

Registered no: 1918188

Subterra Limited
Annual report
for the year ended 31 March 1999



Subterra Limited

Annual report for the year ended 31 March 1999

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Subterra Limited

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Directors and advisers

Directors

C Anderson (appointed 12 October 1998)

A J Whiteside

P O Connell

I Cooper

Secretary and registered office

P O'Connell
Gainsborough House
Manor Farm Road
Reading
Berkshire
RG2 0NY

Registered Auditors

PricewaterhouseCoopers
9 Greyfriars Road
Reading
Berkshire
RG1 1JG

**Directors' report
for the year ended 31 March 1999**

The directors present their report and the audited financial statements for the year ended 31 March 1999.

Review of business and principal activities

On 1 April 1998 the trade, assets and liabilities were transferred to Thames Water Services Limited. As a result of this transfer, there was no trading in the financial year and profit before taxation of £1,888,000 was derived from the transfer of assets and liabilities. The company's principal activities of pipeline renovation for the water and gas utilities and the supply of materials and machinery to the pipeline renovation industry continue within Thames Water Services Limited.

All employees of Subterra Limited transferred to Thames Water Services Limited on 1 April 1998.

Directors

The directors of the company at 31 March 1999 are listed on page 1.

A Cooper who was a director of the company at 31 March 1998, resigned as a director on 12 October 1998.

Dividends

The directors declared an interim dividend of £3,386,000 in respect of the year ended 31 March 1999 (1998: £Nil). The directors do not recommend payment of a final dividend (1998: £Nil).

Directors' interests in shares of the company

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

The directors' interests in the shares of Thames Water Plc are shown in the financial statements of Thames Water Services Limited.

Year 2000

The directors consider that there are no year 2000 implications for the company due to its non-trading status. No costs have been, or are expected to be incurred by the company relating to the year 2000.

Directors' responsibilities

Company law requires the directors to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the company and of the profit or loss 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.
- 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 that disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 1985. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Auditors

Our auditors, Coopers & Lybrand, merged with Price Waterhouse on 1 July 1998 following which Coopers & Lybrand resigned and the directors appointed the new firm, PricewaterhouseCoopers, as auditors.

By order of the board



C Anderson
Director

Report of the auditors to the members of Subterra Limited

We have audited the financial statements on pages 6 to 16.

Respective responsibilities of directors and auditors

The directors are responsible for preparing the Annual Report, including as described on page 3, the financial statements. Our responsibilities, as independent auditors, are established 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 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.

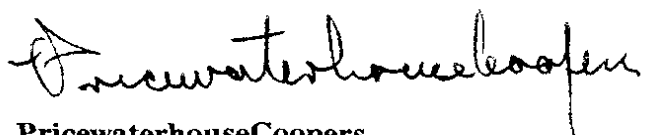
Basis of opinion

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 1999 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

24 September 1999

**Profit and loss account
for the year ended 31 March 1999**

Discontinued operations	Notes	1999 £'000	1998 £'000
Turnover	2	-	38,952
Cost of sales		-	(31,878)
		<u>-</u>	<u>(31,878)</u>
Gross profit		-	7,074
Distribution costs		-	(674)
Administrative expenses		-	(6,021)
		<u>-</u>	<u>(6,695)</u>
Operating profit		-	379
Profit on sale of operations	17	1,888	-
		<u>1,888</u>	<u>379</u>
Profit before interest and tax		1,888	379
Interest receivable and similar income		-	5
Interest payable and similar charges	5	-	(278)
		<u>-</u>	<u>(273)</u>
Profit on ordinary activities before taxation	6	1,888	106
Tax on profit on ordinary activities	7	-	(186)
		<u>-</u>	<u>(186)</u>
Profit/(loss) on ordinary activities after taxation		1,888	(80)
Dividends	8	(3,386)	-
		<u>(3,386)</u>	<u>-</u>
Deficit for year	19	(1,498)	(80)
		<u><u>(1,498)</u></u>	<u><u>(80)</u></u>

The company has no recognised gains and losses other than those included in the results 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 deficit for the financial year stated above and their historical cost equivalents.

**Balance sheet
at 31 March 1999**

	Notes	1999 £'000	1998 £'000
Fixed assets			
Intangible assets	9	-	420
Tangible assets	10	-	2,217
Investments	11	-	336
		<u>-</u>	<u>2,973</u>
Current assets			
Stocks	12	-	2,041
Debtors due in more than one year	13	614	-
Debtors due in less than one year	13	-	8,574
Cash at bank and in hand		-	44
		<u>614</u>	<u>10,659</u>
Creditors: amounts falling due within one year	14	-	(11,520)
Net current assets/(liabilities)		<u>614</u>	<u>(861)</u>
Net assets		<u>614</u>	<u>2,112</u>
Capital and reserves			
Called up share capital	18	366	366
Share premium account	19	248	248
Profit and loss account	19	-	1,498
Equity shareholders' funds	20	<u>614</u>	<u>2,112</u>

The financial statements on pages 6 to 16 were approved by the board of directors on 29 SEP 1999 and were signed on its behalf by:



**C Anderson
Director**

Notes to the financial statements for the year ended 31 March 1999

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 and the going concern basis.

Cash flow statement

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 has taken advantage of the exemptions under the terms of Financial Reporting Standard Number 1 (Revised), from publishing a cash flow statement.

Tangible and intangible fixed assets

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

Depreciation is calculated so as to write off the cost of tangible and intangible 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	100 years
Plant and equipment	4 years
Motor vehicles	3 - 4 years
Computers	4 years
Patents and licences	10 years

Freehold land is not depreciated.

Operating leases

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

Stocks

Stocks of raw materials, finished goods and consumables are stated at the lower of cost and net realisable value.

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 all known and anticipated future losses. The amount by which turnover exceeds payments on account is shown under debtors as amounts recoverable on contracts.

Foreign currencies

Trading transactions denominated in foreign currencies are translated into sterling at the exchange rate ruling on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at the exchange rates ruling at the balance sheet date. Exchange gains or losses are included in operating profit where appropriate.

Deferred taxation

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.

Pension scheme arrangements

The company operates a defined benefit pension scheme. The fund is valued every three years by a professionally qualified independent actuary, the rates of contribution payable being determined by the actuary. In the intervening years the actuary reviews the continuing appropriateness of the rates. Pension costs are accounted for on the basis of charging the expected cost of providing pensions over the period during which the company benefits from the employees' services. The effects of variations from regular cost are spread over the expected average remaining service lives of members of the scheme.

Turnover

Turnover, which excludes value added tax, represents the invoiced value of goods and services supplied and the value of long-term contract work done.

2 Turnover

The geographical analysis of turnover by destination is as follows:

	1999 £'000	1998 £'000
United Kingdom	-	38,240
Europe	-	389
United States of America	-	323
	<hr/>	<hr/>
	-	38,952
	<hr/>	<hr/>

3 Directors' emoluments

	1999 £	1998 £
Aggregate emoluments and benefits	-	194,728
Compensation for loss of office	-	30,000
	<u>-</u>	<u>224,728</u>
	<u>-</u>	<u>224,728</u>

4 Employee information

On 1 April 1998 the employees of Subterra Limited transferred to Thames Water Services Limited.

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

	1998 Number
Production	318
Research and development	15
Administration and management	160
	<u>493</u>
	<u>493</u>
	£'000
Staff costs (for the above persons)	
Wages and salaries	10,339
Social security costs	983
Other pension costs (see note 16)	230
	<u>11,552</u>
	<u>11,552</u>

5 Interest payable and similar charges

	1999 £'000	1998 £'000
On bank loans and overdrafts	-	133
On loans from group companies	-	145
	<u>-</u>	<u>278</u>
	<u>-</u>	<u>278</u>

6 Profit on ordinary activities before taxation

	1999	1998
	£'000	£'000
Profit on ordinary activities before taxation is stated after charging:		
Profit on disposal of tangible fixed assets	-	64
Depreciation charge for the year:		
Intangible fixed assets	-	90
Tangible owned fixed assets	-	925
Auditors' remuneration for audit	-	25
Hire of plant and machinery	-	4,661
Operating lease rentals on land and buildings	-	134
	<u> </u>	<u> </u>

7 Tax on profit on ordinary activities

	1999	1998
	£'000	£'000
United Kingdom corporation tax at 31% (1998: 31%):		
Consideration for group relief at 31% (1998: 31%)	-	180
Under provision in respect of prior years		
Current	-	6
	<u> </u>	<u> </u>
	-	186
	<u> </u>	<u> </u>

8 Dividends

	1999	1998
	£'000	£'000
Ordinary shares - interim paid of £9.26 per share (1998: £Nil)	<u>3,386</u>	<u>-</u>

9 Intangible fixed assets

	Patents and licences £'000
Cost	
At 1 April 1998	900
Transferred to Thames Water Services Limited	(900)
	<u> </u>
At 31 March 1999	<u> </u>
	-
Depreciation	
At 1 April 1998	480
Transferred to Thames Water Services Limited	(480)
	<u> </u>
At 31 March 1999	<u> </u>
	-
Net book value	
At 31 March 1999	<u> </u>
	-
Net book value	
At 31 March 1998	<u> </u>
	420

10 Tangible fixed assets

	Freehold land and buildings £'000	Motor vehicles £'000	Plant and equipment £'000	Computer £'000	Total £'000
Cost					
At 1 April 1998	165	1,167	3,848	289	5,469
Transferred to Thames Water Services Limited	(165)	(1,167)	(3,848)	(289)	(5,469)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1999	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	-	-	-	-
Depreciation					
At 1 April 1998	15	562	2,539	136	3,252
Transferred to Thames Water Services Limited	(15)	(562)	(2,539)	(136)	(3,252)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 March 1999	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	-	-	-	-
Net book value					
At 31 March 1999	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	-	-	-	-	-
Net book value					
At 31 March 1998	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
	150	605	1,309	153	2,217

11 Fixed asset investments

	Interest in subsidiary undertakings £'000
Cost and net book value at 1 April 1998	336
Transferred to Thames Water Services Limited	(336)
	—
Cost and net book value at 31 March 1999	-
	==

During the year the subsidiary companies below were transferred to Thames Water Services Limited.

	Country of registration	Class of shares held	Nature of business
A J Whitside & Company Limited	Great Britain	Ordinary	Dormant
Subterra Contracts Limited	Great Britain	Ordinary	Dormant
Subterra Developments Limited	Great Britain	Ordinary	Dormant
Subterra (Scotland) Limited	Great Britain	Ordinary	Dormant

12 Stocks

	1999 £'000	1998 £'000
Raw materials and consumables	-	2,041
	==	==

13 Debtors

	1999 £'000	1998 £'000
Amounts falling due after more than one year		
Amounts owed by immediate holding company	614	-
	==	==
Amounts falling due within one year		
Trade debtors	-	1,112
Amounts owed by group undertakings:		
Amounts recoverable on contracts	-	1,767
Other	-	10
Other debtors	-	223
Amounts recoverable on contracts	-	5,409
Deferred expenditure	-	53
	==	==
	-	8,574
	==	==

14 Creditors: amounts falling due within one year

	1999	1998
	£'000	£'000
Bank loans and overdrafts	-	1,809
Trade creditors	-	4,448
Amounts owed to group undertakings	-	586
Other taxation and social security	-	853
Accruals and deferred income	-	1,324
Loan from other group company	-	2,500
	<u>-</u>	<u>11,520</u>
	<u>-</u>	<u>11,520</u>

15 Provisions for liabilities and charges

Deferred taxation

No deferred taxation has been recognised in the financial statements. The total potential liability is as follows:

	Amount unprovided	
	1999	1998
	£'000	£'000
Tax effect of timing differences because of:		
Excess of capital allowances over depreciation	-	13
Other	-	106
	<u>-</u>	<u>119</u>
	<u>-</u>	<u>119</u>

16 Pension and similar obligations

The total pension cost for the company for the year was £Nil (1998: £230,159).

17 Disposals

On 1 April 1998 the trade, assets and liabilities were transferred to Thames Water Services Limited. Details of the disposal are as follows:

	£'000
Net assets disposed of:	
Intangible fixed assets	420
Tangible fixed assets	2,217
Investments	336
Stocks	2,041
Debtors	8,574
Cash at bank and in hand	44
Creditors: amounts falling due within one year	(11,520)
	<hr/>
	2,112
Profit on disposal	1,888
	<hr/>
Sale proceeds	4,000
	<hr/>

There is no chargeable gain or loss on the transfer.

18 Called up share capital

	1999 £'000	1998 £'000
Authorised		
1,000,000 ordinary shares of £1 each	1,000	1,000
	<hr/>	<hr/>
Allotted, called up and fully paid		
365,535 ordinary shares of £1 each	366	366
	<hr/>	<hr/>

19 Share premium account and reserves

	Share premium account £'000	Profit and loss account £'000
At 1 April 1998	248	1,498
Deficit for the financial year	-	(1,498)
	<hr/>	<hr/>
At 31 March 1999	248	-
	<hr/>	<hr/>

20 Reconciliation of movements in shareholders' funds

	1999 £'000	1998 £'000
Profit/(loss) for the financial year	1,888	(80)
Dividends	(3,386)	-
Net decrease in shareholders' funds	(1,498)	(80)
Opening shareholders' funds	2,112	2,192
Closing shareholders funds	614	2,112

21 Financial commitments

At 31 March 1999 the company had annual commitments under non-cancellable operating leases as follows:

	Land and buildings	
	1999 £'000	1998 £'000
Expiring between two and five years inclusive	-	145
Expiring in over five years	-	45
	-	190

22 Capital commitments

	1999 £'000	1998 £'000
Capital expenditure that has been authorised by the directors but has not yet been contracted for	-	86

23 Related party disclosures

The company is a wholly owned subsidiary of Thames Water Plc. The company has taken advantage of the exemptions under Financial Reporting Standard Number 8, from disclosing transactions with other group companies and investees of the group qualifying as related parties.

24 Ultimate parent company

The directors regard Thames Water Plc and Thames Water Services Limited as the ultimate parent company and ultimate controlling party, and immediate parent company respectively. Both companies are registered in Great Britain. Copies of the ultimate parent's consolidated financial statements may be obtained from Company Secretary's Office, Thames Water Plc, Blake House, Manor Farm Road, Reading RG2 0JN.