

Thames Water Services Limited
Annual report
for the year ended 31 March 2000



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Thames Water Services Limited

Annual report for the year ended 31 March 2000

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Directors' report for the year ended 31 March 2000

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

Principal activity

The principal activity of the company in the year ended 31 March 2000 was the provision of waste management, engineering, grounds maintenance, utility network and facilities management services.

Review of business and future developments

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

The directors are pleased to report a significant growth in pre-tax profits from £2,457,000 to £3,072,000 representing good progress in operational efficiencies, cash management and moves into related service areas. The company has also committed resources in the year to bid for large scale managed service contracts. These costs have been charged to the profit and loss account during the year.

On 1 April 1999 the Facilities Management division was created to bid, win and successfully deliver long term managed service contracts enabling us to leverage off capabilities in asset management, large scale infrastructure programmes and significant culture change. On 1 October 1999 Thames Water Services began a 30 year contract to operate and maintain the sewerage treatment infrastructure in and around Edinburgh. Thames Water Services is also leading Thames Water's involvement in a consortium to bid for the infrastructure concessions of the London Underground.

During the year a new utility network services division was created (trading as Subterra) through the merger of our existing divisions of Subterra, Total Pipeline Solutions, Morgan Collis and the transfer of the sewer management contract from Metro Rod. This has created a division with the broadest offering of innovative service solutions in its marketplace in the UK. This division is now better placed to serve its expanding client base in the UK.

The directors believe that the changes above are a step forward in our expansion into the managed service marketplace and complement our existing service offering in the waste management, engineering and drain maintenance, and local authority marketplaces.

Dividends

No interim dividend was paid this year (1999:£672,000) and the directors do not propose a final dividend (1999:£Nil).

Disabled persons

The company supports the employment of disabled people whenever possible through recruitment, by retention of those who become disabled during their employment and generally through training, career development and promotion.

Employees

The company places considerable value on the involvement of its employees and has continued its practice of keeping employees informed on matters affecting them as employees and on various factors affecting the performance of the company. This is achieved through formal and informal meetings, local newsletters and in-house magazines.

Creditor payment policy

The company's current payment policy is to:

- settle the terms of payment with those suppliers when agreeing the terms of each transaction
- ensure that those suppliers are made aware of the terms of payment by inclusion of the relevant terms in contracts
- pay in accordance with its contractual and other legal obligations

The company's average creditor payment period at 31 March 2000 was 31 days (1999:30 days)

Donations

Charitable donations of £107,000 (1999:£53,000) were made during the year.

Year 2000

Our compliance programme, including financial systems and embedded chips in plant and equipment, was completed by the summer of 1999 and there were no significant year 2000 issues.

Expenditure of £42,700 (1999: £119,000) was charged to the profit and loss account during the financial year.

Directors

The directors of the company who served during the year, all of whom were directors for the whole year ended 31 March 2000, except as noted below, were:

C Anderson		T J V Jones
D Bonnar	(appointed 1 May 1999)	G N Mallett
A G Cooper	(resigned 30 April 1999)	C A Spratt
J Earle		B B Thirlwall
B H A Howard		A J Whiteside
C I Johnson		

Directors' interests

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

The interests of the directors at 31 March 2000 in the shares of the ultimate parent company, Thames Water Plc, are as follows:

	Ordinary shares		Options				
	31 March 2000 Number	1 April 1999 or date of appointment where later Number	31 March 2000 Number	Lapsed in year Number	Granted in year Number	Exercised in year Number	1 April 1999 or date of appointment where later Number
B H A Howard	10,244	10,244	17,430	-	1,541	-	15,889
C Anderson	-	-	2,079	-	1,861	-	218
C I Johnson	116	116	8,445	-	2,208	-	6,237
G N Mallett	-	-	2,685	-	1,646	-	1,039
C A Spratt	2,424	1,542	2,163	-	1,800	882	1,245
J Earle	-	-	4,039	-	4,039	-	-
A J Whiteside	-	-	3,401	-	1,789	-	1,612
T J V Jones	-	-	4,974	873	3,974	-	1,873
B B Thirlwall	-	-	1,660	-	1,660	-	-
D Bonnar	-	-	4,100	-	4,100	-	-

In addition to the shares noted above, C I Johnson has 127 B shares, of which 40 are held in trust under the Thames Water Plc profit sharing scheme.

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 or loss of the company for the year then ended. 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;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

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

The auditors, PricewaterhouseCoopers, have indicated their willingness to continue in office, and a resolution concerning their appointment will be proposed at the Annual General Meeting.

On behalf of the board

A handwritten signature in black ink, appearing to read 'T J V Jones', with a long horizontal line extending to the right.

T J V Jones
Director

Auditors' report to the members of Thames Water Services Limited

We have audited the financial statements on pages 5 to 18

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report. As described on page 3, 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. We also report to you if, in our opinion, the directors' report is not consistent with the financial statements, if the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and transactions 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 opinion

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

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

Opinion

In our opinion the financial statements give a true and fair view of the state of the company's affairs at 31 March 2000 and of its profit for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



PricewaterhouseCoopers
Chartered Accountants and Registered Auditors
Reading
6 June 2000

Profit and loss account for the year ended 31 March 2000

	Notes	2000 £'000	1999 £'000
Turnover	2	211,578	188,646
Cost of sales		(129,683)	(115,064)
Gross profit		81,895	73,582
Net operating expenses	3	(77,696)	(69,513)
Operating profit		4,199	4,069
Income from shares in group undertakings	11	-	20,134
Amounts written off investments	11	-	(20,134)
Profit on ordinary activities before interest and taxation		4,199	4,069
Net interest payable	6	(1,127)	(1,612)
Profit on ordinary activities before taxation	7	3,072	2,457
Tax on profit on ordinary activities	8	(2,072)	(1,621)
Profit for the year		1,000	836
Dividends paid	22	-	(672)
Retained profit for the year	21	1,000	164

The results relate wholly to continuing operations.

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 2000

	Notes	2000 £'000	1999 £'000
Fixed assets			
Intangible fixed assets	9	15,508	17,524
Tangible assets	10	21,955	22,749
Investments	11	8,219	8,219
		<u>45,682</u>	<u>48,492</u>
Current assets			
Stocks	12	7,997	5,317
Debtors	13	47,264	48,137
Cash at bank and in hand		11,720	15,308
		<u>66,981</u>	<u>68,762</u>
Creditors: amounts falling due within one year	14	62,943	49,600
Net current assets		<u>4,038</u>	<u>19,162</u>
Total assets less current liabilities		<u>49,720</u>	<u>67,654</u>
Creditors: amounts falling due after more than one year	15	25,771	44,923
Provisions for liabilities and charges	16	8,387	8,169
		<u>34,158</u>	<u>53,092</u>
Net assets		<u>15,562</u>	<u>14,562</u>
Capital and reserves			
Called up share capital	20	13,000	13,000
Share premium account		1,000	1,000
Profit and loss account	21	1,562	562
Equity shareholders' funds	23	<u>15,562</u>	<u>14,562</u>

The financial statements on pages 5 to 18 were approved by the board of directors on 6 June 2000 and were signed on its behalf by:



C Anderson
Director

**Notes to the financial statements
for the year ended 31 March 2000****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.

Change in accounting policy

The company has adopted the requirements of Financial Reporting Standards (FRS) 15 and 16 issued by the Accounting Standards Board during the year ended 31 March 2000. FRS 15 and 16 have not had a significant effect on the accounts.

Basis of accounting

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

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. Where there is a degree of uncertainty as to whether the project will proceed, costs incurred are charged to the profit and loss account in the year.

Finance and operating leases

Leasing agreements which transfer to the company substantially all the benefits and risks of ownership of an asset are treated as if the asset had been purchased outright. The assets are included in fixed assets and the capital element of the leasing commitments is shown as obligations under finance leases. The lease rentals are treated as consisting of capital and interest elements. The capital element is applied to reduce the outstanding obligations and the interest element is charged against profit so as to give a constant periodic rate of charge on the remaining balance outstanding at each accounting period. Assets held under finance leases are depreciated over the shorter of the lease terms and the useful lives of equivalent owned assets. 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:

Freehold buildings	10-100 years
Short leasehold improvements	10 years
Plant and equipment	2-7 years
Fixtures and fittings	3-7 years
Freehold land is not depreciated.	

Short leasehold improvements are depreciated over the lease period if shorter than 10 years.

Landfill sites and aftercare provision

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 aftercare where it is anticipated that expenditure will be required at the end of the life of the site. Specifically the full liability for aftercare costs is recognised as soon as the liability to incur such costs arises. The corresponding asset is included within fixed assets under landfill sites and is being amortised in accordance with the accounting policy for other landfill site expenditure.

Intangible assets - goodwill

Goodwill arising on the acquisition of subsidiary undertakings and businesses, representing any excess of the fair value of the considerations given over the fair value of the identifiable assets and liabilities acquired, is capitalised and written off on a straight line basis over its useful economic life. Provision is made for any impairment.

Fixed asset investments

Fixed asset investments are stated at cost less amounts written off to reflect any impairment 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.

Long term contracts

Long term contracts are stated at cost, plus attributable profit, less foreseeable losses and progress payments received and receivable. The principal accounting basis used for determining profit on long term contracts is the percentage of completion method based on management's estimate of work completed to date and after providing for well known and anticipated future losses. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts.

Turnover

Turnover, which excludes value added tax, represents the 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 mixture of both defined benefit and defined contribution schemes for certain of its employees. The assets of each of these schemes are held separately from those of the company in independently administered funds. Details of the various schemes are given in note 19.

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 1, "Cash Flow Statements", from publishing a cash flow statement.

Related party disclosure

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 associates and joint ventures have not been disclosed in accordance with the exemption in FRS 8 paragraph 3 (c).

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

	2000 £'000	1999 £'000
Administration expenses	77,759	69,570
Less: other operating income	(63)	(57)
Net operating expenses	<u>77,696</u>	<u>69,513</u>

4 Directors' emoluments

	2000 £'000	1999 £'000
Aggregate emoluments	955	752
Aggregate compensation paid for loss of office	<u>-</u>	<u>52</u>

Retirement benefits are accruing to ten directors (1999: ten directors) under the company's defined benefit schemes.

During the year one director (1999: two directors) exercised share options.

	2000 £'000	1999 £'000
Highest paid director		
Total amount of emoluments and amounts receivable under long-term incentive schemes	131	88
Accrued pensions benefit	<u>4</u>	<u>2</u>

5 Employee information

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

	2000 Number	1999 Number
By function		
Administration	564	524
Engineering and services	3,209	3,069
	<u>3,773</u>	<u>3,593</u>
	2000 £'000	1999 £'000
Staff costs (for the above persons)		
Wages and salaries	72,221	67,645
Social security costs	6,104	5,862
Other pension costs* (see note 19)	1,214	1,463
	<u>79,539</u>	<u>74,970</u>

* Pension costs are net of a credit of £455,000 (1999:£Nil) in respect of the Thames Water Group pension schemes which have arisen following the actuarial valuation of the schemes as at 31 March 1999.

6 Net interest payable

	2000 £'000	1999 £'000
Interest payable to group undertakings	1,003	1,321
Interest payable on bank overdrafts	86	285
Interest receivable on bank deposits	(759)	(590)
Finance charges on finance leases	565	513
	<u>895</u>	<u>1,529</u>
Interest payable on aftercare provision	232	83
	<u>1,127</u>	<u>1,612</u>

7 Profit on ordinary activities before taxation

	2000 £'000	1999 £'000
Profit on ordinary activities before taxation is stated after charging/(crediting):		
Depreciation of tangible fixed assets		
- owned fixed assets	4,459	3,744
- under finance leases	1,855	1,770
Auditors' remuneration - audit	93	99
- non-audit services	5	9
Hire of land and buildings - operating leases	1,371	3,235
Hire of plant and machinery - operating leases	5,677	2,727
Amortisation of intangible fixed assets	2,065	1,935
(Profit)/loss on sale of fixed assets	<u>(100)</u>	<u>76</u>

8 Taxation

	2000 £'000	1999 £'000
Consideration payable in respect of losses claimed by way of group relief	-	1,531
Corporation tax payable at 30%	2,262	-
(Over)/under provision in respect of prior years' group relief payable	<u>(190)</u>	<u>90</u>
	<u>2,072</u>	<u>1,621</u>

The effective rate of taxation is high as the amortisation of goodwill (note 9) is not a tax deductible expense.

9 Intangible fixed assets

	Goodwill £'000	Other £'000	Total £'000
Cost			
At 1 April 1999	19,039	900	19,939
Additions	-	49	49
At 31 March 2000	<u>19,039</u>	<u>949</u>	<u>19,988</u>
Amortisation			
At 1 April 1999	1,904	511	2,415
Charge for year	1,904	161	2,065
At 31 March 2000	<u>3,808</u>	<u>672</u>	<u>4,480</u>
Net book value at			
31 March 2000	<u>15,231</u>	<u>277</u>	<u>15,508</u>
Net book value at			
31 March 1999	<u>17,135</u>	<u>389</u>	<u>17,524</u>

The directors consider that the useful economic life of the goodwill generated on acquisitions at 1 April 1998 to be a period of 10 years. Other intangible fixed assets represent patents and licences.

10 Tangible fixed assets

	Freehold land and buildings £'000	Landfill sites £'000	Short leasehold improvements £'000	Fixtures & fittings, plant & equipment £'000	Total £'000
Cost					
At 1 April 1999	635	15,980	1,917	24,915	43,447
Transfers	322	(899)	(497)	175	(899)
Additions	364	662	32	8,053	9,111
Disposals	(458)	(262)	(302)	(4,343)	(5,365)
At 31 March 2000	863	15,481	1,150	28,800	46,294
Depreciation					
At 1 April 1999	368	5,385	749	14,196	20,698
Transfers	(40)	-	46	(6)	-
Charge for year	9	1,575	120	4,610	6,314
Disposals	(64)	-	(302)	(2,307)	(2,673)
At 31 March 2000	273	6,960	613	16,493	24,339
Net book value					
At 31 March 2000	590	8,521	537	12,307	21,955
Net book value					
At 31 March 1999	267	10,595	1,168	10,719	22,749

Included in the cost of freehold land and buildings is the cost of land amounting to £145,000 (1999: £145,000). Included in landfill sites is £415,000 (1999: £380,000) relating to development expenditure. Within plant and equipment and landfill sites are £529,000 (1999: £Nil) and £414,000 (1999: £363,000) respectively relating to assets in the course of construction.

Assets held under finance leases, capitalised and included in fixtures & fittings and plant & equipment amount to:-

	2000 £'000	1999 £'000
Cost	10,306	8,485
Aggregate depreciation	(6,235)	(4,636)
Net book value	4,071	3,849

11 Fixed asset investments

Interests
in group
undertakings
£'000

Cost and net book value

At 1 April 1999 and 31 March 2000

8,219

Following the acquisition in 1999 the subsidiaries paid a dividend of £20,134,000 which in turn reduced the carrying value of the investments by the same amount. No fair value adjustments were required on acquisition.

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

Interests in group undertakings

The principal subsidiary undertakings of the company at 31 March 2000 which comprise the above balance were:

Name of undertaking	Country of incorporation	Description of shares held	Proportions of nominal value of issued shares held
Metro Rod Plc	Great Britain	Ordinary £1 shares	100%
Morgan Collis Group Ltd	Great Britain	Ordinary £1 shares	100%
Thames Water Contracting PLC	Great Britain	Ordinary £1 shares	100%
Subterra Ltd	Great Britain	Ordinary £1 shares	100%
Thames Incineration and Recycling Ltd	Great Britain	Ordinary £1 shares	100%
A J Whiteside & Co Ltd	Great Britain	Ordinary £1 shares	100%

During the year none of the above companies performed trading activities.

The company is exempt from the requirement to prepare consolidated financial statements since its subsidiaries are wholly owned and consolidated in the financial statements of the ultimate parent company.

12 Stocks

	2000 £'000	1999 £'000
Raw materials and consumables	1,797	2,132
Work in progress:		
Net cost less foreseeable losses	52,679	41,431
Less applicable payments on account	(48,762)	(38,422)
Total long term work in progress	3,917	3,009
Short term work in progress	2,283	176
Work in progress	6,200	3,185
	7,997	5,317

13 Debtors

	2000	1999
	£'000	£'000
Amounts falling due within one year		
Trade debtors	8,940	4,611
Amounts recoverable on contracts	8,486	22,373
Amounts owed by group undertakings	24,142	17,603
Other debtors	3,346	2,331
Prepayments and accrued income	1,895	1,219
Pension scheme pre payment	455	-
	<u>47,264</u>	<u>48,137</u>

14 Creditors: amounts falling due within one year

	2000	1999
	£'000	£'000
Bank overdraft	20	648
Finance leases	1,868	2,034
Trade creditors	10,203	9,547
Amounts due to group undertakings	18,902	16,112
Other creditors	3,846	1,780
Group relief payable	-	1,540
Corporation tax payable	1,593	-
Other taxation and social security payable	5,487	6,361
Accruals and deferred income	21,024	11,578
	<u>62,943</u>	<u>49,600</u>

15 Creditors: amounts falling due after more than one year

	2000	1999
	£'000	£'000
Amounts owed to group undertakings*	22,818	42,439
Finance leases	2,953	2,484
	<u>25,771</u>	<u>44,923</u>

* Amounts owed to group undertakings include £21.5 million in respect of loans from Thames Water Plc. One loan is interest free and the other bears an interest rate linked to bank base rates. Thames Water Plc have confirmed that it will not demand repayment of these loans before 31 March 2001. The balance relates to loans with subsidiary undertakings which are interest free and have no fixed repayment dates.

16 Provisions for liabilities and charges

	Landfill sites £'000	Other £'000	Total 2000 £'000
At 1 April 1999	8,169	-	8,169
Utilised during the year	(345)	-	(345)
Additional provisions made in the year	140	1,090	1,230
Interest in respect of net present value adjustment	232	-	232
Transfer	(899)	-	(899)
At 31 March 2000	7,297	1,090	8,387

The landfill sites provision is in respect of landfill site restoration and aftercare costs. The amounts provided have been discounted at a real rate of 3.5% and interest charged to the profit and loss account. Aftercare costs have been provided for each landfill site for a period of 30 years following site completion. The remaining provisions are in respect of actions taken and announced during the year to refocus the business and which are likely to crystallise in the next two years.

17 Finance leases

Future minimum payments under finance leases are as follows:-

	2000 £'000	1999 £'000
Within one year	1,868	2,034
In more than one year, but not more than five years	2,953	2,484
	4,821	4,518

18 Deferred taxation

The potential deferred tax asset is as follows:-

	Amount unprovided 2000 £'000	Amount unprovided 1999 £'000
Tax effect of timing differences because of:		
Excess of depreciation over tax allowances	(939)	(716)
Other	(758)	(677)
	(1,697)	(1,393)

19 Pension obligations

The company operates a mixture of both defined benefit and defined contribution schemes for certain of its employees. The total pension cost for the company was £1,214,000 (1999: £1,463,000).

Defined benefit schemes

Three of these schemes are funded through Thames Water Group pension schemes whose assets are held separately from those of the company in independently administered funds. The schemes are funded by contributions from the company and the employees. The pension costs relating to the schemes are assessed in accordance with advice from Bacon & Woodrow, the consulting actuaries for the schemes. Full descriptions of these schemes are set out in the financial statements of the holding company, Thames Water Plc. The total cost for the schemes was £133,000 (1999: £441,000).

A fourth scheme is administered externally by Corporate Financial Solutions Ltd. The scheme is funded by contributions from the company and the employees. The latest actuarial valuation was at 5 April 1997 and was based on the Attained Age Valuation method. Whilst this method differs from the Prospective Benefit method, it is not expected to produce a significantly different result from that recommended by the Statement of Standard Accounting Practice 24.

The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries. It was assumed that the investment return would be 8.5% per annum and that salary increases would average 6.5% per annum. At the valuation date the market value of the assets was £1,052,680. The actuarial value of the assets was sufficient to cover 122% of the value of the accrued benefits, assuming that all benefits are eventually taken at age 65. A small actuarial surplus on discontinuance was estimated. The total pension cost for the scheme was £224,000 (1999: £212,000).

Certain employees also belong to a British Association of Landscape Industries (BALI) pension scheme. BALI is a centralised defined benefit scheme, administered by Friends Provident Life, in which the company has its own separate section. The total pension cost for the scheme was £805,000 (1999: £786,000).

The latest actuarial valuation was at 6 April 1998 and was based on the projected unit method with a one year control period. The assumptions which have the most significant effect on the results of the valuation are those relating to the rate of return on investments and the rates of increase in salaries. It was assumed that the investment return would be 8.0% per annum and that salary increases would average 6.0% per annum. At the valuation date the market value of the assets for the whole scheme was £1,829,000. The actuarial value of the assets relating to the company's section was sufficient to cover 102% of the value of the accrued benefits, assuming that all benefits are eventually taken at age 65.

Defined contribution schemes

Certain employees belong to defined contribution schemes. The assets of these schemes are held separately from those of the company in independently administered funds. The total pension cost for these schemes was £52,000 (1999: £24,000).

20 Called up share capital

	2000 £'000	1999 £'000
Authorised		
13,000,000 (1999: 13,000,000) ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>
Allotted, called up and fully paid		
13,000,000 (1999: 13,000,000) ordinary shares of £1 each	<u>13,000</u>	<u>13,000</u>

21 Profit and loss account

	£'000
At 1 April 1999	562
Retained profit for the year	<u>1,000</u>
At 31 March 2000	<u>1,562</u>

22 Dividends

	2000 £'000	1999 £'000
Interim paid: £Nil (1999: £0.0517 per £1 share)	<u>-</u>	<u>672</u>

23 Reconciliation of movements in shareholders' funds

	2000 £'000	1999 £'000
Profit for the year	1,000	836
Dividends	<u>-</u>	<u>(672)</u>
	1,000	164
Issue of ordinary share capital	<u>-</u>	<u>10,000</u>
Net addition to shareholders' funds	1,000	10,164
Shareholders' funds as at 1 April	<u>14,562</u>	<u>4,398</u>
Shareholders' funds as at 31 March	<u>15,562</u>	<u>14,562</u>

24 Capital commitments

	2000	1999
	£'000	£'000
Capital expenditure that has been contracted for but has not been provided for in the financial statements	340	1,173

25 Financial commitments

At 31 March 2000 the company had annual commitments under non-cancellable operating leases as follows:

	2000		1999	
	Land and buildings £'000	Other £'000	Land and buildings £'000	Other £'000
Expiring within one year	51	1,754	297	1,919
Expiring between two and five years inclusive	402	1,752	400	1,654
Expiring in over five years	384	121	342	88
	<u>837</u>	<u>3,627</u>	<u>1,039</u>	<u>3,661</u>

26 Immediate and ultimate parent companies

Thames Water Plc, a company incorporated in Great Britain, is the immediate and ultimate parent company and ultimate controlling party. Copies of the parent company's consolidated financial statements may be obtained by writing to: Shareholder Enquiry Unit, Thames Water Plc, Blake House, Manor Farm Road, Reading, Berkshire RG2 0JN.