,664)	(448,953)
	<u>-</u>	<u>-</u>	<u>(324,291)</u>	<u>(618,127)</u>

17 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 £81,479 (1997: £81,854).

18 Called up share capital

	1998	1997
	£	£
Authorised		
3,000,000 ordinary shares of £1 each	3,000,000	3,000,000
Allotted, called-up and fully paid		
3,000,000 ordinary shares of £1 each	3,000,000	3,000,000

Thames Water Services Limited
(formerly Thames Waste Management Limited)

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19 Profit and loss account

	£
At 1 April 1997 (deficit)	(1,371,218)
Retained profit for the year	1,769,423
At 31 March 1998	<u>398,205</u>

The cumulative amount of goodwill written off directly to reserves is £936,110 (1997: £936,110).

20 Reconciliation of movements in shareholders' funds

	1998 £	1997 £
Opening shareholders' funds	2,628,782	1,885,978
Profit for the financial year	1,769,423	742,804
Closing shareholders' funds	<u>4,398,205</u>	<u>2,628,782</u>

21 Capital commitments

	1998 £	1997 £
Capital expenditure that has been contracted for but has not been provided for in the financial statements	<u>1,132,569</u>	<u>230,000</u>

Thames Water Services Limited

(formerly Thames Waste Management Limited)

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22 Financial commitments

At 31 March 1998 the company had annual commitments under non-cancellable operating leases as follows:

	1998		1997	
	Land and buildings £	Other £	Land and buildings £	Other £
Expiring within one year	-	23,441	-	6,366
Expiring between two and five years inclusive	111,000	45,497	110,000	93,066
Expiring in over five years	73,000	-	52,000	-
	<u>184,000</u>	<u>68,938</u>	<u>162,000</u>	<u>99,432</u>

23 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.

24 Immediate and ultimate parent companies

Up until 31 March 1998 the directors regarded 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. On 1 April 1998 the share capital of Thames Water Services Limited was acquired by Thames Water PLC. Copies of the 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.

25 Subsequent events

On 1 April 1998 the company acquired 100% of the issued share capital of the following companies from Thames Water Environmental Services Limited or its intermediate holding companies, Thames Water Contracting PLC, Thames Incineration and Recycling Limited, MetroRod PLC, Subterra Limited, Morgan Collis Group Limited. Immediately subsequent to the transfer of ownership the trade, assets and liabilities of the companies acquired were transferred to Thames Water Services Limited.