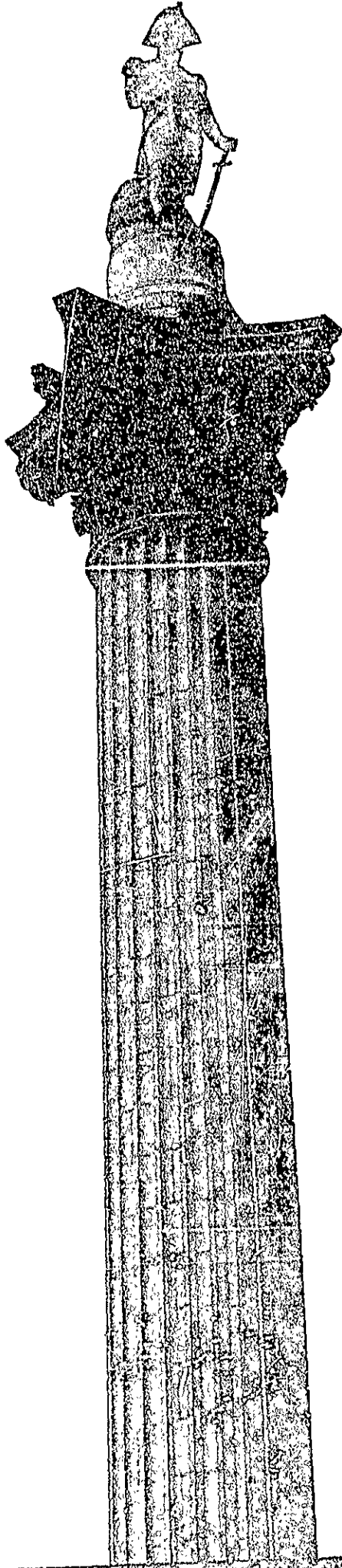


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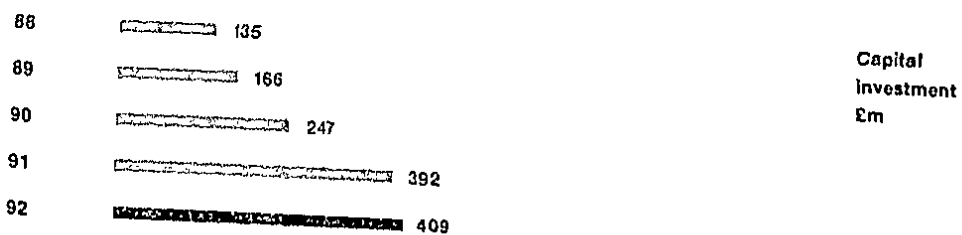
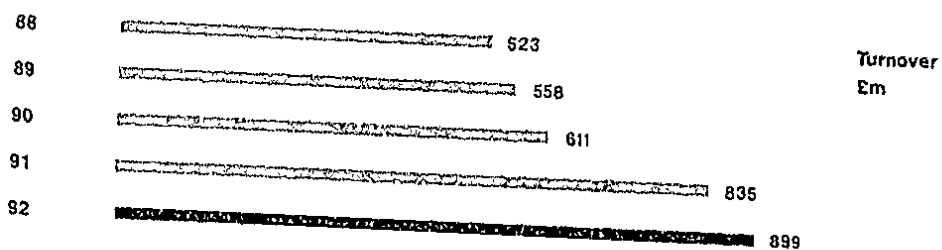


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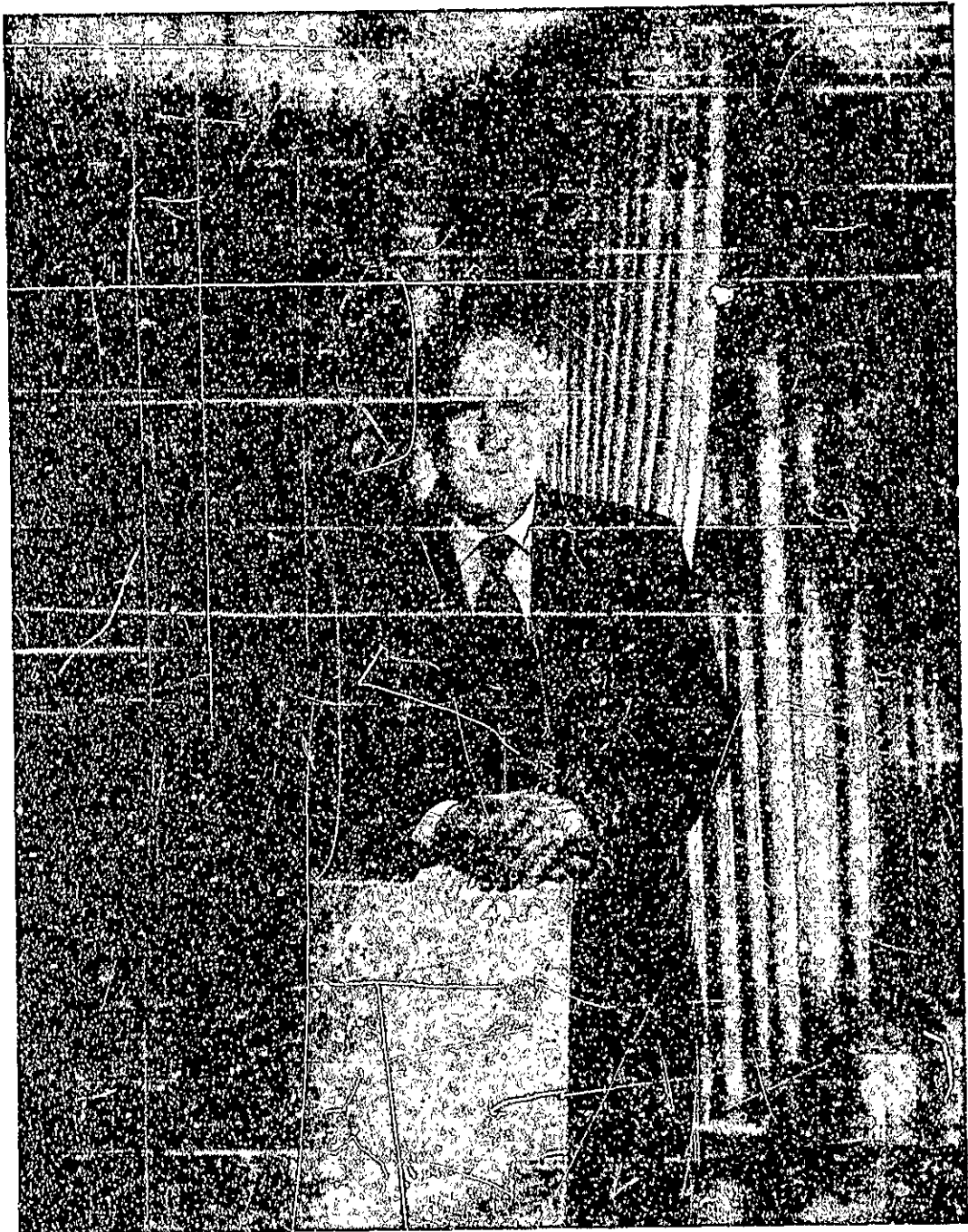
Annual Report and Accounts 1992

Financial Highlights

Year ended 31 March	1992 £m	1991 £m
Pre-tax profit	236.3	212.3
Post-tax profit	211.1	192.5
Earnings per ordinary share	54.8p	50.1p
Dividend per ordinary share	19.2p	17.5p



COMPANIES HOUSE
10, ABchurch Lane
LONDON EC4A 3DF
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"1991/92 was a year of
solid progress. Our
results were highly
credible. We have
delivered as promised
and we will continue
to do so."

Chairman's Statement

Results continue to be good. In the year ended 31 March 1992 profit before tax increased to £236m, an increase of 11% over the previous year. Earnings per share increased by 9% to 54.8p. As a consequence we are recommending a final dividend per share of 12.8p, making a total for the year of 19.2p, an increase of 10%. The dividend cover remains at approximately 2.9 times. As in the previous year this has been achieved alongside an improvement in service and a massive capital investment programme, whilst maintaining the lowest combined water bills in England and Wales.

As we reported at the half-year, Utilities turnover was lower than expected mainly as a consequence of small business failures and reduced demand from some large metered customers. Very little operating cost is saved from a marginal reduction in output so other costs were reduced to minimise the impact on profit. Despite unhelpful weather conditions we operated throughout the year without imposing any hose-pipe or other bans. The overall result, therefore, is highly creditable.

The large capital programme to improve water quality, service and efficiency has been managed to time and within budget. Of the £409m invested in fixed assets throughout the Group, £394m was spent by the Utilities company compared with £389m in 1990/91, demonstrating our ability to maintain this level of investment

throughout the decade. Property disposals have been contained pending an improvement in the market. However our major development at Barn Elms has received planning approval.

Our enterprise (ie non-utility) businesses have performed well and collectively moved into a profit of £6m after interest. The policy of generating a future profit-stream from water-related businesses complementary to the regulated utilities business, has made progress in the year. We anticipate increasing earnings from such businesses to support future earnings per share growth. We have



Sir Roy Watts escorts HRH Princess Alexandra at the opening of the London Water Control Centre at Hampton.

acquired UTAG in Germany, Leopold in the USA, Morgan Collis Group, Sub-Scan and South Bucks Effluent in the UK. We also set up a 60:40 venture with Northumbrian Water to purchase Subterra. In a full year the 1991/92 turnover would have been in the order of £250m – equivalent to a substantial UK company itself. Such activities are consistent with our basic skills and experience. They are separately financed to ensure no cross-subsidy nor do they detract from the efficient running of the Utilities business. We shall continue to

expand step by step and only after careful consideration.

Much progress has been made throughout the Group in customer contact, in quality assurance, in training, in employee relations and in succession planning. Thames Water Utilities achieved many improvements in levels of service. Progress continues. There is more to do.

Your Board is a leading proponent of sound corporate governance. From the outset non-executive Directors have chaired Board Committees concerned with top executive remuneration, financial audit, share dealings and donations to charity. We have now added an Environmental Audit Committee chaired by Sir Peter Harrop, referred to later in the report. A non-executive Director also sits as a Pension Trustee. Pension fund investments are managed by independent advisers. No Thames pension fund has invested in any Thames Water shares.

In view of our strong financial position we voluntarily reduced by a half of one per cent the permitted price rise in our Utilities business for the year beginning April 1992 to give direct benefit to our customers: a small but important contribution.

Thames Water is an experienced, international company with much talent. My thanks to all employees for an excellent job throughout the year. We have delivered, as promised, and we will continue to do so.

Roy Watts
Chairman

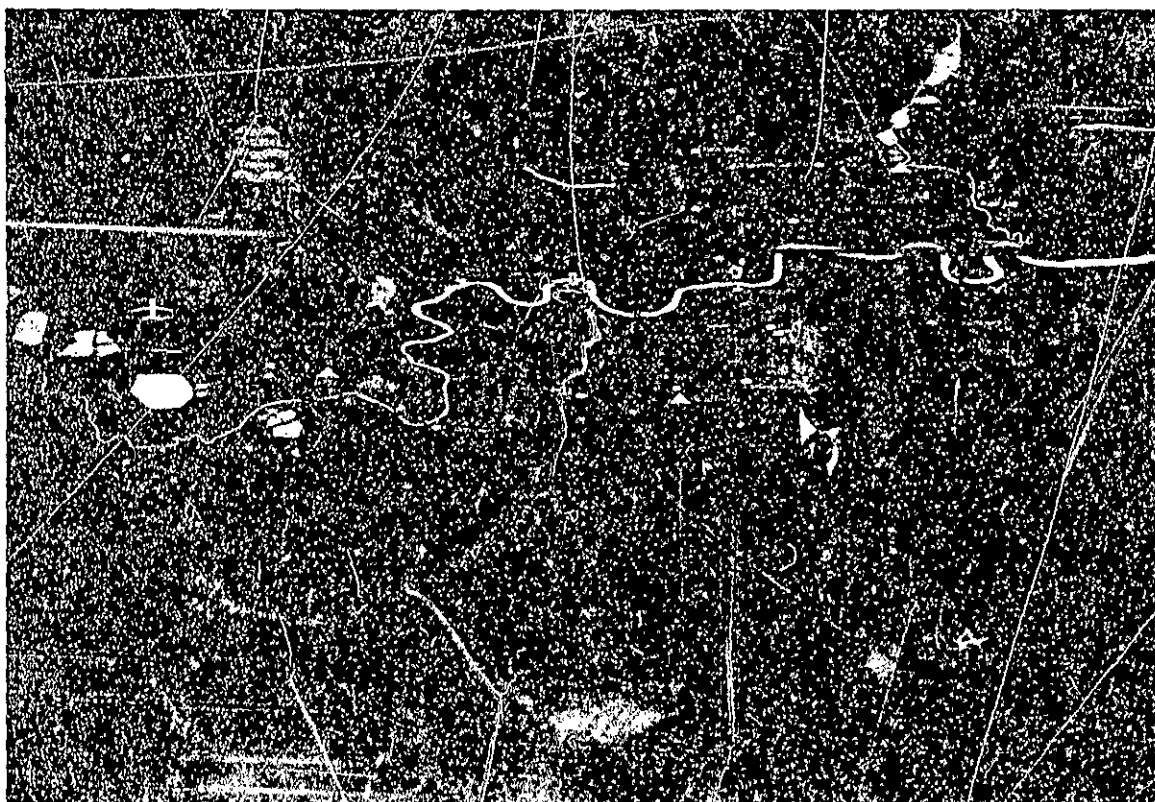
Group Chief Executive's Review

engineering division has reduced design and management overheads.

As well as our investment in plant and product quality, we continue to invest to expand our technological and production capacity, and improve control and efficiency through the latest information technology.

local distribution systems by 10% during 1991/92 to 18% of total supplies. The key to this success has been the application of new technology to the detection, location, and measurement of leaks.

On 1 April 1992 we changed the way we manage our sewerage activities to improve the quality of service and to increase efficiency. We have entered into management contracts on a competitive commercial basis with seven consortia comprising groups of



I am pleased to report that we have made solid progress in all the Group's businesses.

The Utilities company has done well and successful management of our large capital investment programme is critical. We invested a total of £394m during the year, met all our key targets and are ahead of schedule in some. We maintained tight control of projects whilst at the same time improving productivity by better design and innovation. We benefited from relatively stable contract prices, and the reorganisation of our

Operationally we maintained water supplies throughout another dry summer without restrictions. We are having to manage our water resources very carefully again this year following a fourth consecutive dry winter. The measures we took last summer to reduce leakage and improve distribution in some critical areas are helping matters.

We reduced leakage rates in our

Mike Hoffman in the control room of the new London Water Control Centre. Behind him is its centre-piece, a computerised monitor panel which can display current information from any part of the London water distribution system, from reservoir levels to the smallest pumps.

neighbouring local authorities, with two independent contractors, one of which is our associate company Brophy Group Plc, and with 53 local authorities.

We have started to reorganise the Utilities distribution depots and district management units. This will lead to improved customer service, such as responding to burst water mains, and should produce estimated cost savings of £10m a year.

We have improved customer contact but have not yet realised the full potential of our new facilities at Swindon. The relentless pressure on cost reduction and improved customer service will continue.

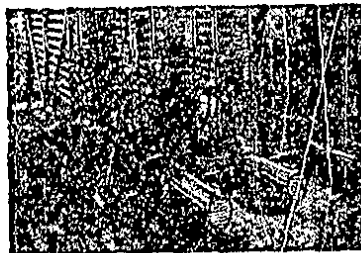
Our enterprise businesses grew as a result of major acquisitions in the last quarter, and now employ over 3,000 people world-wide. Expansion during the year represents a significant step towards our aim of becoming a major international company in water-related businesses.

PWT Worldwide's two divisions, Design and Contracting and Products and Services, have performed well. They are now operating profitably, and despite recession ended the year with a strong order book both in the UK and internationally. Further changes in Design and Contracting to form PWT Asia-Pacific has strengthened our presence in this strategically important part of the world. The acquisition of Leopold in the USA has added some high quality and innovative filtration products to the Products and Services division. We will use it to improve market penetration in the United States.

Our operations in Europe have been significantly expanded by our acquisition of UTAG, a German

engineering design and contracting company operating in the municipal water and waste water sector. Through UTAG, we will exploit the opportunities arising from the vast refurbishment investment needed to meet EC standards in eastern Germany and develop prospects in the rest of continental Europe.

The separation of Thames Water Enterprises into Thames Water International Services (TWIS) and Thames Water Environmental Services (TWES), which we reported last year, has been very successful. Both companies have good prospects. TWIS has developed



A PCI Membrane Systems reverse osmosis plant located in a French dairy, concentrating whey from 6% to 24% solids.

from its traditional training and consultancy services to taking on operating and maintenance contracts. A number of build, operate and transfer schemes are also being worked up.

Through small but carefully selected acquisitions, TWES has increased its range of companies offering specialist technical and surveying services to the underground pipe and drain market. Our modest waste management business will develop opportunities based on our core sewage treatment and sludge disposal activities.

Land sales have again been restrained in response to the

continuing depressed property market. We have continued to work on a number of projects and we received planning permission for our wildfowl reserve and associated development at Barn Elms.

We take seriously our role within the community. Our extensive schools liaison programme has been received enthusiastically by pupils and teachers. We invite representatives of local communities to the formal openings of completed capital projects, and mount a considerable number of exhibitions throughout our Utilities operating area. We agree payment terms with each of our suppliers and ensure that we pay them on time.

R&D continues to support the Group and some projects will allow effective commercial exploitation. Strong links to the investment programme ensure designs take early advantage of the research findings. The development and application of odour mapping techniques has enabled us to identify key sources of odour at sewage treatment works and prepare action plans to deal with them.

Of particular significance is the advanced water treatment pilot plant at Kempton Park. This has provided valuable data in its first year of operation which has already been utilised in the more cost-effective design of advanced water treatment plants.

The following pages contain a review of the activities of the main operating companies within the Group.

Mike Hoffman
Group Chief Executive

Thames Water People in Action



Mike McGuire is an Instrument Technician based at Coppermills Water Treatment Works in north London. He helps to maintain our increasingly sophisticated systems such as this chemical treatment control panel.

Thames Water employs some 10,500 people world-wide with around 2,000 working outside the UK.

The strength of the Group and its business success depends on its people, their commitment and the quality of their skills. We aim to recognise the contribution of employees both as individuals and as team members, to treat them fairly and equitably and to provide high quality training and development. We are an Equal Opportunities employer.



Leakey Lau obtained a degree in mechanical engineering in the UK in 1990, he was the Site Engineer in Au Tau Water Treatment Works in Hong Kong a RWT project



An engineer with UTAG, Roland Mende is responsible for the planning of drinking water pipe ducts at Köthen, Zörbig, Tharau and Maizdorf (in the Halle district).

Each subsidiary is responsible for the management of its human resources. The Group ensure that top level management and technical resources meet business needs, provide guidance and ensure minimum standards.

In particular we are committed to:

- Professional recruitment and selection.
- Relevant training and development.



Julie Gooch is a CAD Technician at our Utilities Engineering Centre in Reading. She works on a variety of sewage treatment plant projects



Our subsidiary company Sub-Scan has around 14 survey field crews like Richard Nash (Surveyor) and Kelly Hays and Andrew Prior (Assistant Surveyors), checking the internal measurements of our sewer system

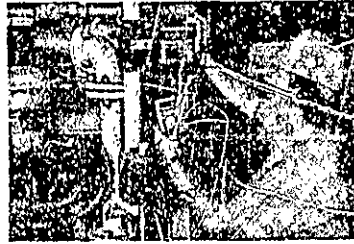
- A safe and healthy working environment.
- Effective organisational development and the management of change.
- Good communication.
- Fair treatment and equitable rewards.



A Senior Land Surveyor with TW Utilities, Jim Woodhams is on secondment to TW International. He is carrying out a hydrographic survey in Tobago



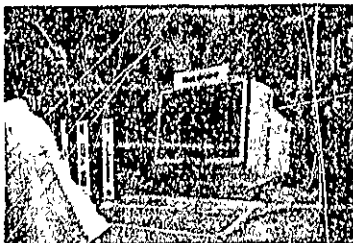
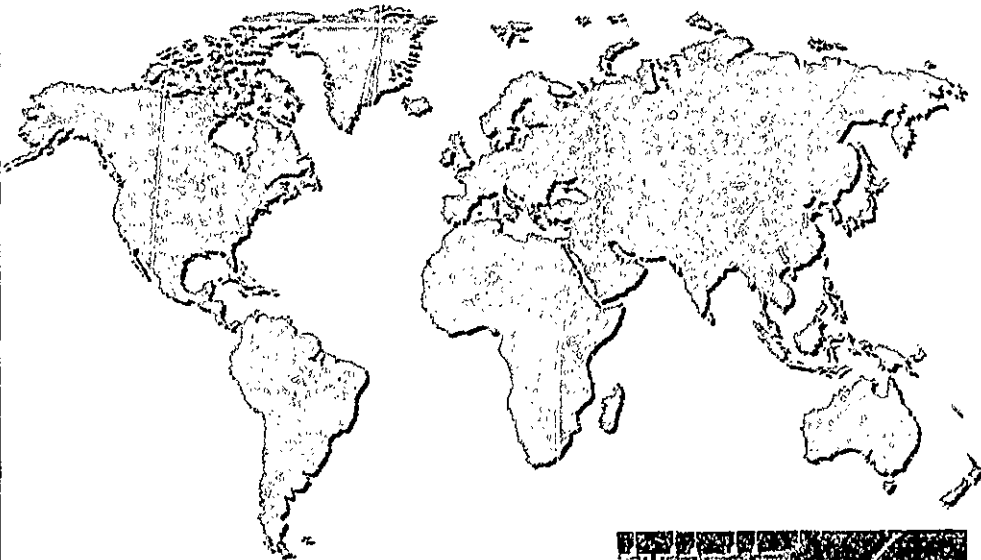
As part of an ongoing programme of leakage detection, Richard Coussé, a Clean Water Inspector in our London district, uses a 'leak noise correlator' to check for possible leaks.



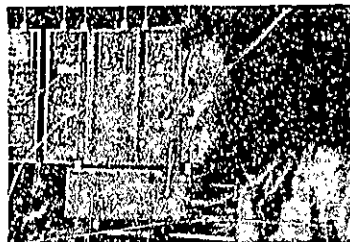
A Field Service Engineer with LA Water Treatment Corporation since 1975, Dor Anderson is working on an ion exchange unit at a large oil refinery in Mobile, Alabama, USA.



In one of our supervisor training sessions Peter Moran, Jennie Hunt, Terry Tapper and Dave McLuggage (L to R) are involved in the Acorn Project – a hypothetical scenario involving the construction of a new development and the services that would be needed.



At our Customer Centre in Swindon, opened in 1991, Customer Contact Agent Linda Beasant uses the latest information technology to answer a customer's query.



Johan Jongeneel has been a Project Manager with Homé, a PWT subsidiary in Holland for four years. This project is a waste water treatment plant at a Dutch Company, Pronto Print BV, which produces printed circuits.

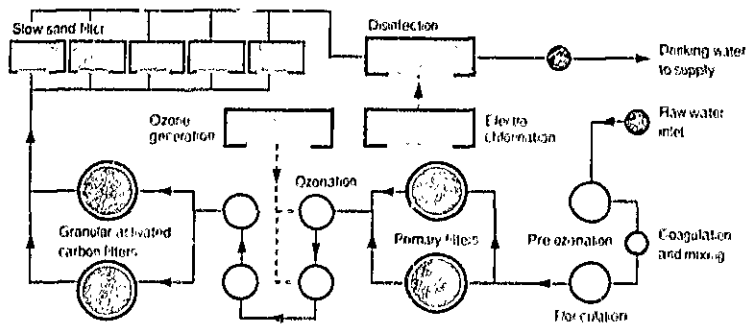


Kate Totmar is an Analyst in the microbiology department of our new Millharbour laboratory. She is using a membrane filtration technique for testing for micro-organisms in drinking water.



During the year our £480m programme of investment to achieve even higher water quality got under way with our full scale pilot plant at Kempton Park, and with major projects starting at Wallon and Astiford Common.

The diagram below shows the treatment processes at our advanced water treatment centre at Kempton Park.



Thames Water Utilities

Directors: Bill Alexander (Managing), Mike Hoffman (Chairman), David Badcock, Jim Boudier, John Hurcon, Peter McIntosh, Mike Robbins, Bill Harper, David Lulfrum, Richard Marshall.
Turnover: £1754m
Employees: 15 62

Within the Thames Group, Thames Water Utilities is the principal operating company. It carries out the regulated core business of supplying high quality drinking water to over seven million customers, and collecting and treating waste water from a population in excess of eleven million throughout London and the Thames Valley.

We have made excellent progress with the programmes we described in last year's report. Many of our customers are benefiting from improved services. We operated throughout another dry summer without imposing any hose-pipe bans, and our customer communication centre at Swindon became fully operational. Our extensive capital investment programme is ahead of schedule; we invested £394m during the year and achieved many key targets. We opened an advanced water treatment centre, two new laboratories and the control centre for the London Water Ring Main.

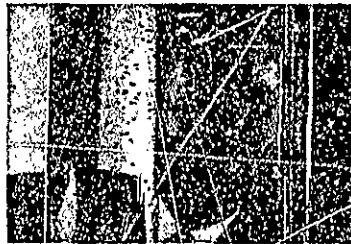
Water

Through careful management and selected improvements to the distribution system in some critical parts of our operating area, we were one of the few companies which did not have to impose restrictions on water use during the summer. In the

short term, particularly following the fourth successive dry winter, the water resource situation is difficult.

The measures we took last year will benefit our customers even more this summer, and we have been able to increase overall water availability from important source works projects in Oxfordshire and north London. Also, new sections of the Ring Main started delivering water to over one million Londoners from pumping stations at Streatham, Brixton and Battersea.

The present water situation reinforces our view that for the future more water will be needed in the west to meet growing demand. We have published our outline proposals



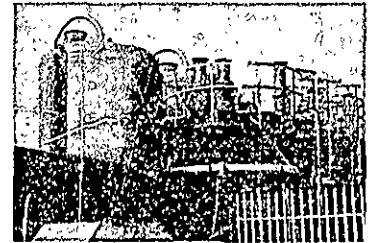
Utilities MD Bill Alexander at the advanced water treatment pilot plant at Kempton Park, opened in 1991 to test the application of new process technologies

for a major new reservoir in south-west Oxfordshire, and we have consulted widely with the communities and local authorities concerned. The technical investigations to find the best site have been completed and we are now carrying out an environmental assessment.

Public and media interest in the quality of drinking water remains high, although at times some comment is ill-informed. The water we supply is of high quality, as confirmed by the first report since privatisation of the Government's

Drinking Water Inspectorate, July 1991.

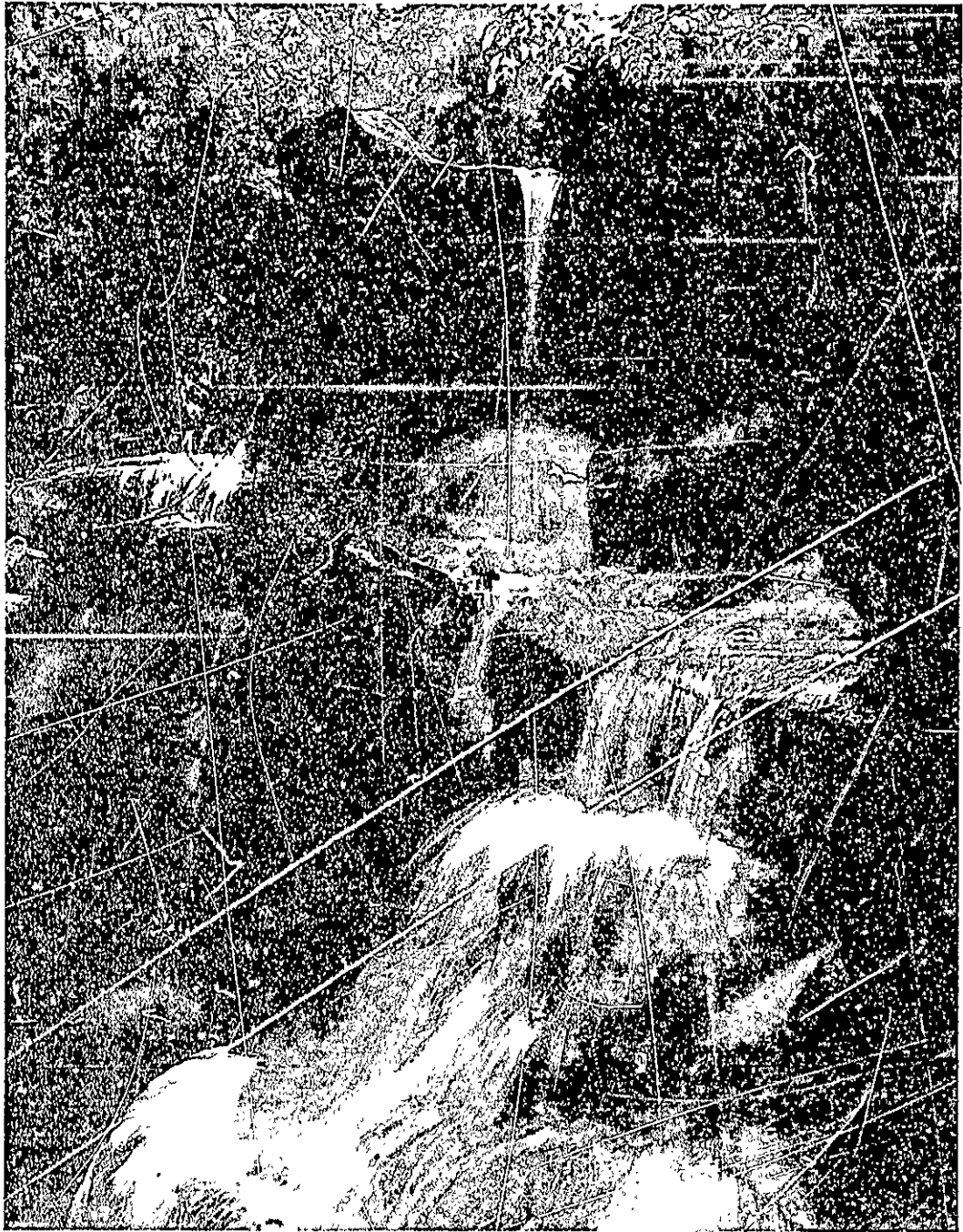
Although all our drinking water meets international and UK health-based limits, we are making further improvements to achieve the more exacting European Community standards. In July we opened an advanced water treatment (AWT) centre at Kempton Park. This full-scale pilot plant built by one of our group companies, PWT Projects, is developing the application of AWT technology to Thames' particular water treatment processes. The AWT centre uses ozone and granular activated carbon to remove any traces of organic substances – such as pesticides – which are sometimes



A view of the new chlorination plant at Walton. Electrochlorination on site avoids the hazard of storing quantities of chlorine gas which is used during the disinfection process.

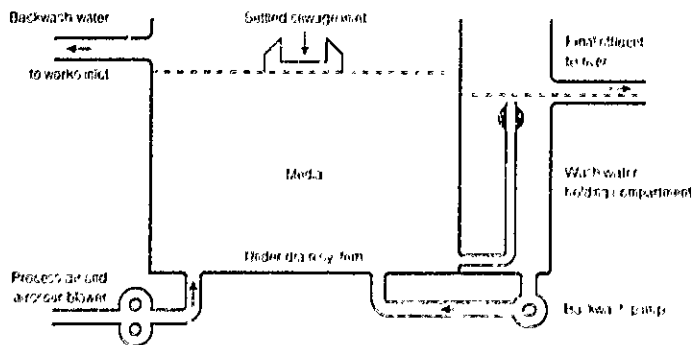
in our raw water supplies. This AWT technology is at the heart of our planned £480m investment programme to improve water quality.

Our largest single project, the 80km London Water Ring Main, continues to make excellent progress and is six months ahead of schedule. We have advanced our tunnelling programme to take advantage of favourable prices. The contract for the final stage, 16.6km from Ashford Common to Barnes, was awarded in July. Our contractors use Thames' own tunnelling machines, which were delivered ▶



As major dischargers of treated waste water, completion of our extensive programme of refurbishing 157 sewage treatment works will make a significant contribution to improving the quality of water in streams and rivers in the Thames' catchment

Below: A diagrammatic representation of the Thames Flooded Filter. A product of our R&D programme, the filter is used in small waste water treatment works.



Thames Water Utilities

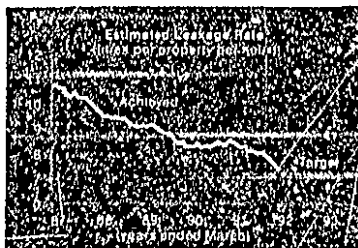
during the year and built in Canada to our own specification. With these new machines we have set three new world tunnelling records – for example, in a 24 hour period during March we bored 101 metres of tunnel.

The Ring Main, now halfway to completion, is already distributing 500 million litres of drinking water every day to one million customers in south, central and east London, improving reliability of supply.

In January, HRH Princess Alexandra opened our new control and communication centre at Coal Wharf, Hampton. Built in just 42 weeks, this high-tech facility will eventually be the nerve centre for the Ring Main and for the whole of our water supply, treatment and distribution operations in the Greater London area.

Environment

In March we completed a major three-year programme of refurbishing and upgrading many of our sewage treatment works. Eighty-one projects were completed during the year. Overall, some £260m has been invested in 157 works to ensure that the treated waste water returned to the river system meets the quality

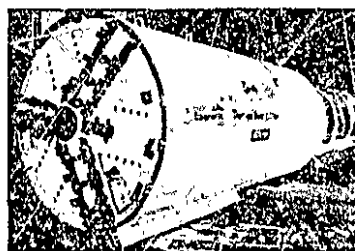


This graph shows the significant progress we are making in reducing leakage from the distribution system. The estimated leakage rate includes that from customers' supply pipes and premises.

standards set for each plant. The works involved range from large plants, such as Swindon and Camberley, to very small rural plants serving populations of less than 1,000.

In some cases works have been virtually rebuilt. Automatic monitoring and control systems help to maximise process quality and minimise operating costs. Sewage gas from some of our major works is being used as a source of heat and power, which reduces both costs and greenhouse gas emissions.

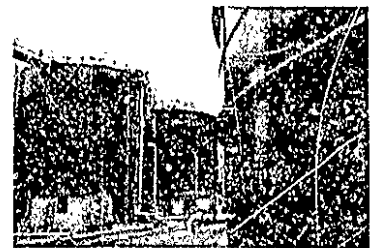
During this extensive modernisation programme many of the quality standards for the plants involved were relaxed, but from 1 April 1992 they have applied in full. We are committed to meeting these. We are liable to prosecution if we fail, or if we discharge waste water without a consent. During the year one discharge without consent following a blockage at a works brought prosecution from the NRA, and proceedings are pending in one case of breach of consent conditions where the terms of the consent are under appeal. There were three other prosecutions following discharges from blocked sewers.



One of the three new tunnel boring machines designed to Thames' specification and operating up to 60 metres below London on the final phase of tunnelling for the London Water Ring Main.

We will continue to invest to ensure that all our plants continue to meet current consent standards. Our existing investment programme does not, however, include any additional expenditure which may be required to meet tougher consent standards following the NRA's review of river quality objectives, or the implementation of the EC Urban Waste Water Treatment Directive.

We are making good progress with our plans to build incinerators to replace discharges to the North Sea as the method of disposing of London's treated sewage sludge. Following extensive consultation with local communities and a detailed assessment of the impact on the environment, we have submitted planning applications for two incinerators at our large treatment works at Beckton and Crossness in east London. The incinerators will use the latest technology in Europe; air emissions will meet toughest European standards. Commercial opportunities for the ash residue are being explored; otherwise it can safely be used for land-fill. Power will be generated from the incineration >

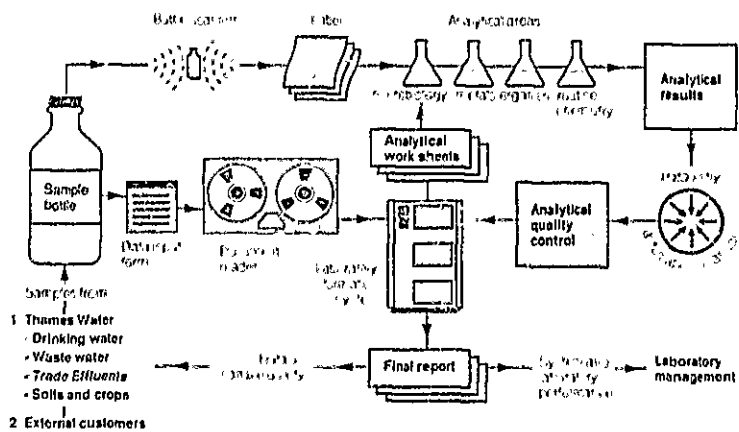


Sludge digesters at Banbury sewage treatment works, one of the 157 plants in our major programme to improve quality of treated waste water, where £10m has been invested in a major refurbishment.



Both of Thames' new laboratories were opened in 1991/92, to support our higher standards of quality and efficiency. They replace 25 smaller laboratories. This one is in Docklands.

Each of the laboratories is designed to process two million samples each year, at maximum efficiency. The diagram below shows the management control procedures.



Thames Water Utilities

process for use on-site or exported to the electricity grid. Odour from the existing sludge treatment process will be substantially reduced.

Thames Water is committed to the preservation and protection of our heritage and wildlife, and to enhancing the environment. In the Utilities operating area there are nearly 4,000 square kilometres of protected landscapes, 2,000 ancient monuments and 450 sites of special scientific interest. We have a Conservation and Archaeological Unit which supervises and develops conservation policies and practices. For example, all new engineering projects are vetted for their impact on the environment, and we consult with relevant community organisations. During the year we published the first issue of 'Conservation News', which explains our approach and gives practical examples of what we are doing.

We share the growing concern about low river flows in parts of our region brought about by prolonged dry weather; we have voluntarily reduced our abstraction of water where that is possible without endangering supplies to our customers.

Internally, we are implementing environmental policies covering waste reduction, energy and the recycling of paper, metals, oils and plastics.

Customers

In addition to our extensive capital investment programme, our customers are benefiting in other ways.

We have issued our new code of practice and there are compensation arrangements for the rare occasions that we fail to honour it. Our customer centre at Swindon, which deals with every type of enquiry, now serves customers throughout the whole of our area.

We continually monitor the quality of our services, as does the Director-General of Water Services. Common measures of performance are used by all companies covering such matters as water availability, water pressure and response to billing queries and complaints. In his annual report, the Director-General noted that in 1990/91, the Thames region Customer Services Committee



Our quality control process involves the regular sampling of water as it arrives at customers' premises.

had the lowest level of complaints. We are working hard to improve performance in our day-to-day services and through many initiatives we are making good progress.

Quality Control

Our laboratory rationalisation programme was completed during the year with the commissioning of two new laboratories, in Reading and in Docklands. Spencer House in Reading was formally opened in September by Sir Hugh Rossi, Chairman of the House of Commons Environmental Committee.

Costing around £10m each, the

new laboratories were designed to our own requirements and bristle with the most advanced scientific equipment in the world. Each analyses two million water samples a year, ensuring that we continue to provide the highest quality water. They carry out the comprehensive scientific tests on all drinking water supplies as required by UK Water Quality Regulations.

The technology enables us to carry out chemical and microbiological analysis of water supplies, effluent and sludge, and to conduct full investigations of process streams.

By concentrating all our scientific



Many of our capital works include projects to improve the landscape and the natural habitat for wildlife. The Pinkhill Meadow nature reserve between the River Thames and Farmoor Reservoir was opened recently.

analysis into these two laboratories we have been able to make considerable improvements in productivity and efficiency and have closed or are closing all our other 25 laboratories.

Employees

We have made substantial progress in modernising our personnel policies. We introduced a new pay and grading structure in which automatic increments were replaced by progression based on individual performance. Our project to expand our skills base and modernise employment conditions is nearing completion.

PWT Products and Services

Managing Director: David Banfield.
Turnover: £43m (excluding Leopold)
Employees: 890

The companies within PWT Products and Services Division trade in four broadly defined business sectors in Europe, Australasia and South Africa. These are: industrial and commercial water treatment, membrane systems for industrial process separations and effluent treatment, pipeline products and mobile water treatment.

Recently, through the acquisition of F B Leopold Co in the USA, we added a water treatment equipment supplier to complement our international design and contracting business.

Despite lower turnover caused by the recession, these companies have performed well, meeting profit targets and improving returns on sales. Whilst we have benefited from our niche products and the increased investment by the water industry, the industrial market has been particularly difficult and little improvement is foreseen in the current year.



David Banfield prepares to hand over another mobile water treatment unit, which can produce drinking water from heavily polluted raw water in hostile environments

Trading conditions were depressed for Permutit, the leading UK supplier of industrial water treatment products, as its activities throughout the world suffered from recession.

Stella-Meta Filters ended the year with a strong order book. This included a contract with the Ministry of Defence for the supply of its mobile water treatment units which were deployed in the Gulf War. The merging of Portacel with Stella-Meta Filters has considerably reduced overheads. Portacel's performance improved, with sales of its chlorine monitoring equipment gaining from water industry investment.

FW Talbot had a good year throughout the world with its pipeline products. In this company we have invested heavily in new products.

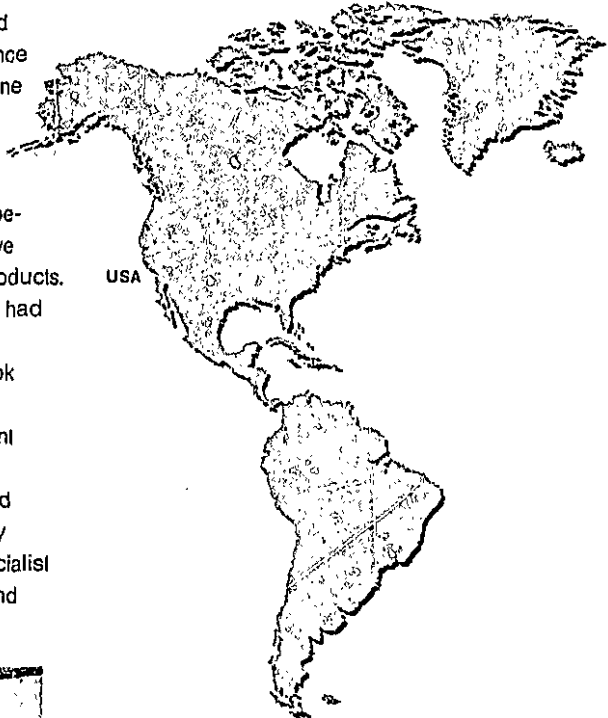
PCI Membrane Systems also had a good year internationally and currently has a strong order book in its niche market for specialist industrial processing and effluent treatment.

Our two companies in Holland have performed well, particularly Houseman BV, suppliers of specialist chemicals for water treatment and chemical cleaning services.



A filter underdrain system being tested at the research laboratory of our newly acquired subsidiary F B Leopold Co. near Pittsburgh.

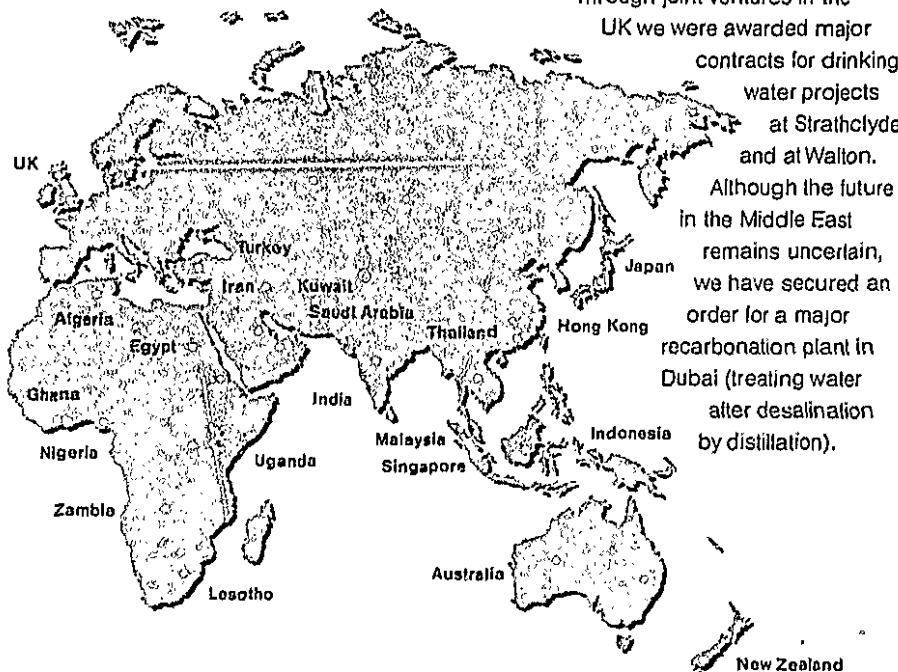
In January 1992 we acquired the F B Leopold Co, a major supplier of filtration systems for the industrial and municipal markets. Based near Pittsburgh, Leopold has a strong portfolio of new products in filtration and sludge processing. Its acquisition will enhance PWT's range of products and technology and give us a stronger presence in both North and Central America.



PWT has numerous current projects throughout the world.

PWT Design and Contracting

Managing Director: Mike Rowe
Turnover: £104m
Employees: 708



PWT's Design and Contracting division is benefiting from its strategy of consolidating its businesses into one international organisation. It designs and builds water and waste treatment plants for drinking water, sewage and industrial applications.

The division has had a successful year - moving into profit following a loss last year when we were adversely affected by the Gulf War. More significantly, we received a record number of orders during the year in the face of recession in many of our markets.

These include major orders in Australia, China, Dubai, Indonesia, Japan, Malaysia, New Zealand, Singapore, Taiwan, USA and the UK.

In the USA, L'A Water Treatment has continued to secure business in the evolving market for potable treatment plants utilising membrane technologies, as well as further orders for plants to provide high purity water for refinery and power station use.

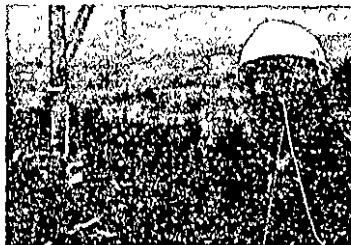
Through joint ventures in the UK we were awarded major contracts for drinking water projects at Strathclyde and at Walton.

Although the future in the Middle East remains uncertain, we have secured an order for a major recarbonation plant in Dubai (treating water after desalination by distillation).

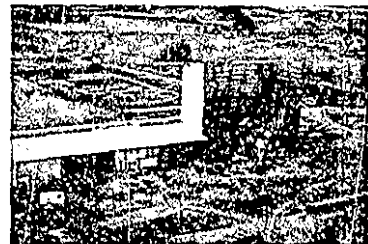
The year has seen the successful completion of several major plants, including drinking water treatment plants for Au Tau in Hong Kong, Nightcap in New South Wales and several plants in the UK, power station water treatment plants for Mae Moh in Thailand and Seraya in Singapore, with major progress being made on Anpara in India. In Australia the plant at Loy Yang is substantially complete and the significant 'zero discharge' water and effluent plant for the Mount Piper Power Station is ahead of schedule and within budget.

On acquisition we inherited some contracts with particular difficulties; these have now largely been completed or placed on a secure basis

To complement its well established expertise in the clean water sector, the division is developing its skills in waste water treatment. Among the orders secured during the year were the process design of, and supply of all mechanical and electrical equipment for, a major sewage treatment project for Wellington, for sewage treatment plants in the UK utilising 'deep shaft' technology and biological aerated filters, and for industrial effluent plants in Malaysia and Australia.



Mike Rowe on site at the Overton clean water treatment plant under construction in Strathclyde



The environmentally-friendly water treatment plant at the Mount Piper Power Station in Australia, one of PWT's many projects around the world.

Thames Water International Services

UTAG

Managing Director: Dr Ulrich Holesovsky.
Employees: 1,100

In January 1992 we acquired UTAG – Mitteldeutsche Wasser-und Umwelttechnik AG – a German engineering design, consultancy, and contracting company. Based in Saxony – Anhalt in central Germany, UTAG operates in the municipal water supply and waste water treatment sector of the former GDR. It comprises a group of several companies, organised into three divisions: consulting, contracting and services.

Prior to its restructuring as a state enterprise on the reunification of Germany in 1990 UTAG had, for many years, a virtual monopoly operation in the municipal water sector.



UTAG has offices throughout eastern Germany, with its Head Office at Halle in Saxony-Anhalt.

Since 1990 the company has responded well to the new competitive environment, improving efficiency by almost halving its workforce. In 1991 it had a 30% share of a growing but competitive local market.

The German Government is committed to a large capital investment programme over the next ten years to bring water and waste water standards in eastern Germany up to EC levels. About a third of this investment, £1bn per annum, represents real market opportunities for UTAG, backed by



Dr Holesovsky in front of the granular activated carbon filters at Beason Waterworks in eastern Germany.

Thames' commercial and financial strength and our expertise in the UK and world-wide.

Since acquisition we have tightened management and financial control and have strengthened its commercial expertise. We have reviewed the activities undertaken by UTAG and are carrying out a rationalisation programme.

Managing Director: Ian Ritchie
Turnover: £2m
Employees: 14

Thames Water International Services (TWIS) provides training and consultancy assistance to water utilities in many countries. Examples of major contracts won during the year were in Jordan (a 'twinning' arrangement for water supply and distribution training) and in Mexico (a study to



Ian Ritchie at Reading's Fobney water treatment works with training attachments from Thailand and Jordan.

advise on the reduction of pollution in the Rio Lerma catchment).

TWIS is currently operating in Argentina, Cyprus, Dubai, Egypt, Ghana, India, Jordan, Malaysia, Mexico, Pakistan, Sardinia, Sri Lanka, Spain, Trinidad & Tobago, Turkey and Uganda.

The company is developing build, operate and transfer (BOT) projects with local partners, to take advantage of new opportunities internationally to design, build, finance, and operate complete water and sewage treatment systems. From various companies within the Thames group we are able to bring together into a single package operational expertise, design and contracting skills, quality products, and project finance.

Thames Water Environmental Services

Managing Director: Andrew Robertson.
Turnover: £31m (including £17m share of joint venture income).
Employees: 268

Thames Water Environmental Services (TWES) is a relatively new group of companies which made a small profit in the year. Considerable progress has been made in developing three businesses in the expanding environmental market.

Sewerage Services

The objective of this group is to provide a comprehensive planning, maintenance and refurbishment service for the UK's drain and sewer networks.

In April 1991 we acquired the Morgan Collis Group, a leader in closed circuit television sewer surveying, flow monitoring and drainage consultancy. We added a further capability to this company in February 1992 with the purchase of Sub-Scan, one of Britain's largest manhole survey companies.

In January 1992 we established a 60:40 joint venture with Northumbrian Water Group to buy Subterra, a major contractor and process developer in 'no-dig' rehabilitation of pipes and sewers. These activities complement Metro Rod's drain and pipe cleaning

business, purchased in 1990. All companies traded profitably over the year.

Waste Management

Thames Waste Management's operational activities expanded through the purchase of the Norlands Lane landfill site near Chertsey in July 1991 and the South Bucks Effluent Company in February 1992. The latter is a liquid effluent tankering business to add to our previous acquisition in this field.

Progress has been made in planning for the development of



Andrew Robertson at Wallhamstow Marshes where a Subterra crew are re-lining a sewer using their patented 'roll-down' process.

certain Thames Water redundant sites for waste applications, such as liquid effluent treatment and transfer stations.

Brophy Group

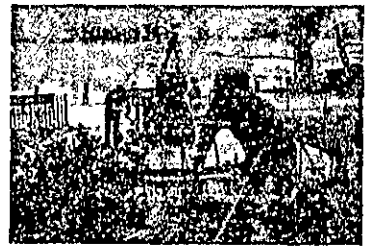
This associate company, in which we have a 50% interest, showed rapid growth over the year. The grounds maintenance division operated successfully on existing contracts and won substantial new

business for next year, including the contract for the upkeep of Kensington Gardens, which will both be profitable and enhance Brophy's reputation as the leader in this growing market.

Brophy received ten international and national awards for the quality of environmental and landscape works during the year.

The downturn in UK construction activities put pressure on margins in the landscaping and recycled soils business, but both are well established to take advantage of a return to more normal conditions.

New activities were established in



The contract for the maintenance of Kensington Gardens was won by our associate company Brophy Group.

sewer maintenance, digester cleaning and contaminated land clearance, which complement the other businesses within Thames Water Environmental Services.

Board Members

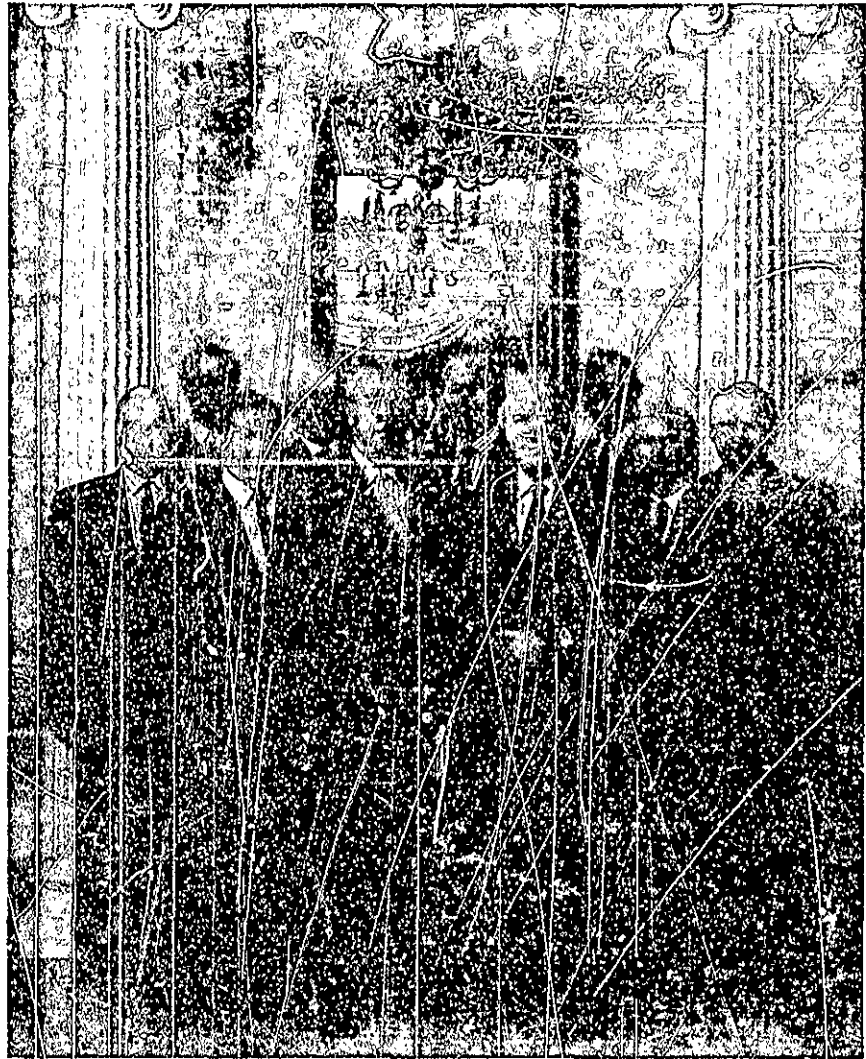
Sir Roy Watts CSE DBA MA FRAS IPFA (66), Chairman was appointed Chairman of Thames Water Authority in October 1983. He was formerly Chairman and Chief Executive of British European Airways and Chief Executive and Joint Deputy Chairman of British Airways. He is currently Chairman of IBC Plc and Frank Graham Group, Consulting Engineers.

Mike Hoffman FEng (52), Group Chief Executive joined Thames Water Authority in January 1989 as Group Chief Executive. He is Chairman of Thames Water Utilities and other operating subsidiaries. A chartered engineer, he was previously Chief Executive of Babcock International Plc, Chairman of Perkins Engines Group and President of Massey Ferguson Farm and Industrial Machinery Division. He is currently a Non-Executive Director of Cray Electronics Holdings Plc. He is a member of the Engineering Council and a part-time member of the Monopolies and Mergers Commission.

Bill Harper IPFA (48) Group Director, Corporate Activities was appointed to the Board of Thames Water Authority in March 1989. He joined Thames Water Authority in 1974 as Chief Accountant and was Managing Director of Thames Water Authority. As Group Director, Corporate Activities he has particular responsibility for the environment, community relations and for developing international business based on utilities expertise. Member of Environmental Audit Committee, Trustee Director of the Thames Water Pension Schemes.

David Luffrum IPFA (47), Group Finance Director was appointed to the Board of Thames Water Authority in March 1989. An accountant, he joined Thames Water Authority in 1974, having previously held financial posts in the Thames Conservancy. He became Finance Director of Thames Water Authority in 1987. Member of Share Dealings and Charities Committees.

Sir Christopher Leaver OBE (54), Non-Executive Director, Deputy Chairman was appointed



Left to right: Sir Peter Harrop, Bill Harper, Sir Christopher Leaver, John Thomson, Mike Hoffman, John Worlidge, Sir Roy Watts, Clive Carsley, David Luffrum, Robert Clarke

to the Board of Thames Water Authority in 1983. He is a former Lord Mayor of London, a former Director of Thermal Scientific Plc and the Bath and Portland Group Plc, past Chairman of the London Tourist Board and currently Chairman of Russell and Meyer Chairman of Remuneration and Charities Committees.

Robert Clarke MA (63) Non-Executive Director was appointed to the Board of Thames Water Authority in July 1988. He is Chairman of United Biscuits Plc having become a member of its board in 1984. Chairman of Share Dealings Committee, member of Remuneration Committee.

Sir Peter Harrop KCB MA (66) Non-Executive Director was appointed to the Board of Thames Water Authority in October 1986. Formerly the Second Permanent Secretary in the Department of the Environment, a Managing Trustee

of Municipal Mutual Insurance Ltd and a Trustee of the British Museum. Chairman of Environmental Audit Committee, member of Audit, Share Dealings and Remuneration Committees.

John Thomson MA (64) Non-Executive Director was appointed to the Board of Thames Water Authority in 1984. He is Chairman of London and Manchester Group Plc and Northwicks Plc, Vice Chairman of J Gibby & Sons Plc and a Non-Executive Director of Scottish & Newcastle Plc and Czarnikow Limited. Chairman of Audit Committee, member of Remuneration Committee.

John Worlidge MA (64) Non-Executive Director was appointed to the Board of Thames Water Authority in 1988. He was

Chairman and Chief Executive of the Wiggins Teape Group from 1984-89, he was an Executive Director of BAT Industries Plc 1980-89. He is currently a Director of The Rugby Group Plc, Member of Audit, Environmental Audit and Remuneration Committees. Trustee Director of the Thames Water Pension Schemes.

Group Company Secretary Clive Carsley MA (47) joined Thames Water Authority in May 1989. A barrister, he was previously Secretary of Carless Plc, Deputy Secretary and Head of Legal Services of Babcock International Plc and Commercial Director of Humphreys & Glasgow Ltd. Secretary to all Board Committees.

Directors' Report

The Directors present their third Annual Report together with the audited accounts for the year ended 31 March 1992.

Principal Activities

The main activities of Thames Water Plc and its subsidiaries (the Group), are the provision of:

- water to customers which involves the abstraction of water from surface and ground water sources and its subsequent treatment and distribution to customers' premises;
- sewerage services to customers which involve the collection, treatment and disposal of sewage from customers' premises, together with the conveyance and treatment of surface water;
- the design and construction of water treatment plants and the supply of water related products.

In addition, the Group is continuing the development of other trading activities which include overseas consultancy, and environmental and waste management services.

A list of the principal subsidiary companies appears on pages 36 and 37. Details of the progress made and significant information relating to the various activities of the Group during the year and for the future are given in the review of activities on pages 8 to 17.

Profits and Dividends

The Group profit for the year attributable to shareholders was £211.1 million. This may be compared with the profit for the year ended 31 March 1991 of £193.2 million. A review of the current year's performance and future developments is included on page 3 in the Chairman's Statement.

The Directors recommend payment of a final dividend of 12.8p per share, making a total for the year of 19.2p, amounting to £74.1 million leaving a retained profit of £137 million for the year.

Fixed Assets

Note 14 to the accounts details changes in the tangible fixed assets during the year. In the opinion of the Directors the market value of the Group's properties exceeds the balance sheet value.

Employees

Local arrangements have continued for managers to meet employees and their representatives to discuss matters of mutual interest and concern. There are employees as Member Trustees for the three major pension schemes operated by the Group.

Employees had another opportunity to join or extend their interest in the Company's Sharesave Scheme, and a number of senior executives were granted new options under the Executive Share Option Scheme.

Activities in direct communication through company newspapers, videos and team briefings were continued.

Health and Safety

It is the policy throughout the Group to ensure that health and safety standards are maintained at a high level. This policy is implemented by the integrated health and safety group consisting of specialists from within the Group and led by the Group health and safety manager.

Achievement and maintenance of high standards of health and safety are seen as being essential in order to protect both our employees and members of the public.

Employment of the Disabled

The Group recognises its responsibility towards the disabled and employs them where suitable opportunities arise. Every effort is

made to find appropriate alternative jobs for those who become disabled whilst working for the Group.

Capital

1,847,117 Ordinary Shares were allotted to Ordinary shareholders consequent on the offer of a scrip dividend.

20,616 Ordinary Shares were issued during the year to holders on the exercise of their options under the Group Sharesave Scheme.

Two options for 22,000 Ordinary Shares at 278p were exercised during the year under the Group's Executive Share Option Scheme.

The effect of the transactions referred to above on the capital of the Company is detailed in note 25 to the accounts on page 42.

Directors

The names of the present Directors of the Company are shown on page 18. All Directors held office throughout the financial year.

In accordance with Article 106 of the Company's Articles of Association Sir Christopher Leaver and Mr R C Clarke will retire at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election. As Non-Executive Directors, Sir Christopher Leaver and Mr R C Clarke do not have service contracts with the Company.

Directors' Interests in Shares

The beneficial interests of Directors, together with those of their families, in shares of the Company at commencement and at the end of the year are shown in the table below. No Director had any non-beneficial interest in the shares of the Company. There were no changes in the Directors' registered interests in the shares of the Company during the period from 1 April 1992 to 19 June 1992. None of the Directors had any beneficial interest in the shares of any subsidiary company. ▸

Directors' Report

Executive Share Options

Since 1989 share options under the Company's Executive Share Option Scheme have been granted to Executive Directors at the discretion of the Remuneration Committee which comprises solely non-Executive Directors. Some 80 senior executives have also been granted Executive Share options.

	31 March 1992		1 April 1991	
	Shares	Share Options	Shares	Share Options
Sir Roy Watto	11,576	199,334	11,576	172,000
Sir Christopher Leaver	3,857	-	3,857	-
M R Hoffman	6,529	273,178	6,529	221,138
R C Clarke	3,148	-	3,000	-
W R Harper	2,331	108,000	2,201	76,000
Sir Peter Harrop	889	-	820	-
D J Ciffam	2,817	123,000	2,495	85,000
J J Tompkins	2,050	-	2,000	-
E J Worledge	1,933	-	1,900	-

Significant Contracts

During the period under review there were no significant contracts between the Company and any of the Directors other than contracts of service with the Executive Directors.

Substantial Shareholdings

The Directors have not been advised of any individual interest or groups of interest held by persons acting together which at 19 June 1992 amounted to or exceeded 3% of the Company's issued share capital.

The Directors consider that the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company. There has been no change in this respect since the end of the financial year.

Research and Development

The Group is committed to a programme of research and

development activities. Page 5 of the Group Chief Executive's Review highlights the main areas where research activity is undertaken.

Environment

'Care for the Environment' is one of the fundamental guiding principles of Thames Water. The Directors have in place an Environmental Audit Committee chaired by Sir Peter Harrop, which formulates and reviews policy statements on the environment and audits compliance throughout the Group.

Our aim is to make sure that we achieve a high standard of environmental care in all operations of the

Company and its subsidiaries. Each operating company is developing its own environmental statements and practices in line with Group policies and monitors its performance with the help of the Company's Environmental Audit Team.

Many of our environmental achievements are mentioned in the review of Thames Water Utilities on pages 11 to 13.

Political and Charitable Donations

Charitable donations amounting to £106,000 were made during the year. A donation of £50,000 was made for political purposes to the Conservative Party during election year, as the Board considered that the return of a Conservative government was in the interest of the Company and its shareholders.

Regulatory Accounts

A set of accounts for regulatory

purposes is required by the Office of Water Services. These accounts, together with supplementary statements, relate solely to the regulated utility business. Copies may be obtained by customers and other interested parties on request. (See note 32 to the accounts.)

Insurance for Officers

Pursuant to the Special Resolution passed at the Annual General Meeting held on 30 July 1991, the Company has purchased during the year insurance in respect of liabilities of Directors, officers and employees in relation to the Company.

Auditor

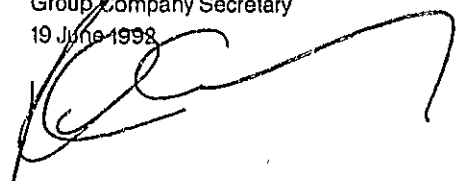
A Resolution to re-appoint Coopers & Lybrand as the Company's auditor and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting. Until 1 June 1992 the Firm practised in the name of Coopers & Lybrand Deloitte.

Special Business

In addition to the Ordinary Business to be transacted at the 1992 Annual General Meeting, a number of items of Special Business will be proposed. These items, further details of which, together with explanatory notes will be found in the circular accompanying this Report and Accounts, are as follows:

- a Resolution renewing the power granted to Directors in July 1991 to issue equity securities other than for cash pro rata to Ordinary shareholders;
- b a Resolution authorising arrangements under which Ordinary shareholders may elect to receive new Ordinary shares instead of cash dividend in respect of the final dividends for the year ended 31 March 1992 and in respect of interim dividends for the year ending 31 March 1993.

By order of the Board
R C Carsley
 Group Company Secretary
 19 June 1992



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Consolidated Profit and Loss Account

Year ended 31 March	Notes	Group	
		1992 £m	1991 £m
Turnover	3	899.3	835.5
Operating costs	4	(665.3)	(646.0)
Operating profit	5	234.0	189.5
Other income	7	11.2	11.1
Interest	8	(8.9)	11.7
Profit on ordinary activities before taxation		236.3	212.3
Taxation on profit on ordinary activities	9	(25.2)	(19.8)
Profit on ordinary activities after taxation		211.1	192.5
Extraordinary income	10	-	0.7
Profit for the financial year		211.1	193.2
Dividends	12	(74.1)	(67.2)
Retained profit transferred to reserves	26	137.0	126.0
Earnings per ordinary share	13	54.8p	50.1p

The notes on pages 27 to 45 form part of these accounts.

Consolidated and Company Balance Sheets

At 31 March	Notes	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
Fixed assets					
Tangible assets	14	2,101.9	1,748.3	0.4	0.4
Investments	15	4.5	2.3	465.6	419.0
		2,106.4	1,750.6	466.0	419.4
Current assets					
Stocks and work in progress	16	43.0	36.7	-	-
Debtors	17	229.4	179.9	36.6	80.4
Investments	18	239.1	101.7	128.1	21.4
Cash at bank and in hand		31.6	8.4	5.9	-
		543.1	326.7	170.6	101.8
Creditors: amounts falling due within one year	19	(565.0)	(451.8)	(154.5)	(130.0)
Net current (liabilities) assets		(21.9)	(125.1)	16.1	(28.2)
Total assets less current liabilities		2,084.5	1,625.5	482.1	391.2
Creditors: amounts falling due after more than one year	20	(505.6)	(140.8)	(80.0)	-
Provisions for liabilities and charges	23	(26.2)	(26.4)	(0.4)	-
		1,552.7	1,458.3	401.7	391.2
Capital and reserves					
Called up share capital	25	386.1	384.2	386.1	384.2
Reserves and retained profits	26	1,166.6	1,074.1	15.6	7.0
		1,552.7	1,458.3	401.7	391.2

The notes on pages 27 to 45 form part of these accounts.

The accounts were approved by the Board on 19 June 1992.

Sir Roy Watts

Chairman

M R Hoffman

Group Chief Executive

D J Luffrum

Group Finance Director

Consolidated Cash Flow Statement

Year ended 31 March	Group	
	1992 £m	1991 £m
Net cash inflow from operating activities (note a)	274.4	232.1
Returns on investments and servicing of finance		
• Interest received	22.3	29.6
• Interest paid	(20.8)	(14.6)
• Interest element of finance lease rental payments	(0.7)	(0.9)
• Dividends paid	(62.2)	(61.7)
• Other	0.1	0.7
Net cash outflow from returns on investments and servicing of finance	(61.3)	(46.9)
Taxation		
• UK corporation tax paid	(20.8)	(9.8)
• Overseas tax paid	(0.4)	(0.5)
Net cash outflow from taxation	(21.2)	(10.3)
Investing activities		
• Purchase of tangible fixed assets	(349.6)	(326.5)
• Purchase of subsidiary undertakings net of cash and cash equivalents acquired (note c)	(37.0)	(0.9)
• Purchase of fixed asset investments	(3.6)	(1.0)
• Sales of tangible fixed assets	10.6	11.1
• Capital contributions	24.6	20.2
• Other	(0.1)	0.3
Net cash outflow from investing activities	(355.1)	(296.8)
Net cash outflow before financing	(163.2)	(121.9)
Financing		
• Issue of ordinary share capital	(0.1)	-
• Long term loans	(76.5)	(35.0)
• Repayment of long term loans	4.4	10.5
• 9½% Convertible Subordinated Bonds	(82.0)	-
• 10½% Guaranteed Bonds	(150.0)	-
• Bond issue expenses	2.9	-
• Short term investments of greater than three months' maturity	60.1	17.1
• Repayment of short term investments of greater than three months' maturity	(8.9)	(68.4)
• Short term borrowings of greater than three months' maturity	(0.3)	(9.6)
• Repayment of short term borrowings of greater than three months' maturity	9.7	-
• Capital element of finance lease rental payments	5.7	2.2
Net cash inflow from financing	(235.0)	(83.2)
Increase/(decrease) in cash equivalents	71.8	(38.7)
	(163.2)	(121.9)

Notes to the Consolidated Cash Flow Statement

a	Reconciliation of operating profit to net cash inflow from operating activities	1992	1991
		£m	£m
	Operating profit	234.0	189.5
	Depreciation charges	53.9	40.7
	Decrease in stocks	3.8	0.8
	Increase in debtors	(30.4)	(11.1)
	(Decrease)/increase in creditors	7.0	0.7
	Increase in long term provisions	4.9	11.9
	Other	1.2	(0.4)
	Net cash inflow from operating activities	274.4	232.1
		<hr/>	<hr/>
b	Purchase of subsidiary undertakings	1992	
		£m	
	Net assets acquired		
	• tangible fixed assets	20.5	
	• investments	1.5	
	• stocks	15.3	
	• debtors	19.5	
	• cash at bank	6.2	
	• creditors less than one year	(51.7)	
	• creditors greater than one year	(15.8)	
		(4.5)	
	Goodwill	44.0	
	Total	39.5	
		<hr/>	
	Satisfied by		
	• cash	37.7	
	• loan notes	1.7	
	• deferred consideration	0.1	
		39.5	
		<hr/>	
c	Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings	1992	
		£m	
	Cash consideration	(37.7)	
	Cash at bank of acquired subsidiaries	6.2	
	Bank overdrafts of acquired subsidiaries	(5.5)	
	Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(37.0)	
		<hr/>	

Notes to the Consolidated Cash Flow Statement

d	Analysis of the balances of cash and cash equivalents	1992	1991	Change in
		£m	£m	year £m
	Cash at bank and in hand	31.6	8.4	23.2
	Short term investments	151.2	65.0	86.2
	Bank overdrafts	(54.1)	(25.6)	(28.5)
	Loans less than three months	(48.5)	(39.4)	(9.1)
		80.2	8.4	71.8

e	Analysis of changes in financing during the year	Share capital	Loans and finance leases
		£m	£m
	Balance at 1 April 1991	384.2	97.0
	Cash inflows from financing	0.1	234.9
	Shares issued for non cash consideration	1.8	-
	Finance leases raised during the year	-	58.9
	Loans and finance lease obligations of acquired subsidiaries	-	16.9
	Balance at 31 March 1992	386.1	407.7

- Loans and finance leases are stated net of current asset investments of maturity greater than three months.
- The £1.8m shares issued for non cash consideration represents shareholders' election to take shares rather than dividends in cash following the offer by the Company of a scrip dividend alternative.
- Finance leases amounting to £58.9m were raised during the year to fund capital plant, equipment and vehicles.

Notes to the Accounts

1 Introduction

These accounts present the financial results of Thames Water Plc for the year ended 31 March 1992. The 1991 results included 15 months' trading of the PWT Worldwide group of companies which were acquired on 15 December 1989.

2 Principal accounting policies

A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

- a Accounting convention** The accounts have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards.
- b Basis of consolidation** The consolidated accounts include the accounts of the Company and all of its subsidiaries. Except where stated otherwise in the notes to the accounts the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. In the event that the accounts of subsidiary undertakings are drawn up to a year-end different from that of the parent company, appropriate adjustments are made to the Group accounts to reflect any significant transactions in the intervening period. Where significant, intra-group sales and profits are eliminated on consolidation.
- c Turnover** Turnover, which excludes value added tax, represents the income receivable in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.
- d Tangible fixed assets and depreciation** Tangible fixed assets comprise:
- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines);
 - Other assets (including properties, overground plant and equipment); and
 - Landfill sites
- i Infrastructure assets** Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting capital contributions. Contributions received in respect of infrastructure assets are deducted from the cost of fixed assets in order to give a true and fair view of the cost to the Group of the assets employed in the business. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost and is classified as infrastructure renewals expenditure.
- No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.
- ii Other assets** Other assets are included at cost less accumulated depreciation. Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the useful lives of the assets.
- Freehold and long leasehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:
- | | |
|--|-------------|
| Buildings: | |
| • Operational structures | 40-80 years |
| • Other | 30-60 years |
| Fixed and mobile plant | 20-40 years |
| Vehicles, computers, fixtures and fittings | 4-10 years |
- iii 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 from 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.
- e Leased assets** Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (*finance leases*), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in

Notes to the Accounts

relation to the assets' written down value. The assets are generally depreciated over the shorter of their estimated useful lives and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

f Investments

Fixed asset investments

i In the accounts of the Company investments held as fixed assets are stated at cost less amounts written off.

ii In the Group accounts Shares in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax results and attributable taxation of the associated undertakings based on audited financial statements for the year. In

the consolidated balance sheet the shares in associated undertakings are shown as the Group's share of the net assets excluding goodwill of the associated undertakings.

Current asset investments: Investments held as current assets are stated at the lower of cost and net realisable value.

g Stocks and work in progress

Stocks and work in progress, with the exception of long-term contract work in progress, are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs the excess is disclosed as provisions for liabilities and charges.

h Pension costs

The majority of the Group's employees belong to pension schemes which are funded by both employers' and employees' contributions and which are of the defined benefit type. The pension cost is assessed in accordance with the advice of an independent qualified actuary. Any difference between the cost charged and the amounts paid by the Group is treated as a prepayment or accrual.

i Foreign currencies

All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies have been translated into sterling at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account. The results of overseas subsidiary undertakings are translated at rates of exchange ruling during the year. The differences arising from the translation of year-end assets and liabilities at closing rates together with the restatement of opening balance sheets of overseas subsidiary undertakings at closing rates are dealt with through reserves together with exchange differences on the translation of foreign currency borrowings funding such investments.

j Research and development

Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

k Taxation

The charge for taxation is based on the profit for the year as adjusted for disallowable and non taxable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise. In the Company, provision is made at such rate as reflects the anticipated consideration payable or receivable in respect of any future group relief claims or surrenders.

l Provision for insurance liabilities

Provision is made in these accounts for liabilities arising from uninsured claims against the Group and for claims against its wholly owned insurance company.

m Goodwill

Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary and associated undertakings acquired, is written off against reserves in the year in which it arises.

n Interest

Interest payable is written off to the profit and loss account as it is incurred except that relating to monies borrowed to finance specific long-term contracts which is included in the cost of long-term contract work in progress. Interest receivable from the temporary investment of these monies is credited to the cost of long-term contract work in progress.

Notes to the Accounts

3 Segmental analysis

The selected segments by class of business are:

Water supply the provision, treatment, and distribution of potable water supply to customers served by Thames Water Utilities Limited.

Sewerage services the conveyance, treatment, and disposal of sewage from customers served by Thames Water Utilities Limited.

PWT Worldwide the design and management of the construction of water and waste water treatment plant and the supply of industrial, commercial, and defence water treatment systems as well as pipeline products and membrane systems.

Other trading activities non-regulated sewerage services, international training and consultancy, insurance, and property development.

Other activities those carried out by the Company in managing its investments.

Turnover	1992			1991		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
By class of business						
Water supply	–	0.2	322.0	–	0.5	293.4
Sewerage services	–	0.4	424.6	–	0.5	377.1
PWT Worldwide	1.8	13.2	131.6	1.4	12.8	155.5
Other trading activities	0.2	10.5	21.1	–	8.6	9.5
Total	2.0	24.3	899.3	1.4	22.4	835.5

Turnover in the PWT Worldwide segment in 1991 represents 15 months' trading.

By origin	1992			1991		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
UK	22.9	3.1	823.8	22.2	1.1	764.0
Continental Europe	–	–	6.7	–	–	6.9
Americas	–	–	25.0	–	–	28.8
Africa	–	–	4.0	–	–	5.5
Australasia	0.1	0.1	35.5	0.1	–	26.7
Asia	0.1	–	4.3	0.4	–	3.6
Total	23.1	3.2	899.3	22.7	1.1	835.5

By destination	1992			1991		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
UK	22.5	3.0	803.0	22.1	0.7	749.0
Continental Europe	–	–	10.6	0.1	–	13.2
Americas	0.2	–	16.4	–	–	12.1
Africa	–	–	17.3	–	0.1	22.6
Australasia	0.3	0.1	31.2	0.1	0.2	22.1
Asia	0.1	0.1	20.8	0.4	0.1	16.5
Total	23.1	3.2	899.3	22.7	1.1	835.5

Turnover is derived from the following sources:

- third parties: transactions between Group companies and external customers.
- Inter-segment: transactions between Group companies trading in different segments.
- Intra-segment: transactions between Group companies trading within the same segment.

Notes to the Accounts

3 Segmental analysis (continued)

Profit before tax/net assets

By class of business	Profit/(loss) before tax		Net assets/(liabilities)	
	1992 £m	1991 £m	1992 £m	1991 £m
Water supply	61.3	57.4	633.8	624.0
Sewerage services	168.5	155.0	951.7	905.7
PWT Worldwide	3.3	(3.5)	15.4	12.5
Other trading activities	1.0	0.2	(9.2)	4.2
Other activities	2.2	3.2	(39.0)	(88.1)
Total	236.3	212.3	1,552.7	1,458.3
By geographical segment				
UK	235.2	213.8	1,535.7	1,450.1
Continental Europe	0.8	0.7	5.3	2.5
Americas	0.1	(0.5)	6.3	1.0
Africa	0.2	-	1.4	0.7
Australasia	0.1	(1.9)	2.5	2.5
Asia	(0.1)	0.2	1.5	1.5
Total	236.3	212.3	1,552.7	1,458.3

Segmental result before tax and net assets of associated undertakings are not included since they are not material to the segments in which they operate.

4 Operating costs

	1992 £m	1991 £m
Analysis of operating costs by type of expense		
Manpower costs	212.3	196.6
Other external charges:		
• Power	41.8	39.9
• Local authority rates	43.4	42.1
• Sewerage agencies	28.1	26.7
• Hired and contracted services	118.5	120.0
Materials and consumables	99.5	106.6
Infrastructure renewals charge	25.7	25.5
Other operating charges	75.9	77.8
Depreciation	53.9	40.7
	699.1	675.9
Own work capitalised	(33.8)	(29.9)
Total	665.3	646.0

Notes to the Accounts

5	Operating profit	1992 £m	1991 £m
	Operating profit is stated after charging		
	Directors' emoluments	0.8	0.8
	Rentals under operating leases:		
	• Hire of plant and machinery	2.4	1.6
	• Other	5.7	4.8
	Depreciation:		
	• Own assets	49.2	37.5
	• Assets held under finance leases	4.7	3.2
	Auditor's remuneration	0.6	0.5
	Research and development	7.0	7.0

Included in auditor's remuneration is £46,000 in respect of audit fees incurred by the Company in 1992 (1991: £45,000).

Fees payable to the auditor by Thames Water Plc and its UK subsidiary undertakings for non-audit work carried out in 1992 amounted to £0.9m.

6	Information regarding directors and employees	1992 £000	1991 £000
	Directors' emoluments		
	Fees for non-executive directors	91	85
	Executive directors:		
	• Remuneration	508	463
	• Bonus	-	92
	• Other benefits	24	21
	• Pension contributions	197	186
		729	762
	Directors' emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985		
	Chairman:		
	• Remuneration	140	129
	• Bonus	-	26
	• Other benefits	5	5
		145	160
	Highest paid director:		
	• Remuneration	194	170
	• Bonus	-	34
	• Other benefits	5	5
		199	209

The remuneration of the executive Directors is determined by the non-executive Directors who comprise the Remuneration Committee of the Board. A performance related bonus scheme for executive Directors is in place based upon earnings per share (EPS) exceeding a level stipulated by the non-executive Directors. The increase in EPS of 9.4% was not high enough to trigger bonus payments in 1992. However, the movement in share price has increased the potential value of the Directors' share options, details of which are shown on page 20 of the annual report.

Notes to the Accounts

6 Information regarding directors and employees (continued)

Scale of Directors' emoluments

£ 15,001 – £ 20,000	4	4
£ 20,001 – £ 25,000	1	1
£ 85,001 – £ 90,000	1	–
£ 95,001 – £100,000	–	1
£100,001 – £105,000	1	–
£105,001 – £110,000	–	1
£140,001 – £145,000	1	–
£155,001 – £160,000	–	1
£195,001 – £200,000	1	–
£205,001 – £210,000	–	1

1992	1991
number	number

1992	1991
£m	£m

Employee information

Group employment costs including executive Directors' emoluments were:

- Salaries and wages
- Social security costs
- Pension contributions

181.2	168.3
14.7	13.3
17.7	16.5

Total

213.6	198.1
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Total employment costs contain £1.3m (1991: £1.5m) which is included in the infrastructure renewals charge in note 4.

Average number of persons employed by the Group, including executive Directors, analysed by service

Water supply	4,434	4,238
Sewerage services	3,098	3,162
PWT Worldwide	1,449	1,554
Other trading activities	282	81
Other activities	55	49

1992	1991
number	number

9,348	9,084
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Total

Transactions with Directors and officers

There are no transactions or arrangements which are required to be disclosed under the provisions of the Companies Act 1985.

7 Other income

Other income comprises

- Share of result from interests in associated undertakings
- Profit on sale of tangible fixed assets
- Net rents receivable

1992	1991
£m	£m

(0.2)	0.1
11.1	10.6
0.3	0.4
11.2	11.1

Total

Notes to the Accounts

	1992 £m	1991 £m
8 Interest		
Bank loans, overdrafts and other loans		
• Repayable within five years otherwise than by instalments	(7.4)	(6.1)
• Repayable within five years by instalments	(0.7)	(0.3)
• Not wholly repayable within five years	(20.5)	(6.7)
Finance charges in respect of finance leases	(2.6)	(1.1)
Interest payable and similar charges	(31.2)	(14.2)
Interest receivable	22.3	25.9
Total	(8.9)	11.7

9 Taxation on profit on ordinary activities

No liability to UK corporation tax arises on the result for the year due to the availability of capital allowances. The taxation charge in the profit and loss account comprises advance corporation tax (ACT) £24.7m (1991: £19.3m) deemed irrecoverable together with overseas taxes of £0.5m (1991: £0.5m). The ACT remains available to reduce future corporation tax liabilities.

10 Extraordinary income

The extraordinary credit of £0.7m in the year ended 31 March 1991 was a refund of costs provided for in the previous year in respect of the Offer for Sale of the Company's shares.

11 Profit of Thames Water Plc

Of the consolidated profit attributable to the shareholders of Thames Water Plc, £77.8m (1991: £68.5m) has been dealt with in the accounts of the Company. Thames Water Plc has taken advantage of the legal dispensation allowing it not to publish a separate profit and loss account.

	1992		1991	
	pence per share	£m	pence per share	£m
12 Dividends				
Interim	6.4	24.7	6.0	23.0
Final proposed	12.8	49.4	11.5	44.2
	19.2	74.1	17.5	67.2

Certain shareholders have elected to receive shares in lieu of current and future dividends. Details of shares allotted under the scrip dividend alternative during 1992 are shown in note 25.

13 Earnings per ordinary share

Profit on ordinary activities after taxation: £211.1m (1991: £192.5m).

Earnings per ordinary share 54.8p (1991: 50.1p).

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation by the weighted average number of ordinary shares in issue during the year (385m).

Earnings per ordinary share are 61.2p (1991: 55.1p) on a nil distribution basis. The nil distribution basis assumes no charge for irrecoverable ACT as this arises solely from the declaration of the dividend.

	Cost	Depreciation	Net book value	
	1992	1992	1992	1991
	£m	£m	£m	£m
14 Tangible fixed assets				
Group				
Land and buildings	966.2	176.1	790.1	639.0
Plant and machinery	1,481.8	170.0	1,311.8	1,109.3
	2,448.0	346.1	2,101.9	1,748.3
Company				
Plant and machinery	0.4	-	0.4	0.4

Notes to the Accounts

14 Tangible fixed assets (continued)

	Group			Total £m
	Freehold land and buildings £m	Leaseholds over 50 years £m	under 50 years £m	
Land and buildings				
Movements during the year				
Cost at 1 April 1991	797.8	-	1.2	799.0
Acquisition of subsidiaries	0.6	13.5	-	14.1
Additions at cost	150.3	2.8	-	153.1
Cost at 31 March 1992	948.7	16.3	1.2	966.2
Depreciation at 1 April 1991	159.6	-	0.4	160.0
Provided during the year	16.1	-	-	16.1
Depreciation at 31 March 1992	175.7	-	0.4	176.1
Net book value				
At 31 March 1992	773.0	16.3	0.8	790.1
At 31 March 1991	638.2	-	0.8	639.0

Only £3.4m (1991: £2.3m) of the Group's freehold land is identified as such in these accounts. No depreciation has been charged on this freehold land.

	Group			Total £m	Company Fixtures, fittings, equipment £m
	Infra- structure assets £m	Plant, machinery and vehicles £m	Fixtures, fittings, equipment £m		
Plant and machinery					
Movements during the year					
Balance at 1 April 1991	801.9	321.8	117.8	1,241.5	0.4
Acquisition of subsidiaries	-	7.1	2.1	9.2	-
Additions at cost	121.5	90.0	44.0	255.5	-
Disposals	-	(3.0)	(0.5)	(3.5)	-
Balance at 31 March 1992	923.4	415.9	163.4	1,502.7	0.4
Capital contributions	(20.9)	-	-	(20.9)	-
Net cost at 31 March 1992	902.5	415.9	163.4	1,481.8	0.4
Depreciation at 1 April 1991	-	82.2	50.0	132.2	-
Acquisition of subsidiaries	-	2.6	0.2	2.8	-
Provided during the year	-	20.8	17.0	37.8	-
Disposals	-	(2.3)	(0.5)	(2.8)	-
Depreciation at 31 March 1992	-	103.3	66.7	170.0	-
Net book value					
At 31 March 1992	902.5	312.6	96.7	1,311.8	0.4
At 31 March 1991	801.9	239.6	67.8	1,109.3	0.4

The cost of infrastructure assets is stated net of capital contributions received in respect of those assets. As a result the net book value of infrastructure assets is £41m (1991: £20.2m) lower than it would have been had this policy not been adopted from 1 April 1990.

Notes to the Accounts

14 Tangible fixed assets (continued)

Tangible fixed assets at 31 March 1992 include £376m (1991: £344m) of assets in the course of construction. Details of the Group's tangible fixed assets included above which are held under finance leases are shown below.

	Cost		Net book value	
	1992 £m	1991 £m	1992 £m	1991 £m
Plant, machinery and vehicles	60.1	5.0	55.9	4.5
Fixtures, fittings and equipment	18.3	17.4	11.3	10.0

15 Fixed asset investments

	Group Interests in associated undertakings £m	Company Investment in subsidiary undertakings £m
Value at 1 April 1991	2.3	419.0
Additions	7.5	10.5
Goodwill written off	(5.1)	-
Share of losses for the year	(0.2)	-
Value at 31 March 1992	4.5	465.6

Group

- The cost of shares in associated undertakings at 31 March 1992 amounted to £10.5m (1991: £3m). The Group's share of the post acquisition reserves at 31 March 1992 were Nil (1991: £0.2m). The associated undertakings are unlisted.
- Investments made by the Group during the year were as follows:
 - On 22 January 1992 a 60% interest was acquired in Subterra Holdings Limited, a joint venture company formed with Northumbrian Water Group Plc to purchase the whole of the issued share capital of Subterra Limited and its subsidiary company A J Whiteside Limited. The joint venture company has not been consolidated since neither party is able to exercise dominant influence over the management of the company. The Group's share of the purchase price, £5.8m, was partly paid in cash (£3.4m) and partly in loan notes (£0.3m) and includes deferred consideration of £2.1m dependent upon the profit performance of Subterra Holdings Limited for the period ending 31 March 1994. Goodwill of £5.1m arising on the transaction was written off (see note 26).
 - Acquired interests arising from the purchase of Mitteldeutsche Wasser- und Umweltechnik AG and its subsidiaries (UTAG) - £1.3m, and F B Leopold Holdings Corporation and its subsidiaries (Leopold) - £0.2m.
 - £0.2m in ATW Medioambiente SA.

Company

Investments made by the Company during the year through subsidiary holding companies were as follows:

- A £1.7m equity contribution to assist with the purchase of UTAG from the Treuhandanstalt under the terms of a share sale agreement completed on 5 March 1992 (see note 29).
- £25.8m for the purchase of the entire issued share capital of Leopold from the shareholders of that company under the terms of a share sale agreement dated 31 January 1992; the purchase price comprised cash amounting to £23m and deferred consideration of £2.8m.
- £19.1m to fund several smaller acquisitions and assist in the development of the Group's other trading activities.

Notes to the Accounts

15 Fixed asset investments (continued)

At 31 March 1992 the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Subsidiary undertakings					
Thames Water Utilities Limited	England and Wales	Ordinary	100%		Water and sewerage services
Thames Water Utilities Finance Plc	England and Wales	Ordinary		100%	Finance company
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Thames Water International Services Holdings Limited	England and Wales	Ordinary	100%		Management company
Thames Water International Services Limited	England and Wales	Ordinary		100%	International consultancy
Thames Water Holdings Inc	United States	Common Convertible	100% 100%		Management company
LA Water Treatment Corporation	United States	Ordinary		100%	Design contracting
FB Leopold Company Inc	United States	Ordinary		100%	Water products
Kennel Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Environmental Services Limited	England and Wales	Ordinary	100%		Management company
Metro Rod Plc	England and Wales	Ordinary		100%	Drain, pipe cleaning and pest control services
Morgan Collis Group Limited	England and Wales	Ordinary		100%	Sewerage services
Peter Bryant (Cesspits) Limited	England and Wales	Ordinary		100%	Waste collection
Sub-Scan Limited	England and Wales	Ordinary		100%	Sewerage services
South Bucks Effluent Company Limited	England and Wales	Ordinary		100%	Waste collection
Thames Waste Management Limited	England and Wales	Ordinary		100%	Waste management and collection
PWT Worldwide Limited	England and Wales	Ordinary	100%		Management company
PWT Overseas Limited	England and Wales	Ordinary		100%	Management company
The Permutit Company Limited	England and Wales	Ordinary		100%	Water treatment plant

Notes to the Accounts

15 Fixed asset investments (continued)

	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Subsidiary undertakings					
Stella-Meta Filters Limited	England and Wales	Ordinary	100%		Filtration systems
PCI Membrane Systems Limited	England and Wales	Ordinary	100%		Membranes
PWT Projects Limited	England and Wales	Ordinary	100%		Design contracting
F W Taibot & Company Limited	England and Wales	Ordinary	100%		Pipeline products
The Permutit Company of Australia Pty Limited	Australia	Ordinary	100%		Water treatment plant
Permutit-Boby Australia Pty Limited	Australia	Ordinary	100%		Design contracting
PWT Botswana Pty Limited	South Africa	Ordinary	100%		Contracting and products
PWT New Zealand Limited	New Zealand	Ordinary	100%		Contracting and products
PWT (Singapore) Pte Limited	Singapore	Ordinary	100%		Design contracting
Paterson Candy International (Nigeria) Limited	Nigeria	Ordinary	60%		Design contracting
Paterson Candy (Malaysia) Sdn.Bhd.	Malaysia	Ordinary	100%		Design contracting
PWT (Hong Kong) Limited	Hong Kong	Ordinary	100%		Design contracting
PWT South Africa (Pty) Limited	South Africa	Ordinary	100%		Contracting and products
Houseman BV	Netherlands	Ordinary	100%		Chemicals
Houseman NV	Belgium	Ordinary	100%		Chemicals
Homé Waterbehandeling BV	Netherlands	Ordinary	100%		Water treatment plant
Thames Water Deutschland GmbH	Germany	Ordinary	100%		Management company
Mitteldeutsche Wasser-und Umwelttechnik AG	Germany	Ordinary	100%		Water contracting and consultancy

A full list of subsidiary undertakings within the Thames Water Group will be filed at Companies House with the Company's annual return.

Associated undertakings

Brophy Group Plc	England and Wales	Ordinary Preference	50% 100%		Environmental services
Subterra Holdings Limited	England and Wales	Ordinary	60%		Pipeline products
ATW Medioambiente SA	Spain	Ordinary	40%		Water and waste treatment

Notes to the Accounts

16 Stocks and work in progress	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Raw materials and Consumables	21.6	19.4	-	-
Work in progress	17.7	14.2	-	-
Finished goods and goods for resale	3.7	3.1	-	-
Total	43.0	36.7	-	-

Work in progress includes long-term contract balances as follows

Net cost less foreseeable losses	78.8	94.9	-	-
Applicable payments on account	(67.6)	(94.9)	-	-
Total	11.2	-	-	-

17 Debtors	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Due within one year				
Trade debtors	133.8	107.3	-	-
Amounts recoverable on contracts	20.4	13.2	-	-
Amounts owed by subsidiary undertakings	-	-	34.5	80.0
Other debtors	25.8	19.2	-	0.2
Prepayments and accrued income	41.2	38.2	1.8	0.2
Infrastructure renewals expenditure	5.7	1.1	-	-
	226.9	179.0	36.3	80.4
Due after more than one year				
Trade debtors	-	0.2	-	-
Amounts recoverable on contracts	1.7	-	-	-
Amounts owed by subsidiary undertakings	-	-	0.3	-
Other debtors	0.8	0.7	-	-
Total	229.4	179.9	36.6	80.4

18 Current asset investments	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Government and Local Authority loans	-	0.3	-	-
Fixed term deposits and certificates of deposit	146.2	80.2	90.8	21.4
Fixed and floating interest rate securities	92.9	21.2	37.3	-
Total	239.1	101.7	128.1	21.4

The market value of investments is not significantly different from cost.

Notes to the Accounts

19	Creditors: amounts falling due within one year	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Bank loans and temporary borrowings (see note 21)	11.5	5.8	-	-
	Bank overdrafts	54.1	25.6	9.3	3.0
	Other loans (see note 21)	45.7	39.3	44.1	37.7
	Obligations under finance leases (see note 22)	7.4	4.2	-	-
	Progress claims and advance payments	83.5	63.4	-	-
	Trade creditors:				
	• operating	63.8	58.6	-	-
	• capital	121.1	119.4	-	-
	Amounts owed to subsidiary undertakings	-	-	20.8	20.0
	Other creditors	14.9	9.1	-	-
	Advance corporation tax	26.2	22.4	26.2	22.4
	Taxation and social security	6.1	4.4	-	-
	Accruals and deferred income	81.3	55.4	4.7	2.7
	Proposed dividend	49.4	44.2	49.4	44.2
	Total	565.0	451.8	154.5	130.0

Included in loans falling due within one year is £40m (1991: £36m) comprising commercial paper issued under a £200m Commercial Paper programme. This programme is supported by a committed revolving credit facility, including a committed LIBOR based interest rate, which extends until 1995. The paper is rolled over as it falls due in order to fund long term investment.

20	Creditors: amounts falling due after more than one year	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Bank loans (see note 21)	125.0	60.0	-	-
	Other loans (see note 21)	296.6	55.9	80.0	-
	Obligations under finance leases (see note 22)	57.9	7.9	-	-
	Other creditors	26.1	17.0	-	-
	Total	505.6	140.8	80.0	-

Notes to the Accounts

21 Loans	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Bank loans				
• Within one year	11.5	5.8	-	-
• Between one and two years	-	-	-	-
• Between two and five years	7.0	-	-	-
• After more than five years	118.0	60.0	-	-
Total	136.5	65.8	-	-
Other loans				
• Within one year	45.7	39.3	44.1	37.7
• Between one and two years	4.6	0.8	-	-
• Between two and five years	3.8	2.3	-	-
• After more than five years	288.2	52.8	80.0	-
Total	342.3	95.2	124.1	37.7

Notes:

1 During the year:

- Thames Water Utilities Finance Plc issued £150m 10½% Guaranteed Bonds due 2001 to finance capital investment in the regulated business, Thames Water Utilities Limited.
- Thames Water Plc issued £82m 9½% Convertible Subordinated Bonds due 2006 to finance expansion of non-regulated business. At the option of the holder, each bond can be converted into ordinary shares of 100 pence, credited as fully paid, at an initial conversion price of 428 pence per ordinary share. Unless converted by the bondholder the Bonds will be redeemed at their principal amount on 19 September 2006.

2 Loans are repayable between 1992 and 2030.

3 Of the loans repayable after more than five years hence, £261.5m (1991: £32.4m) are in respect of loans wholly repayable after that date, all of which are other loans.

4 The aggregate amounts of loans repayable by instalments, any part of which falls due for repayment after more than five years hence is £125m (1991: £60m) and £31m (1991: £20.8m) for bank loans and other loans respectively.

5 Included in 'Other loans' are loans totalling £32.4m (1991: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.

6 The range of interest rates on bank loans is 4.4% to 11.5% (1991: 6% to 16%) and other loans is 3% to 11.5% (1991: 3% to 14.1%).

Notes to the Accounts

22 Obligations under finance leases

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Amounts due under finance leases are payable as follows:				
• Within one year	7.7	4.8	-	-
• Between one and two years	11.0	3.8	-	-
• Between two and five years	20.6	5.3	-	-
• After more than five years	117.6	0.4	-	-
	156.9	14.3	-	-
Less finance charges allocated to future periods	(91.6)	(2.2)	-	-
Total	65.3	12.1	-	-

The aggregate amount of finance leases, any part of which falls due for repayment after more than five years is £46.9m (1991: Nil).

In addition, the Group is committed to outstanding lease facilities of £39m to fund capital investment.

23 Provisions for liabilities and charges

	Group	Company
	£m	£m
Balance at 1 April 1991	26.4	-
Acquisition of subsidiary undertakings	0.2	-
Provided during the year	5.8	0.4
Utilised during the year	(2.6)	-
Released during the year	(3.6)	-
Balance at 31 March 1992	26.2	0.4

Group

The provisions mainly comprise insurance liabilities - £20.8m (1991: £17.5m).

Company

The provisions comprise deferred taxation arising from short term timing differences - £0.4m (1991: Nil).

24 Deferred taxation

The Group's medium and long-term plans for capital investment together with the asset base transferred from Thames Water Authority on vesting indicate that for the foreseeable future the amount of tax allowances in respect of eligible plant and machinery will exceed the depreciation on existing and new assets. Accordingly, no provision for deferred taxation is required in the Group accounts.

An analysis of amounts unprovided is as follows:

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
• Accelerated capital allowances				
- infrastructure assets	133.9	88.2	-	-
- other assets	135.6	66.4	-	-
• Other timing differences	(7.6)	(3.4)	-	-
• Losses	(66.7)	(52.1)	-	-
• Advance corporation tax	(56.9)	(32.2)	-	-
	138.3	66.9	-	-

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of any disposal of these assets at amounts in excess of their written down value for tax purposes. In the opinion of the Directors the likelihood of such a liability crystallising in the future is remote.

Notes to the Accounts

25 Share capital

Share capital of the Company

• Authorised		
525,000,000 ordinary shares of £1 each		£525,000,000
Special rights redeemable preference share of £1		£1
• Allotted, called up and fully paid		
386,101,007 ordinary shares of £1 each		£386,101,007
Special rights redeemable preference share of £1		£1

The special rights redeemable preference share is redeemable at any time at par at the option of the Secretary of State after consulting the Company. This share, which may only be held by the Secretary of State or another person acting on behalf of HM Government, does not carry any rights to vote at general meetings but entitles the holder to attend and speak at such meetings. Certain matters, in particular the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person from owning or having an interest in 15% or more of the ordinary shares in Thames Water Plc), require the prior written consent of the holder of the special share.

Details of ordinary shares allotted during the year are as follows:

	Scrip dividends	Sharesave scheme	Executive Share Option scheme	Total
Number of shares allotted	1,847,117	20,616	22,000	1,889,733
	£000	£000	£000	£000
Consideration	6,553	37	61	6,651

Scrip dividends

Ordinary shares were allotted to ordinary shareholders consequent on the offer of a scrip dividend alternative as follows:

- 1991 final dividend 1,294,850 shares – 20 September 1991
- 1992 interim dividend 552,267 shares – 17 January 1992

Sharesave scheme

During the year ended 31 March 1992, 20,616 ordinary shares were allotted for a consideration of £36,799 under the Thames Water Sharesave Scheme to employees who exercised their option to receive shares on leaving the Group.

Employee share schemes

The issued and paid up share capital of the Company at 31 March 1992 includes 1,092,733 ordinary shares which are held in trust on behalf of employees who are beneficially entitled to the shares through special arrangements made under the Free and Matching Offer Share scheme at the time of the Offer for Sale in November 1989. The scheme, which has been specifically established by the Company for employees to acquire ordinary shares in Thames Water Plc, can only be used in future years if the directors so determine.

The Company has adopted two share option schemes for employees, and options have been granted to eligible employees to subscribe for ordinary shares in the Company in accordance with the rules of the respective schemes. The Thames Water Sharesave Scheme is a 'save as you earn' share option scheme with options exercisable, in normal circumstances, after completion of a five or seven year contract. The Thames Water Executive Share Option scheme is a scheme for senior executives with options exercisable between the third and tenth anniversaries of the date of grant.

Notes to the Accounts

25 Share capital (continued)

Options granted and outstanding at 31 March 1992

Date of grant	Number of ordinary shares	Option price per share	Normal date of exercise
Thames Water Sharesave Scheme			
5-year scheme			
• 12 December 1989	2,622,239	176p	Dec 1994 – June 1995
• 13 July 1990	453,037	227p	July 1995 – Jan 1996
• 12 July 1991	574,080	288p	July 1996 – Jan 1997
• 29 November 1991	655,109	296p	Nov 1996 – May 1997
7-year scheme			
• 12 December 1989	1,127,320	176p	Dec 1996 – June 1997
• 13 July 1990	199,356	227p	July 1997 – Jan 1998
• 12 July 1991	319,723	288p	July 1998 – Jan 1999
• 29 November 1991	315,977	296p	Nov 1998 – May 1999
Thames Water Executive Share Option Scheme			
• 17 January 1990	1,713,000	278p	1993-2000
• 18 June 1990	98,000	283p	1993-2000
• 20 November 1990	309,000	303p	1993-2000
• 2 July 1991	775,000	347p	1994-2001
• 11 November 1991	94,000	356p	1994-2001

	The Company £m	Subsidiary undertakings £m	Associated undertakings £m	Goodwill written off £m	Total £m
26 Reserves and retained profits					
Profit and loss account					
Balance at 1 April 1991	7.0	1,092.0	0.2	(25.1)	1,074.1
Profit (loss) for the financial year	77.8	133.5	(0.2)	-	211.1
Dividend payable	(74.1)	-	-	-	(74.1)
Value of shares issued in lieu of dividends	6.7	-	-	-	6.7
Capitalisation for shares issued in lieu of dividends	(1.8)	-	-	-	(1.8)
Goodwill written off	-	-	-	(49.4)	(49.4)
Balance at 31 March 1992	15.6	1,225.5	-	(74.5)	1,166.6

Goodwill of £49.4m was written off during the year and has arisen from the following transactions:

- £12.7m on the acquisition of UTAG (see note 29);
- £28.3m on the acquisition of Leopold (see note 29);
- £5.1m on the purchase of shares in Subterra Holdings Limited (see note 15);
- £3.3m from several small acquisitions.

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
27 Capital commitments				
Contracted for but not provided in the financial statements	250	215	-	-
Authorised but not yet contracted for	649	633	-	-

In addition to these commitments, Thames Water Plc has long-term capital investment plans to meet shortfalls in performance and asset condition and to provide for new demand and growth.

Notes to the Accounts

28 Operating leases

At 31 March 1992 Thames Water Plc was committed to making the following payments during the next year in respect of non-cancellable operating leases.

	Group		Company
	Land and buildings £m	Other £m	Land and buildings £m
Leases which expire:			
• Between one and five years	0.6	2.1	—
• After more than five years	3.8	0.3	0.4
Total	4.4	2.4	0.4

29 1992 Acquisitions

All acquisitions completed during the year have been accounted for using the acquisition method of accounting. Details of major acquisitions are as follows.

UTAG

Under the terms of a share sale agreement the Group completed the purchase of UTAG from the Treuhandanstalt on 5 March 1992. The purchase price, which was settled in cash, amounted to £9.5m inclusive of costs. Of this amount £8.5m was in respect of the inheritance of loans from the Treuhandanstalt to UTAG. In addition, further debt amounting to £10.1m was acquired.

The accounting reference date for UTAG is 31 December. The accounting reference date has been brought into line with that of Thames Water Plc such that the accounts of Thames Water Plc for the year ending 31 March 1993 will consolidate 15 months' financial results of UTAG. The effective commencement of trading within the Group was 1 January 1992.

Audited accounts are being prepared for the year ended 31 December 1991. The result for the year ended 31 December 1991 is not yet known pending the finalisation of accounts for that year.

The balance sheet of UTAG has been consolidated as at 31 December 1991. The financial results of the acquired companies for the period 1 January 1992 to 31 March 1992 have not been consolidated as, in the opinion of the Directors, they are not material to the results of the Group. Goodwill arising on consolidation (see note 26) has been calculated on the fair value of the net assets of the acquired group at 31 December 1991. The following table shows the difference between the provisional fair value of assets and liabilities purchased and the book values in the balance sheet at 31 December 1991.

	Book value £m	Provisions £m	Fair value £m
Fixed assets	16.5	—	16.5
Current assets	36.2	—	36.2
Creditors: amounts falling due within one year	(36.3)	(3.0)	(39.3)
Creditors: amounts falling due after more than one year	(25.1)	—	(25.1)
Net liabilities	(8.7)	(3.0)	(11.7)

The fair value provisions comprise £1m for anticipated trading losses on companies which are to be closed and £2m for further restructuring of the Group.

Leopold

The share sale agreement of Leopold was completed on 3 February 1992; the effective commencement of trading within the Group was 1 February 1992.

The accounting reference date for Leopold is 31 May. It has been brought into line with that of Thames Water Plc such that the accounts of Thames Water Plc for the year ending 31 March 1993 will consolidate 14 months' financial results. The last audited accounts for Leopold were for the year ended 31 May 1991. The financial result for Leopold between 1 June 1991 and 31 January 1992 was a loss of £0.9m and for the year ended 31 May 1991, a profit of £0.8m.

The balance sheet for Leopold at 31 January 1992 has been consolidated. The financial results for the period 1 February 1992 to 31 March 1992 have not been consolidated since, in the opinion of the Directors, they are not material to the results of Thames Water Plc. Goodwill arising on consolidation (see note 26) has been calculated by reference to the fair value of the net assets of Leopold at 31 January 1992.

Notes to the Accounts

29 1992 Acquisitions (continued)

The book value of net assets acquired amounted to £1.4m. Fair value provisions have been made for rationalisation costs of £1.2m and for the write off of intangible assets amounting to £2.7m.

There have been no changes in the net asset values of either UTAG or Leopold between their respective acquisition dates and 31 March 1992 which are significant to the results of the Group.

30 Pension schemes

Pension arrangements for the majority of the Group's employees are of the defined benefit type funded through pension schemes whose assets are held separately from those of the Group in independently administered funds.

The total pension cost for the Group was £17.7m (1991: £16.5m) of which £0.5m (1991: £0.5m) relates to the overseas schemes. The pension cost relating to the UK schemes is assessed in accordance with advice received from Bacon & Woodrow, the consulting actuaries to the schemes. The pension costs relating to the overseas schemes are assessed in accordance with local practice.

Current levels of pension charge and contributions to the schemes are based on initial actuarial reviews of the various schemes as at 6 April 1990. The principal assumptions used in determining the pension cost were that salary increases, excluding allowance for promotional increases, would be between 7% and 7.5% per annum and that the rate of return on investments would amount to 9% per annum. Pension increases would be granted in line with the rules of each scheme and any statutory requirements.

The actuarial methods used were the Projected Unit method for schemes open to new members and the Attained Age method for the scheme which is closed to new members.

For the largest schemes of the Group the total market value of assets as at the valuation date was £280m and the actuarial value of these assets represented 104% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

In addition to the ongoing cost of the UK Pension arrangements, the Group operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional contributions to the schemes. In the year ended 31 March 1992 these payments amounted to £4.1m (1991: £4.3m).

The funding of the schemes does not reflect the possible changes which may be required following the Social Security Act 1990 and the judgement in the European Court of Justice regarding the Barber v GRE sex discrimination case. The likely impact of these points in the future will be to increase pension costs generally. However, the practice under the defined benefit pension schemes operated in the UK by the Group has been to provide for a reasonable level of inflation-proofing which is likely to meet statutory requirements. It is therefore expected that the impact of the Social Security Act 1990 will be relatively small. Similarly, the impact of the Barber v GRE judgement is expected to be relatively small as the main Thames Water pension schemes include flexible provisions regarding retirement based on a common retirement age.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £178.6m (1991: £68.5m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £50.2m at 31 March 1992 (1991: £44.1m).

32 Thames Water Utilities Limited

Condition F of the Instrument of Appointment under which Thames Water Utilities Limited operates, requires specified accounting statements to be published with its annual accounts or those of its parent company. Copies are available and anyone requiring a copy of these accounts including the specified statements should apply to:

J K Boudier
Finance Director
Thames Water Utilities Limited
Nugent House
Vastern Road
Reading RG1 8DB

Report of the Auditor

to the Members of Thames Water Plc

We have audited the accounts on pages 22 to 45 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 1992 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditor
London

19 June 1992

Group Five Year Summary

Year ended 31 March	1988 £m	1989 £m	1990 £m	1991 £m	1992 £m
Consolidated profit and loss accounts					
Turnover	523.3	557.6	611.5	835.5	899.3
Operating profit	178.3	187.5	158.3	180.5	234.0
Other income	12.4	18.0	11.8	11.1	11.2
Interest	(10.0)	1.7	9.1	11.7	(8.9)
Profit on ordinary activities before taxation	180.7	207.2	179.2	212.3	236.3
Taxation on profit on ordinary activities	-	-	(12.9)	(19.8)	(25.2)
Extraordinary items	-	(3.2)	(18.7)	0.7	-
Profit for the financial year	180.7	204.0	147.6	193.2	211.1
As at 31 March					
Consolidated balance sheets					
Tangible fixed assets	1,092.2	1,218.1	1,421.8	1,750.6	2,106.4
Net current assets/(liabilities)	59.9	119.5	51.3	(125.1)	(23.8)
Creditors: amounts falling due after more than one year	(184.9)	(185.9)	(98.9)	(140.8)	(503.7)
Provisions for liabilities and charges	(8.6)	(10.6)	(27.3)	(26.4)	(26.2)
	958.6	1,141.1	1,346.9	1,458.3	1,552.7
Called up share capital	-	-	384.2	384.2	386.1
Reserves and retained profits	958.6	1,141.1	962.7	1,074.1	1,166.6
	958.6	1,141.1	1,346.9	1,458.3	1,552.7

The financial information set out above for the two years ended 31 March 1989 has been extracted from the audited financial statements of Thames Water Authority for those years adjusted by the elimination of financial information of the profits and losses and balance sheet items attributable to functions which were transferred to the National Rivers Authority and Port of London Authority and by the application of current accounting policies on a consistent basis throughout the period.

The Directors recommend that care should be taken in drawing conclusions from a comparison between the results for the three years ended 31 March 1990, 1991 and 1992 and those for previous years. The changes which took place during the year ended 31 March 1990 in capital structure, regulatory expenditure and other costs associated with Plc status render comparisons potentially misleading.

Shareholder Information

Analysis of shareholdings as at 31 March 1992	Holders	%	Shares held (000s)	%
1 - 500	287,927	94.1	67,360	17.4
501 - 1,000	12,180	4.0	8,387	2.2
1,001 - 5,000	4,630	1.5	8,608	2.2
5,001 - 50,000	866	0.3	15,353	4.0
50,001 - 100,000	151	<0.1	11,309	2.9
100,001 - 1,000,000	348	0.1	110,047	28.5
Over 1 million	63	<0.1	165,037	42.8
	306,165	100.0	386,101	100.0
Individuals			77,606	20.1
Insurance Companies			39,768	10.3
Pension Funds			155,213	40.2
Unit and Investment Trusts			43,243	11.2
Nominees* and other Corporate bodies			58,688	15.2
HM Government			11,583	3.0
			386,101	100.0

*Most nominee holdings have been included in other categories according to the beneficial ownership of the shares concerned.

Financial calendar

Financial year ended 31 March 1992

15 June 1992 Ex-dividend date for final dividend

25 June 1992 Record (or qualifying) date for 1992 final dividend

28 July 1992 Barbican Centre, London 1992 Annual General Meeting

4 September 1992 Final dividend payable

Financial year ending 31 March 1993

3 November 1992 Announcement of half-yearly results for six months to 30 September 1992

February 1993 Interim dividend payable

Shareholder enquiries

Shareholders with enquiries about Thames Water Plc or shareholder matters can contact the Shareholder Enquiry Unit at local call cost on 0345 414140.

Share register

The Company's share register is maintained by National Westminster Bank PLC. Shareholders requiring help or information about their shareholding may either write to The Registrar, Thames Water Plc, National Westminster Bank PLC, Registrar's Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH or telephone on 0272 763006.

Share price information line (CityCall)

Callers can obtain a current share price on 0891 222302. The charge is 36p per minute cheap rate and 48p per minute peak rate inclusive of VAT.

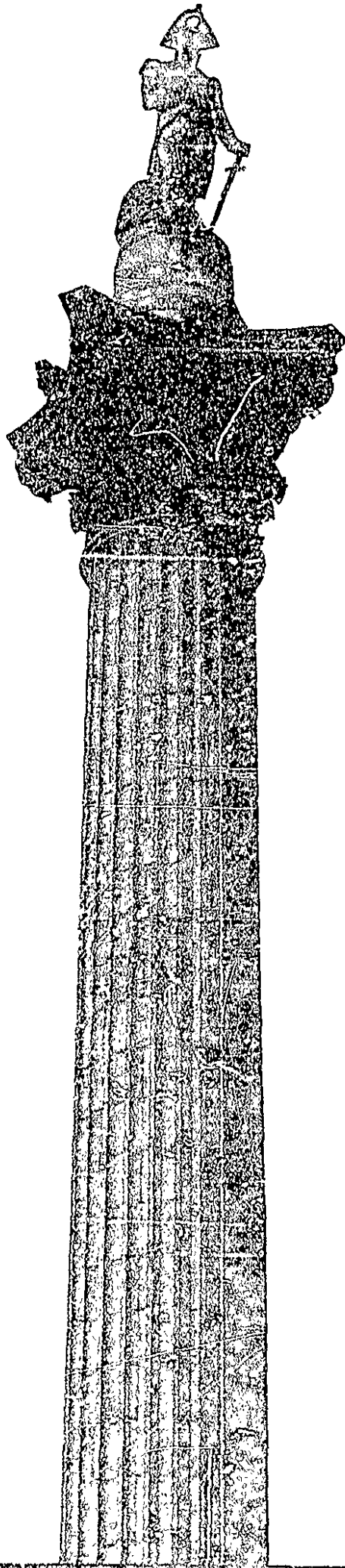
Customer enquiries

Thames Water Utilities customers with any queries or problems should contact us on 071 837 3300 if they live in London, or 0345 200800 outside London.

Registered Office

Thames Water Plc, 14 Cavendish Place, London W1M 9DJ.
Registered in England and Wales No. 2366623.

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Annual Report and Accounts 1992

Corporate Profile

Thames Water Plc is the holding company of the Thames Water Group of companies which carry out a range of international water-related businesses.

Thames Water Utilities, the principal operating subsidiary, is responsible for supplying drinking water and for taking away and treating waste water for several million customers throughout London and the Thames Valley.

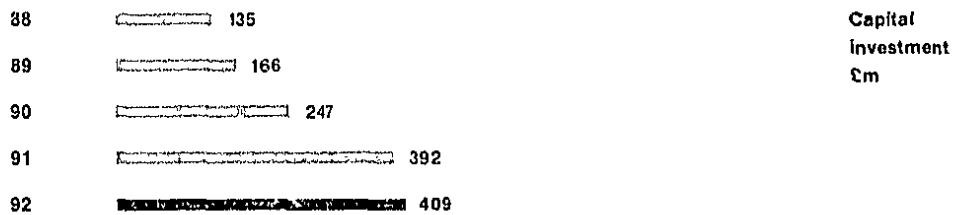
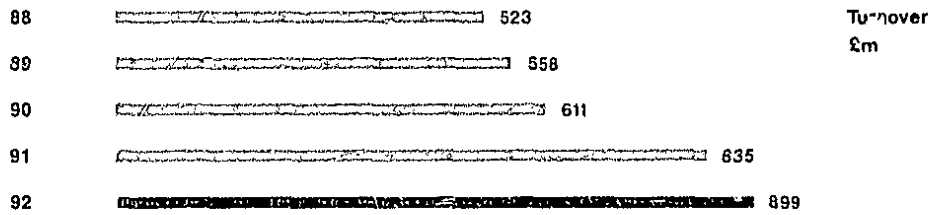
Other subsidiary companies include PWT Worldwide, Leopold, UTAG, Thames Water International Services and Thames Water Environmental Services. To municipal, industrial and commercial customers throughout the world they supply water treatment products and systems; they provide water, environmental and waste management services, and they design and manage major water projects.

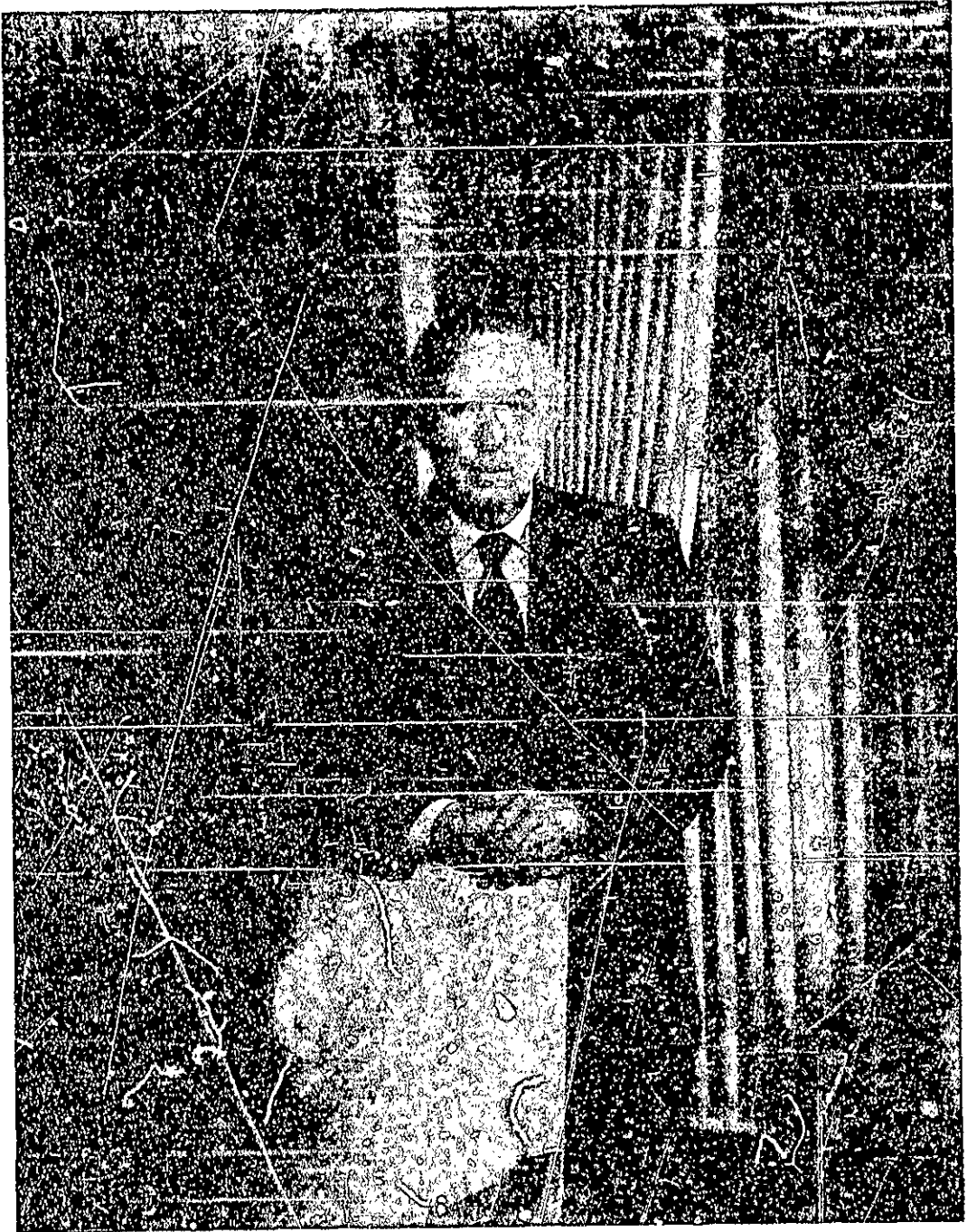
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Financial Highlights

Year ended 31 March	1992 £m	1991 £m
Pre-tax profit	236.3	212.3
Post-tax profit	211.1	192.5
Earnings per ordinary share	54.8p	50.1p
Dividend per ordinary share	19.2p	17.5p





"1991/92 was a year of
solid progress. Our
results were highly
creditable. We have
delivered as promised
and we will continue
to do so."

Chairman's Statement

Results continue to be good. In the year ended 31 March 1992 profit before tax increased to £236m, an increase of 11% over the previous year. Earnings per share increased by 9% to 54.8p. As a consequence we are recommending a final dividend per share of 12.8p, making a total for the year of 19.2p, an increase of 10%. The dividend cover remains at approximately 2.9 times. As in the previous year this has been achieved alongside an improvement in service and a massive capital investment programme, whilst maintaining the lowest combined water bills in England and Wales.

As we reported at the half-year, Utilities turnover was lower than expected mainly as a consequence of small business failures and reduced demand from some large metered customers. Very little operating costs saved from a marginal reduction in output so other costs were reduced to minimise the impact on profit. Despite unhelpful weather conditions we operated throughout the year without imposing any hose-pipe or other bans. The overall result, therefore, is highly creditable.

The large capital programme to improve water quality, service and efficiency has been managed to time and within budget. Of the £409m invested in fixed assets throughout the Group, £394m was spent by the Utilities company compared with £389m in 1990/91, demonstrating our ability to maintain this level of investment

throughout the decade. Property disposals have been contained pending an improvement in the market. However our major development at Barn Elms has received planning approval.

Our enterprise (ie non-utility) businesses have performed well and collectively moved into a profit of £6m after interest. The policy of generating a future profit-stream from water-related businesses complementary to the regulated utilities business, has made progress in the year. We anticipate increasing earnings from such businesses to support future earnings per share growth. We have



Sir Roy Watts escorts HRH Princess Alexandra at the opening of the London Water Control Centre at Hampton.

acquired UTAG in Germany, Leopold in the USA, Morgan Collis Group, Sub-Scan and South Bucks Effluent in the UK. We also set up a 60:40 venture with Northumbrian Water to purchase Subterra. In a full year the 1991/92 turnover would have been in the order of £250m – equivalent to a substantial UK company itself. Such activities are consistent with our basic skills and experience. They are separately financed to ensure no cross-subsidy nor do they detract from the efficient running of the Utilities business. We shall continue to

expand step by step and only after careful consideration.

Much progress has been made throughout the Group in customer contact, in quality assurance, in training, in employee relations and in succession planning. Thames Water Utilities achieved many improvements in levels of service. Progress continues. There is more to do.

Your Board is a leading proponent of sound corporate governance. From the outset non-executive Directors have chaired Board Committees concerned with top executive remuneration, financial audit, share dealings and donations to charity. We have now added an Environmental Audit Committee chaired by Sir Peter Harrop, referred to later in the report. A non-executive Director also sits as a Pension Trustee. Pension fund investments are managed by independent advisers. No Thames pension fund has invested in any Thames Water shares.

In view of our strong financial position we voluntarily reduced by a half of one per cent the permitted price rise in our Utilities business for the year beginning April 1992 to give direct benefit to our customers: a small but important contribution.

Thames Water is an experienced, international company with much talent. My thanks to all employees for an excellent job throughout the year. We have delivered, as promised, and we will continue to do so.

Roy Watts
Chairman

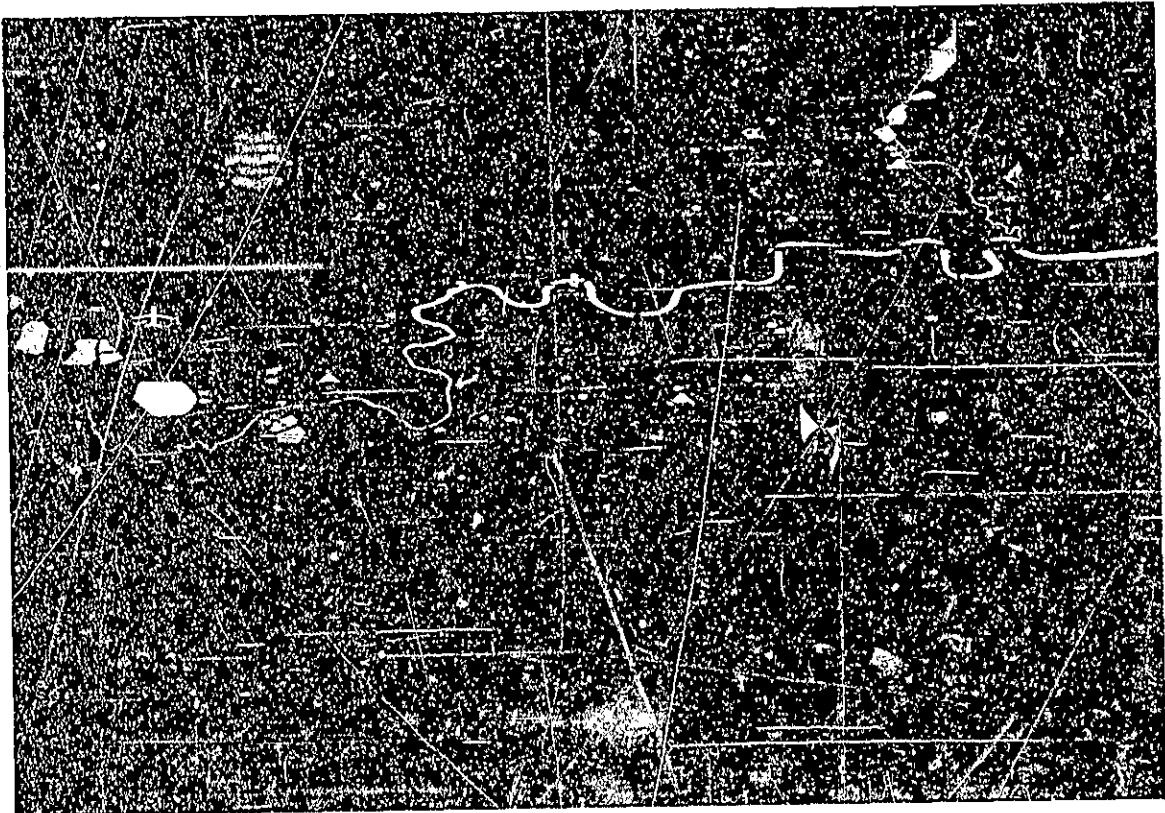
Group Chief Executive's Review

er gineering division has reduced design and management overheads.

As well as our investment in plant and product quality, we continue to invest to expand our technological and production capacity, and improve control and efficiency through the latest information technology.

local distribution systems by 10% during 1991/92 to 18% of total supplies. The key to this success has been the application of new technology to the detection, location, and measurement of leaks.

On 1 April 1992 we changed the way we manage our sewerage activities to improve the quality of service and to increase efficiency. We have entered into management contracts on a competitive commercial basis with seven consortia comprising groups of



I am pleased to report that we have made solid progress in all the Group's businesses.

The Utilities company has done well and successful management of our large capital investment programme is critical. We invested a total of £394m during the year, met all our key targets and are ahead of schedule in some. We maintained tight control of projects whilst at the same time improving productivity by better design and innovation. We benefited from relatively stable contract prices, and the reorganisation of our

Operationally we maintained water supplies throughout another dry summer without restrictions. We are having to manage our water resources very carefully again this year following a fourth consecutive dry winter. The measures we took last summer to reduce leakage and improve distribution in some critical areas are helping matters.

We reduced leakage rates in our

Mike Hoffman in the control room of the new London Water Control Centre. Behind him is its centre-piece, a computerised monitor panel which can display current information from any part of the London water distribution system, from reservoir levels to the smallest pumps.

neighbouring local authorities, with two independent contractors, one of which is our associate company Brophy Group Plc, and with 53 local authorities.

We have started to reorganise the Utilities distribution depots and district management units. This will lead to improved customer service, such as responding to burst water mains, and should produce estimated cost savings of £10m a year.

We have improved customer contact but have not yet realised the full potential of our new facilities at Swindon. The relentless pressure on cost reduction and improved customer service will continue.

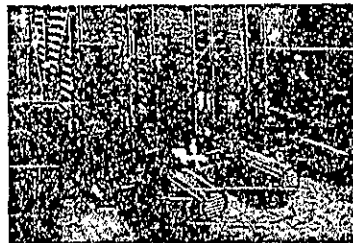
Our enterprise businesses grew as a result of major acquisitions in the last quarter, and now employ over 3,000 people world-wide. Expansion during the year represents a significant step towards our aim of becoming a major international company in water-related businesses.

PWT Worldwide's two divisions, Design and Contracting and Products and Services, have performed well. They are now operating profitably, and despite recession ended the year with a strong order book both in the UK and internationally. Further changes in Design and Contracting to form PWT Asia-Pacific has strengthened our presence in this strategically important part of the world. The acquisition of Leopold in the USA has added some high quality and innovative filtration products to the Products and Services division. We will use it to improve market penetration in the United States.

Our operations in Europe have been significantly expanded by our acquisition of UTA, a German

engineering design and contracting company operating in the municipal water and waste water sector. Through UTA, we will exploit the opportunities arising from the vast refurbishment investment needed to meet EC standards in eastern Germany and develop prospects in the rest of continental Europe.

The separation of Thames Water Enterprises into Thames Water International Services (TWIS) and Thames Water Environmental Services (TWES), which we reported last year, has been very successful. Both companies have good prospects. TWIS has developed



A PCI Membrano Systems reverse osmosis plant located in a French dairy, concentrating whey from 6% to 24% solids.

from its traditional training and consultancy services to taking on operating and maintenance contracts. A number of build, operate and transfer schemes are also being worked up.

Through small but carefully selected acquisitions, TWES has increased its range of companies offering specialist technical and surveying services to the underground pipe and drain market. Our modest waste management business will develop opportunities based on our core sewage treatment and sludge disposal activities.

Land sales have again been restrained in response to the

continuing depressed property market. We have continued to work on a number of projects and we received planning permission for our wildfowl reserve and associated development at Barn Ems.

We take seriously our role within the community. Our extensive schools liaison programme has been received enthusiastically by pupils and teachers. We invite representatives of local communities to the formal openings of completed capital projects, and mount a considerable number of exhibitions throughout our Utilities operating area. We agree payment terms with each of our suppliers and ensure that we pay them on time.

R&D continues to support the Group and some projects will allow effective commercial exploitation. Strong links to the investment programme ensure designs take early advantage of the research findings. The development and application of odour mapping techniques has enabled us to identify key sources of odour at sewage treatment works and prepare action plans to deal with them.

Of particular significance is the advanced water treatment pilot plant at Kempton Park. This has provided valuable data in its first year of operation which has already been utilised in the more cost-effective design of advanced water treatment plants.

The following pages contain a review of the activities of the main operating companies within the Group.

Mike Hoffman
Group Chief Executive

Thames Water People in Action



Mike McGuire is an Instrument Technician based at Coppermills Water Treatment Works in north London. He helps to maintain our increasingly sophisticated systems such as this chemical treatment control panel.

Thames Water employs some 10,500 people world-wide with around 2,000 working outside the UK.

The strength of the Group and its business success depends on its people, their commitment and the quality of their skills. We aim to recognise the contribution of employees both as individuals and as team members, to treat them fairly and equitably and to provide high quality training and development. We are an Equal Opportunities employer.



Leakey Lau obtained a degree in mechanical engineering in the UK in 1990; he was the Site Engineer in Au Tau Water Treatment Works in Hong Kong, a PWT project.



An engineer with UTAG, Roland Meade is responsible for the planning of drinking water pipe ducts at Köthen, Zorbig, Thurau and Matzdorf (in the Halle district).

Each subsidiary is responsible for the management of its human resources. The Group ensure that top level management and technical resources meet business needs, provide guidance and ensure minimum standards.

In particular we are committed to:

- Professional recruitment and selection.
- Relevant training and development.



Julie Gooch is a CAD Technician at our Utilities Engineering Centre in Reading. She works on a variety of sewage treatment plant projects.

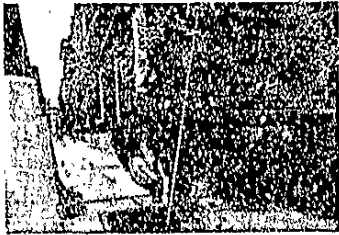


Our subsidiary company Sub-Scan has around 14 survey field crews like Richard Nash (Surveyor), and Kelly Hays and Andrew Prior (Assistant Surveyors), checking the internal measurements of our sewer system.

- A safe and healthy working environment.
- Effective organisational development and the management of change.
- Good communication.
- Fair treatment and equitable rewards.



A Senior Land Surveyor with TW Utilities, Jim Woodhams is on secondment to TW International. He is carrying out a hydrographic survey in Tehago.



As part of an ongoing programme of leakage detection, Richard Couse, a Clean Water Inspector in our London district, uses a 'leak noise correlator' to check for possible leaks.



A Field Service Engineer with LA Water Treatment Corporation since 1975, Don Anderson is working on an ion exchange unit at a large oil refinery in Mobile, Alabama, USA.



In one of our supervisor training sessions Peter Moran, Jonnie Hunt, Terry Taylor and Dave McCluggage (l to r) are involved in the Acorn Project - a hypothetical scenario involving the construction of a new development and the services that would be needed.



At our Customer Centre in Swindon, opened in 1991, Customer Contact Agent Linda Beasant uses the latest information technology to answer a customer's query.



Johan Jongeneel has been a Project Manager with Homé, a PWT subsidiary in Holland, for four years. This project is a waste water treatment plant at a Dutch Company, Pronto Print BV, which produces printed circuits.

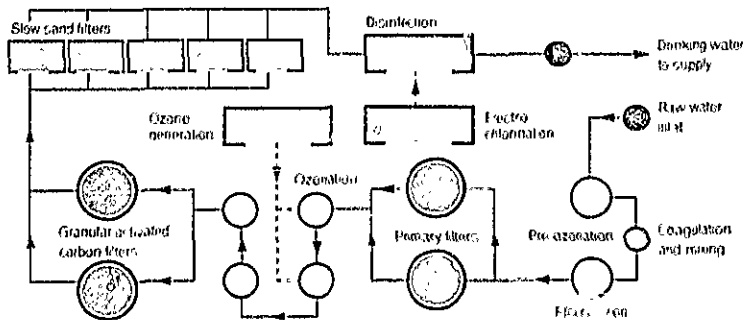


Kate Tellmar is an Analyst in the microbiology department of our new Millharbour laboratory. She is using a membrane filtration technique for testing for micro-organisms in drinking water.



During the year our £480m programme of investment to achieve even higher water quality got under way with our full scale pilot plant at Kempton Park, and with major projects starting at Wrillon and Ashford Common

The diagram below shows the treatment processes at our advanced water treatment centre at Kempton Park.



Thames Water Utilities

Directors: Bill Alexander (Managing), Mike Hoffman (Chairman), David Badcock, Jim Boudier, John Hurcom, Peter McIntosh, Mike Robbins, Bill Harper, David Lullfrum, Richard Marshall.
Turnover: £754m
Employees: 7,562

Within the Thames Group, Thames Water Utilities is the principal operating company. It carries out the regulated core business of supplying high quality drinking water to over seven million customers, and collecting and treating waste water from a population in excess of eleven million throughout London and the Thames Valley.

We have made excellent progress with the programmes we described in last year's report. Many of our customers are benefiting from improved services. We operated throughout another dry summer without imposing any hose-pipe bans, and our customer communication centre at Swindon became fully operational. Our extensive capital investment programme is ahead of schedule; we invested £394m during the year and achieved many key targets. We opened an advanced water treatment centre, two new laboratories and the control centre for the London Water Ring Main.

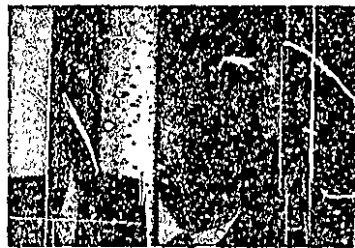
Water

Through careful management and selected improvements to the distribution system in some critical parts of our operating area, we were one of the few companies which did not have to impose restrictions on water use during the summer. In the

short term, particularly following the fourth successive dry winter, the water resource situation is difficult.

The measures we took last year will benefit our customers even more this summer, and we have been able to increase overall water availability from important source works projects in Oxfordshire and north London. Also, new sections of the Ring Main started delivering water to over one million Londoners from pumping stations at Streatham, Brixton and Battersea.

The present water situation reinforces our view that for the future more water will be needed in the west to meet growing demand. We have published our outline proposals



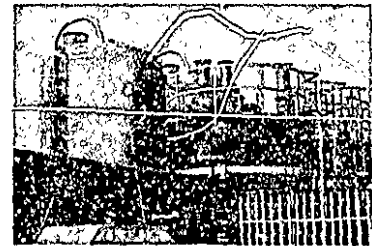
Utilities MD Bill Alexander at the advanced water treatment pilot plant at Kempton Park, opened in 1991 to test the application of new process technologies.

for a major new reservoir in south-west Oxfordshire, and we have consulted widely with the communities and local authorities concerned. The technical investigations to find the best site have been completed and we are now carrying out an environmental assessment.

Public and media interest in the quality of drinking water remains high, although at times some comment is ill-informed. The water we supply is of high quality, as confirmed by the first report since privatisation of the Government's

Drinking Water Inspectorate, July 1991

Although all our drinking water meets international and UK health-based limits, we are making further improvements to achieve the more exacting European Community standards. In July we opened an advanced water treatment (AWT) centre at Kempton Park. This full-scale pilot plant built by one of our group companies, PWT Projects, is developing the application of AWT technology to Thames' particular water treatment processes. The AWT centre uses ozone and granular activated carbon to remove any traces of organic substances - such as pesticides - which are sometimes



A view of the new chlorination plant at Walton. Electrochlorination on site avoids the hazard of storing quantities of chlorine gas which is used during the disinfection process.

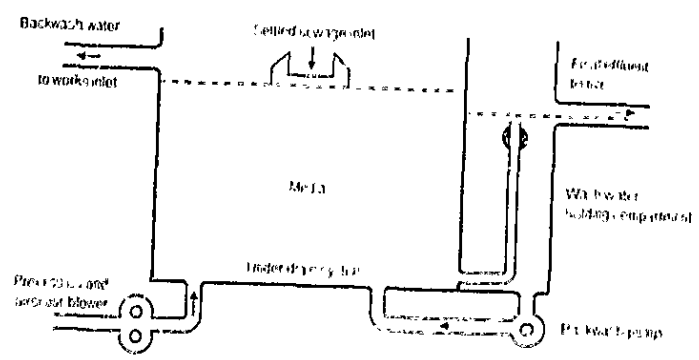
in our raw water supplies. This AWT technology is at the heart of our planned £480m investment programme to improve water quality.

Our largest single project, the 80km London Water Ring Main, continues to make excellent progress and is six months ahead of schedule. We have advanced our tunnelling programme to take advantage of favourable prices. The contract for the final stage, 16.6km from Ashford Common to Barnes, was awarded in July. Our contractors use Thames' own tunnelling machines, which were delivered ▶



As major dischargers of treated waste water, completion of our extensive programme of refurbishing 157 sewage treatment works will make a significant contribution to improving the quality of water in streams and rivers in the Thames' catchment.

Below: A diagrammatic representation of the Thames Flooded Filter. A product of our R&D programme, the filter is used in small waste water treatment works.



Thames Water Utilities

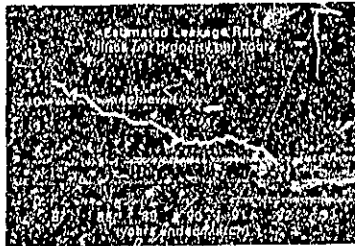
during the year and built in Canada to our own specification. With these new machines we have set three new world tunnelling records – for example, in a 24 hour period during March we bored 101 metres of tunnel.

The Ring Main, now halfway to completion, is already distributing 500 million litres of drinking water every day to one million customers in south, central and east London, improving reliability of supply.

In January, HRH Princess Alexandra opened our new control and communication centre at Coal Wharf, Hampton. Built in just 42 weeks, this high-tech facility will eventually be the nerve centre for the Ring Main and for the whole of our water supply, treatment and distribution operations in the Greater London area.

Environment

In March we completed a major three-year programme of refurbishing and upgrading many of our sewage treatment works. Eighty-one projects were completed during the year. Overall, some £260m has been invested in 157 works to ensure that the treated waste water returned to the river system meets the quality

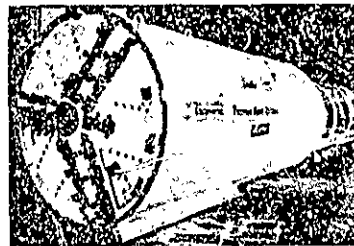


This graph shows the significant progress we are making in reducing leakage from the distribution system. The estimated leakage rate includes that from customers' supply pipes and premises.

standards set for each plant. The works involved range from large plants, such as Swindon and Camberley, to very small rural plants serving populations of less than 1,000.

In some cases works have been virtually rebuilt. Automatic monitoring and control systems help to maximise process quality and minimise operating costs. Sewage gas from some of our major works is being used as a source of heat and power, which reduces both costs and greenhouse gas emissions.

During this extensive modernisation programme many of the quality standards for the plants involved were relaxed, but from 1 April 1992 they have applied in full. We are committed to meeting these. We are liable to prosecution if we fail, or if we discharge waste water without a consent. During the year one discharge without consent following a blockage at a works brought prosecution from the NRA, and proceedings are pending in one case of breach of consent conditions where the terms of the consent are under appeal. There were three other prosecutions following discharges from blocked sewers.



One of the three new tunnel boring machines designed to Thames' specification and operating up to 60 metres below London in the final phase of tunnelling for the London Water Ring Main.

We will continue to invest to ensure that all our plants continue to meet current consent standards. Our existing investment programme does not, however, include any additional expenditure which may be required to meet tougher consent standards following the NRA's review of river quality objectives, or the implementation of the EC Urban Waste Water Treatment Directive.

We are making good progress with our plans to build incinerators to replace discharges to the North Sea as the method of disposing of London's treated sewage sludge. Following extensive consultation with local communities and a detailed assessment of the impact on the environment, we have submitted planning applications for two incinerators at our large treatment works at Beckton and Crossness in east London. The incinerators will use the latest technology in Europe; air emissions will meet toughest European standards. Commercial opportunities for the ash residue are being explored; otherwise it can safely be used for land-fill. Power will be generated from the incineration ▶

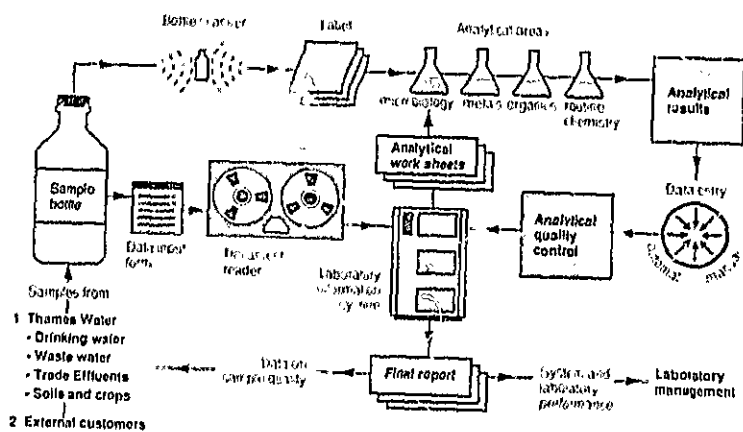


Sludge digesters at Bannbury sewage treatment works, one of the 157 plants in our major programme to improve quality of treated waste water, where £10m has been invested in a major refurbishment.



Both of Thames' new laboratories were opened in 1991/92, to support our higher standards of quality and efficiency. They replace 25 smaller laboratories. This one is in Docklands.

Each of the laboratories is designed to process two million samples each year, at maximum efficiency. The diagram below shows the management control procedures.



Thames Water Utilities

process for use on-site or exported to the electricity grid. Odour from the existing sludge treatment process will be substantially reduced.

Thames Water is committed to the preservation and protection of our heritage and wildlife, and to enhancing the environment. In the Utilities operating area there are nearly 4,000 square kilometres of protected landscapes, 2,000 ancient monuments and 450 sites of special scientific interest. We have a Conservation and Archaeological Unit which supervises and develops conservation policies and practices. For example, all new engineering projects are vetted for their impact on the environment, and we consult with relevant community organisations. During the year we published the first issue of 'Conservation News', which explains our approach and gives practical examples of what we are doing.

We share the growing concern about low river flows in parts of our region brought about by prolonged dry weather; we have voluntarily reduced our abstraction of water where that is possible without endangering supplies to our customers.

Internally, we are implementing environmental policies covering waste reduction, energy and the recycling of paper, metals, oils and plastics.

Customers

In addition to our extensive capital investment programme, our customers are benefiting in other ways.

We have issued our new code of practice and there are compensation arrangements for the rare occasions that we fail to honour it. Our customer centre at Swindon, which deals with every type of enquiry, now serves customers throughout the whole of our area.

We continually monitor the quality of our services, as does the Director-General of Water Services. Common measures of performance are used by all companies covering such matters as water availability, water pressure and response to billing queries and complaints. In his annual report, the Director-General noted that in 1990/91, the Thames region Customer Services Committee



Our quality control process involves the regular sampling of water as it arrives at customers' premises.

had the lowest level of complaints. We are working hard to improve performance in our day-to-day services and through many initiatives we are making good progress.

Quality Control

Our laboratory rationalisation programme was completed during the year with the commissioning of two new laboratories, in Reading and in Ducklands. Spencer House in Reading was formally opened in September by Sir Hugh Rossi, Chairman of the House of Commons Environmental Committee.

Costing around £10m each, the

new laboratories were designed to our own requirements and bristle with the most advanced scientific equipment in the world. Each analyses two million water samples a year, ensuring that we continue to provide the highest quality water. They carry out the comprehensive scientific tests on all drinking water supplies as required by UK Water Quality Regulations.

The technology enables us to carry out chemical and microbiological analysis of water supplies, effluent and sludge, and to conduct full investigations of process streams.

By concentrating all our scientific



Many of our capital works include projects to improve the landscape and the natural habitat for wildlife. The Pinkhill Meadow nature reserve between the River Thames and Farmoor Reservoir was opened recently.

analysis into these two laboratories we have been able to make considerable improvements in productivity and efficiency and have closed or are closing all our other 25 laboratories.

Employees

We have made substantial progress in modernising our personnel policies. We introduced a new pay and grading structure in which automatic increments were replaced by progression based on individual performance. Our project to expand our skills base and modernise employment conditions is nearing completion.

PWT Products and Services

Managing Director: David Banfield.
Turnover: £43m (excluding Leopold)
Employees: 890

The companies within PWT Products and Services Division trade in four broadly defined business sectors in Europe, Australasia and South Africa. These are:

industrial and commercial water treatment, membrane systems for industrial process separations and effluent treatment, pipeline products and mobile water treatment.

Recently, through the acquisition of F B Leopold Co in the USA, we added a water treatment equipment supplier to complement our international design and contracting business.

Despite lower turnover caused by the recession, these companies have performed well, meeting profit targets and improving returns on sales. Whilst we have benefited from our niche products and the increased investment by the water industry, the industrial market has been particularly difficult and little improvement is foreseen in the current year.



David Banfield prepares to hand over another mobile water treatment unit, which can produce drinking water from heavily polluted raw water in hostile environments

Trading conditions were depressed for Permutit, the leading UK supplier of industrial water treatment products, as its activities throughout the world suffered from recession.

Stella-Meta Filters ended the year with a strong order book. This included a contract with the Ministry of Defence for the supply of its mobile water treatment units which were deployed in the Gulf War. The merging of Portacel with Stella-Meta Filters has considerably reduced overheads. Portacel's performance improved, with sales of its chlorine monitoring equipment gaining from water industry investment.

FW Talbot had a good year throughout the world with its pipeline products. In this company we have invested heavily in new products.

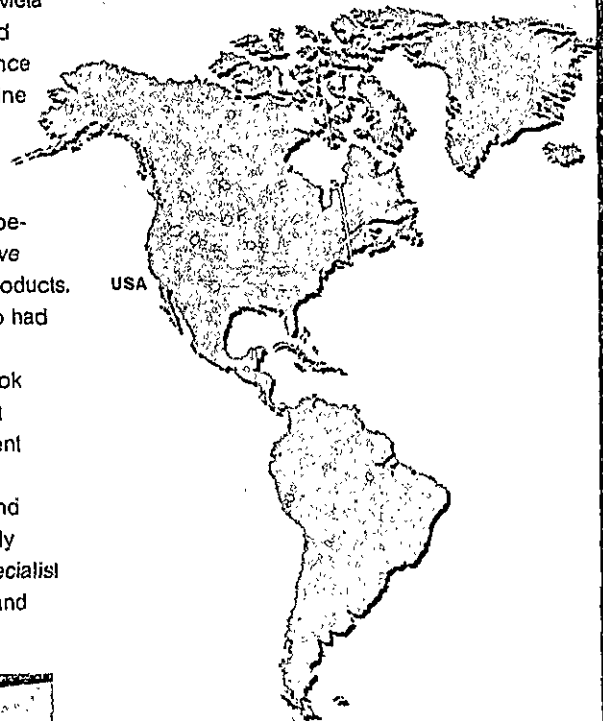
PCI Membrane Systems also had a good year internationally and currently has a strong order book in its niche market for specialist industrial processing and effluent treatment.

Our two companies in Holland have performed well, particularly Houserman BV, suppliers of specialist chemicals for water treatment and chemical cleaning services.



A filter underdrain system being tested at the research laboratory of our newly acquired subsidiary F B Leopold Co. near Pittsburgh.

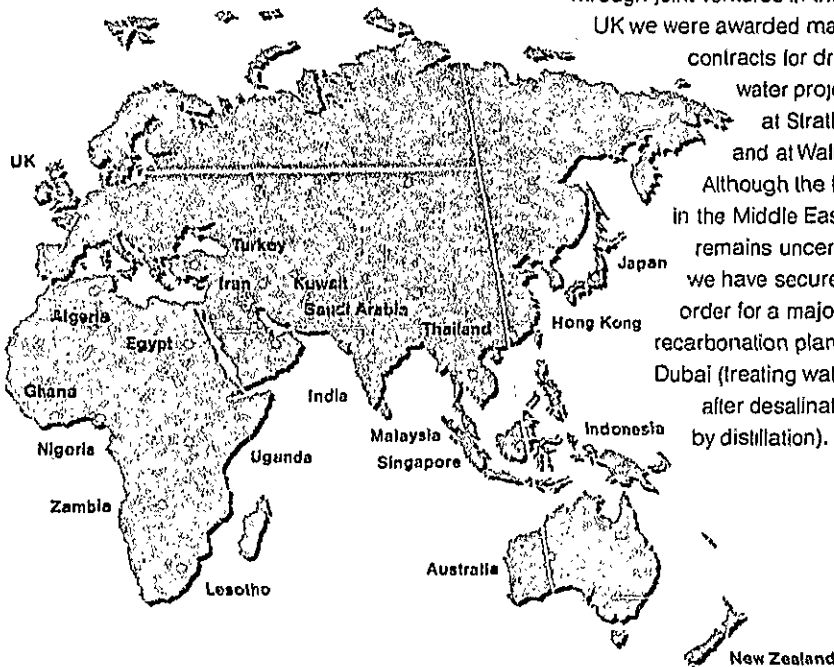
In January 1992 we acquired the F B Leopold Co, a major supplier of filtration systems for the industrial and municipal markets. Based near Pittsburgh, Leopold has a strong portfolio of new products in filtration and sludge processing. Its acquisition will enhance PWT's range of products and technology and give us a stronger presence in both North and Central America.



PWT has numerous current projects throughout the world.

PWT Design and Contracting

Managing Director: Mike Rowe.
Turnover: £104m
Employees: 708



PWT's Design and Contracting division is benefiting from its strategy of consolidating its businesses into one international organisation. It designs and builds water and waste water treatment plants for drinking water, sewage and industrial applications.

The division has had a successful year – moving into profit following a loss last year when we were adversely affected by the Gulf War. More significantly, we received a record number of orders during the year in the face of recession in many of our markets.

These include major orders in Australia, China, Dubai, Indonesia, Japan, Malaysia, New Zealand, Singapore, Taiwan, USA and the UK.

In the USA, L'A Water Treatment has continued to secure business in the evolving market for potable treatment plants utilising membrane technologies, as well as further orders for plants to provide high purity water for refinery and power station use.

Through joint ventures in the UK we were awarded major contracts for drinking water projects at Strathclyde and at Wallon.

Although the future in the Middle East remains uncertain, we have secured an order for a major recarbonation plant in Dubai (treating water after desalination by distillation).

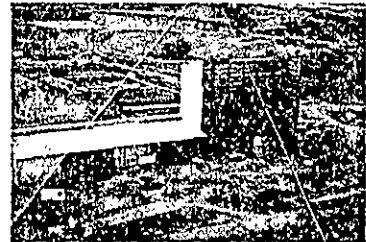
The year has seen the successful completion of several major plants, including drinking water treatment plants for Au Tau in Hong Kong, Nightcap in New South Wales and several plants in the UK, power station water treatment plants for Mae Moh in Thailand and Seraya in Singapore, with major progress being made on Anpara in India. In Australia the plant at Loy Yang is substantially complete and the significant 'zero discharge' water and effluent plant for the Mount Piper Power Station is ahead of schedule and within budget.

On acquisition we inherited some contracts with particular difficulties; these have now largely been completed or placed on a secure basis.

To complement its well established expertise in the clean water sector, the division is developing its skills in waste water treatment. Among the orders secured during the year were the process design of, and supply of all mechanical and electrical equipment for, a major sewage treatment project for Wellington, for sewage treatment plants in the UK utilising 'deep shaft' technology and biological aerated filters, and for industrial effluent plants in Malaysia and Australia.



Mike Rowe on site at the Overton clean water treatment plant under construction in Strathclyde



The environmentally-friendly water treatment plant at the Mount Piper Power Station in Australia, one of PWT's many projects around the world.

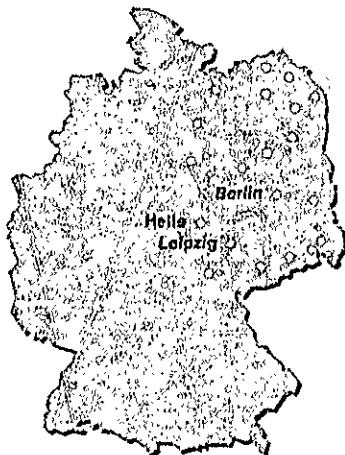
Thames Water International Services

UTAG

Managing Director: Dr Ulrich Holesovsky.
Employees: 1,100

In January 1992 we acquired UTAG - Mitteldeutsche Wasser-und Umwelttechnik AG - a German engineering design, consultancy, and contracting company. Based in Saxony - Anhalt in central Germany, UTAG operates in the municipal water supply and waste water treatment sector of the former GDR. It comprises a group of several companies, organised into three divisions: consulting, contracting and services.

Prior to its restructuring as a state enterprise on the reunification of Germany in 1990 UTAG had, for many years, a virtual monopoly operation in the municipal water sector.



UTAG has offices throughout eastern Germany, with its Head Office at Halle in Saxony-Anhalt.

Since 1990 the company has responded well to the new competitive environment, improving efficiency by almost halving its workforce. In 1991 it had a 30% share of a growing but competitive local market.

The German Government is committed to a large capital investment programme over the next ten years to bring water and waste water standards in eastern Germany up to EC levels. About a third of this investment, £1bn per annum, represents real market opportunities for UTAG, backed by



Dr Holesovsky in front of the granular activated carbon filters at Beeson Waterworks in eastern Germany.

Thames' commercial and financial strength and our expertise in the UK and world-wide.

Since acquisition we have lightened management and financial control and have strengthened its commercial expertise. We have reviewed the activities undertaken by UTAG and are carrying out a rationalisation programme.

Managing Director: Ian Ritchie
Turnover: £2m
Employees: 14

Thames Water International Services (TWIS) provides training and consultancy assistance to water utilities in many countries. Examples of major contracts won during the year were in Jordan (a 'twinning' arrangement for water supply and distribution training) and in Mexico (a study to



Ian Ritchie at Reading's Fobney water treatment works with training attachments from Thailand and Jordan.

advise on the reduction of pollution in the Rio Lerma catchment).

TWIS is currently operating in Argentina, Cyprus, Dubai, Egypt, Ghana, India, Jordan, Malaysia, Mexico, Pakistan, Sardinia, Sri Lanka, Spain, Trinidad & Tobago, Turkey and Uganda.

The company is developing build, operate and transfer (BOT) projects with local partners, to take advantage of new opportunities internationally to design, build, finance, and operate complete water and sewage treatment systems. From various companies within the Thames group we are able to bring together into a single package operational expertise, design and contracting skills, quality products, and project finance.

Thames Water Environmental Services

Managing Director: Andrew Robertson.
Turnover: £31m (including £17m share of joint venture income).
Employees: 268

Thames Water Environmental Services (TWES) is a relatively new group of companies which made a small profit in the year. Considerable progress has been made in developing three businesses in the expanding environmental market.

Sewerage Services

The objective of this group is to provide a comprehensive planning, maintenance and refurbishment service for the UK's drain and sewer networks.

In April 1991 we acquired the Morgan Collis Group, a leader in closed circuit television sewer surveying, flow monitoring and drainage consultancy. We added a further capability to this company in February 1992 with the purchase of Sub-Scan, one of Britain's largest manhole survey companies.

In January 1992 we established a 60:40 joint venture with Northumbrian Water Group to buy Subterra, a major contractor and process developer in 'no-dig' rehabilitation of pipes and sewers. These activities complement Metro Rod's drain and pipe cleaning

business, purchased in 1990. All companies traded profitably over the year.

Waste Management

Thames Waste Management's operational activities expanded through the purchase of the Norlands Lane landfill site near Chertsey in July 1991 and the South Bucks Effluent Company in February 1992. The latter is a liquid effluent tankering business to add to our previous acquisition in this field.

Progress has been made in planning for the development of



Andrew Robertson at Walthamstow Marshes where a Subterra crew are re-lining a sewer using their patented 'roll-down' process.

certain Thames Water redundant sites for waste applications, such as liquid effluent treatment and transfer stations.

Brophy Group

This associate company, in which we have a 50% interest, showed rapid growth over the year. The grounds maintenance division operated successfully on existing contracts and won substantial new

business for next year, including the contract for the upkeep of Kensington Gardens, which will both be profitable and enhance Brophy's reputation as the leader in this growing market.

Brophy received ten international and national awards for the quality of environmental and landscape works during the year.

The downturn in UK construction activities put pressure on margins in the landscaping and recycled soils business, but both are well established to take advantage of a return to more normal conditions.

New activities were established in



The contract for the maintenance of Kensington Gardens was won by our associate company Brophy Group.

sewer maintenance, digester cleaning and contaminated land clearance, which complement the other businesses within Thames Water Environmental Services.

Board Members

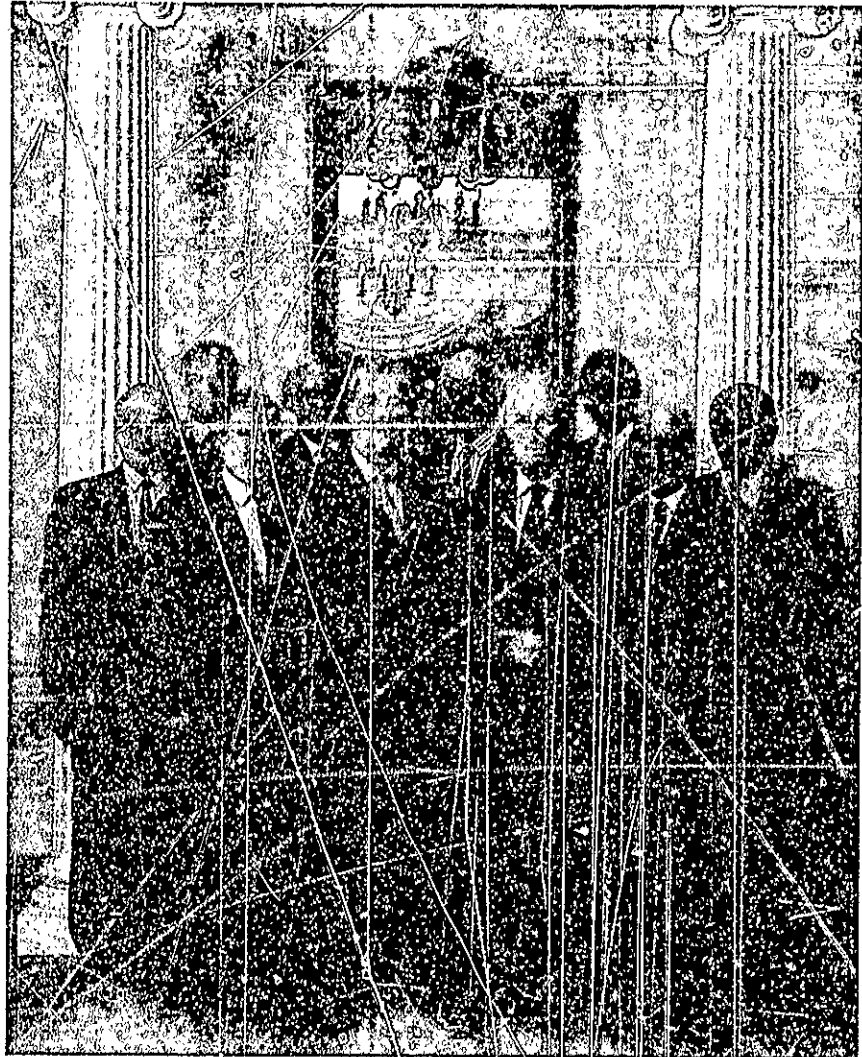
Sir Roy Watts CBE DBA MA FRAeS IPFA (66), Chairman was appointed Chairman of Thames Water Authority in October 1983. He was formerly Chairman and Chief Executive of British European Airways and Chief Executive and Joint Deputy Chairman of British Airways. He is currently Chairman of IBC Plc and Frank Graham Group, Consulting Engineers

Mike Hoffman FEng (52), Group Chief Executive joined Thames Water Authority in January 1989 as Group Chief Executive. He is Chairman of Thames Water Utilities and other operating subsidiaries. A chartered engineer, he was previously Chief Executive of Babcock International Plc, Chairman of Perkins Engines Group and President of Masey Ferguson Farm and Industrial Machinery Division. He is currently a Non-Executive Director of Cray Electronics Holdings Plc. He is a member of the Engineering Council and a part-time member of the Monopolies and Mergers Commission.

Bill Harper IPFA (48) Group Director, Corporate Activities was appointed to the Board of Thames Water Authority in March 1989. He joined Thames Water Authority in 1974 as Chief Accountant and was Managing Director of Thames Water Authority. As Group Director, Corporate Activities he has particular responsibility for the environment, community relations and for developing international business based on utilities expertise. Member of Environmental Audit Committee. Trusted Director of the Thames Water Pension Schemes

David Luffrum IPFA (47), Group Finance Director was appointed to the Board of Thames Water Authority in March 1989. An accountant, he joined Thames Water Authority in 1974, having previously held financial posts in the Thames Conservancy. He became Finance Director of Thames Water Authority in 1987. Member of Share Dealing and Charities Committees

Sir Christopher Leaver GBE (54), Non-Executive Director, Deputy Chairman was appointed



Left to right: Sir Peter Harrop, Bill Harper, Sir Christopher Leaver, John Thomson, Mike Hoffman, John Worlidge, Sir Roy Watts, Clive Carsley, David Luffrum, Robert Clarke

to the Board of Thames Water Authority in 1983. He is a former Lord Mayor of London, a former Director of Thermal Sciences Plc and the Bath and Portland Group Plc, past Chairman of the London Tourist Board and currently Chairman of Russell and Mavor. Chairman of Remuneration and Charities Committee.

Robert Clarke MA (63) Non-Executive Director was appointed to the Board of Thames Water Authority in July 1988. He is Chairman of United Biscuits Plc having become a member of its board in 1984. Chairman of Share Dealing Committee, member of Remuneration Committee.

Sir Peter Harrop KCB MA (66) Non-Executive Director was appointed to the Board of Thames Water Authority in October 1986. Formerly the Senior Permanent Secretary in the Department of the Environment, a Managing Trustee

of Municipal Mutual Insurance Ltd and a Trustee of the British Museum. Chairman of Environmental Audit Committee, member of Audit, Share Dealing and Remuneration Committees

John Thomson MA (64) Non-Executive Director was appointed to the Board of Thames Water Authority in 1984. He is Chairman of London and Manchester Group Plc and Borthwicks Plc, Vice Chairman of J Bibby & Sons Plc and a Non-Executive Director of Scottish & Newcastle Plc and Czarnikow Limited. Chairman of Audit Committee, member of Remuneration Committee

John Worlidge MA (64) Non-Executive Director was appointed to the Board of Thames Water Authority in 1988. He was

Chairman and Chief Executive of the Wiggins Teape Group from 1984-89, he was an Executive Director of BAT Industries Plc 1980-89. He is currently a Director of The Rugby Group Plc. Member of Audit, Environmental Audit and Remuneration Committees. Trusted Director of the Thames Water Pension Schemes

Group Company Secretary Clive Carsley MA (47) joined Thames Water Authority in May 1989. A barrister, he was previously Secretary of Carless Plc, Deputy Secretary and Head of Legal Services of Babcock International Plc and Commercial Director of Hemphrys & Glasgow Ltd. Secretary to all Board Committees

Directors' Report

The Directors present their third Annual Report together with the audited accounts for the year ended 31 March 1992.

Principal Activities

The main activities of Thames Water Plc and its subsidiaries (the Group), are the provision of:

- water to customers which involves the abstraction of water from surface and ground water sources and its subsequent treatment and distribution to customers' premises;
- sewerage services to customers which involve the collection, treatment and disposal of sewage from customers' premises, together with the conveyance and treatment of surface water;
- the design and construction of water treatment plants and the supply of water related products.

In addition, the Group is continuing the development of other trading activities which include overseas consultancy, and environmental and waste management services.

A list of the principal subsidiary companies appears on pages 36 and 37. Details of the progress made and significant information relating to the various activities of the Group during the year and for the future are given in the review of activities on pages 8 to 17.

Profits and Dividends

The Group profit for the year attributable to shareholders was £211.1 million. This may be compared with the profit for the year ended 31 March 1991 of £193.2 million. A review of the current year's performance and future developments is included on page 2 in the Chairman's Statement.

The Directors recommend payment of a final dividend of 12.8p per share, making a total for the year of 19.2p, amounting to £74.1 million leaving a retained profit of £137 million for the year.

Fixed Assets

Note 14 to the accounts details changes in the tangible fixed assets during the year. In the opinion of the Directors the market value of the Group's properties exceeds the balance sheet value.

Employees

Local arrangements have continued for managers to meet employees and their representatives to discuss matters of mutual interest and concern. There are employees as Member Trustees for the three major pension schemes operated by the Group.

Employees had another opportunity to join or extend their interest in the Company's Sharesave Scheme, and a number of senior executives were granted new options under the Executive Share Option Scheme.

Activities in direct communication through company newspapers, videos and team briefings were continued.

Health and Safety

It is the policy throughout the Group to ensure that health and safety standards are maintained at a high level. This policy is implemented by the integrated health and safety group consisting of specialists from within the Group and led by the Group health and safety manager.

Achievement and maintenance of high standards of health and safety are seen as being essential in order to protect both our employees and members of the public.

Employment of the Disabled

The Group recognises its responsibility towards the disabled and employs them where suitable opportunities arise. Every effort is

made to find appropriate alternative jobs for those who become disabled whilst working for the Group.

Capital

1,847,117 Ordinary Shares were allotted to Ordinary shareholders consequent on the offer of a scrip dividend.

20,616 Ordinary Shares were issued during the year to holders on the exercise of their options under the Group Sharesave Scheme.

Two options for 22,000 Ordinary Shares at 278p were exercised during the year under the Group's Executive Share Option Scheme.

The effect of the transactions referred to above on the capital of the Company is detailed in note 25 to the accounts on page 42.

Directors

The names of the present Directors of the Company are shown on page 18. All Directors held office throughout the financial year.

In accordance with Article 106 of the Company's Articles of Association Sir Christopher Leaver and Mr R C Clarke will retire at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election. As Non-Executive Directors, Sir Christopher Leaver and Mr R C Clarke do not have service contracts with the Company.

Directors' Interests in Shares

The beneficial interests of Directors, together with those of their families, in shares of the Company at commencement and at the end of the year are shown in the table below. No Director had any non-beneficial interest in the shares of the Company. There were no changes in the Directors' registered interests in the shares of the Company during the period from 1 April 1992 to 19 June 1992. None of the Directors had any beneficial interest in the shares of any subsidiary company. ▷

Directors' Report

Executive Share Options

Since 1989 share options under the Company's Executive Share Option Scheme have been granted to Executive Directors at the discretion of the Remuneration Committee which comprises solely non-Executive Directors. Some 80 senior executives have also been granted Executive Share options.

	31 March 1992		1 April 1991	
	Shares	Share Options	Shares	Share Options
Sir Roy Walls	11,575	139,334	11,263	172,000
Sir Christopher Leaver	3,851	-	3,851	-
M R Holliman	6,520	273,176	6,258	221,136
R C Clarke	3,145	-	3,000	-
W R Harrop	2,331	103,000	2,291	75,000
Sir Peter Harrop	955	-	920	-
D J Luffrum	2,517	123,000	2,495	85,000
J M Thomson	2,000	-	2,000	-
E J Worledge	1,923	-	1,900	-

Significant Contracts

During the period under review there were no significant contracts between the Company and any of the Directors other than contracts of service with the Executive Directors.

Substantial Shareholdings

The Directors have not been advised of any individual interest or groups of interest held by persons acting together which at 19 June 1992 amounted to or exceeded 3% of the Company's issued share capital.

The Directors consider that the close company provisions of the Income and Corporation Taxes Act 1988 do not apply to the Company. There has been no change in this respect since the end of the financial year.

Research and Development

The Group is committed to a programme of research and

development activities. Page 5 of the Group Chief Executive's Review highlights the main areas where research activity is undertaken.

Environment

'Care for the Environment' is one of the fundamental guiding principles of Thames Water. The Directors have in place an Environmental Audit Committee chaired by Sir Peter Harrop, which formulates and reviews policy statements on the environment and audits compliance throughout the Group.

Our aim is to make sure that we achieve a high standard of environmental care in all operations of the

Company and its subsidiaries. Each operating company is developing its own environmental statements and practices in line with Group policies and monitors its performance with the help of the Company's Environmental Audit Team.

Many of our environmental achievements are mentioned in the review of Thames Water Utilities on pages 11 to 13.

Political and Charitable Donations
Charitable donations amounting to £106,000 were made during the year. A donation of £50,000 was made for political purposes to the Conservative Party during election year, as the Board considered that the return of a Conservative government was in the interest of the Company and its shareholders.

Regulatory Accounts

A set of accounts for regulatory

purposes is required by the Office of Water Services. These accounts, together with supplementary statements, relate solely to the regulated utility business. Copies may be obtained by customers and other interested parties on request. (See note 32 to the accounts.)

Insurance for Officers

Pursuant to the Special Resolution passed at the Annual General Meeting held on 30 July 1991, the Company has purchased during the year insurance in respect of liabilities of Directors, officers and employees in relation to the Company.

Auditor

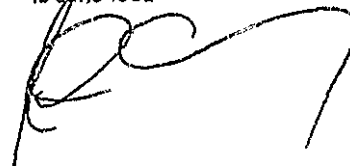
A Resolution to re-appoint Coopers & Lybrand as the Company's auditor and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting. Until 1 June 1992 the Firm practised in the name of Coopers & Lybrand Deloitte.

Special Business

In addition to the Ordinary Business to be transacted at the 1992 Annual General Meeting, a number of items of Special Business will be proposed. These items, further details of which, together with explanatory notes will be found in the circular accompanying this Report and Accounts, are as follows:

- a Resolution renewing the power granted to Directors in July 1991 to issue equity securities other than for cash pro rata to Ordinary shareholders;
- a Resolution authorising arrangements under which Ordinary shareholders may elect to receive new Ordinary shares instead of cash dividend in respect of the final dividends for the year ended 31 March 1992 and in respect of interim dividends for the year ending 31 March 1993.

By order of the Board
R C Carstley
Group Company Secretary
19 June 1992



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Consolidated Profit and Loss Account

Year ended 31 March	Notes	Group	
		1992 £m	1991 £m
Turnover	3	899.3	835.5
Operating costs	4	(665.3)	(646.0)
Operating profit	5	234.0	189.5
Other income	7	11.2	11.1
Interest	8	(8.9)	11.7
Profit on ordinary activities before taxation		236.3	212.3
Taxation on profit on ordinary activities	9	(25.2)	(19.8)
Profit on ordinary activities after taxation		211.1	192.5
Extraordinary income	10	—	0.7
Profit for the financial year		211.1	193.2
Dividends	12	(74.1)	(67.2)
Retained profit transferred to reserves	26	137.0	126.0
Earnings per ordinary share	13	54.8p	50.1p

The notes on pages 27 to 45 form part of these accounts.


Consolidated and Company Balance Sheets

At 31 March	Notes	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
Fixed assets					
Tangible assets	14	2,101.9	1,748.3	0.4	0.4
Investments	15	4.5	2.3	465.6	419.0
		2,106.4	1,750.6	466.0	419.4
Current assets					
Stocks and work in progress	16	43.0	36.7	-	-
Debtors	17	229.4	179.9	36.6	80.4
Investments	18	239.1	101.7	128.1	21.4
Cash at bank and in hand		31.6	8.4	5.9	-
		543.1	326.7	170.6	101.8
Creditors: amounts falling due within one year	19	(565.0)	(451.8)	(154.5)	(130.0)
Net current (liabilities) assets		(21.9)	(125.1)	16.1	(28.2)
Total assets less current liabilities		2,084.5	1,625.5	482.1	391.2
Creditors: amounts falling due after more than one year	20	(505.6)	(140.8)	(80.0)	-
Provisions for liabilities and charges	23	(26.2)	(26.4)	(0.4)	-
		1,552.7	1,458.3	401.7	391.2
Capital and reserves					
Called up share capital	25	386.1	384.2	386.1	384.2
Reserves and retained profits	26	1,166.6	1,074.1	15.6	7.0
		1,552.7	1,458.3	401.7	391.2

The notes on pages 27 to 45 form part of these accounts.

The accounts were approved by the Board on 19 June 1992.

Sir Roy Watts
Chairman



M R Hoffman
Group Chief Executive



D J Luffrum
Group Finance Director



Consolidated Cash Flow Statement

Year ended 31 March	Group	
	1992 £m	1991 £m
Net cash inflow from operating activities (note a)	274.4	232.1
Returns on investments and servicing of finance		
• Interest received	22.3	29.6
• Interest paid	(20.8)	(14.6)
• Interest element of finance lease rental payments	(0.7)	(0.9)
• Dividends paid	(62.2)	(61.7)
• Other	0.1	0.7
Net cash outflow from returns on investments and servicing of finance	(61.3)	(46.9)
Taxation		
• UK corporation tax paid	(20.8)	(9.8)
• Overseas tax paid	(0.4)	(0.5)
Net cash outflow from taxation	(21.2)	(10.3)
Investing activities		
• Purchase of tangible fixed assets	(349.6)	(326.5)
• Purchase of subsidiary undertakings net of cash and cash equivalents acquired (note c)	(37.0)	(0.4)
• Purchase of fixed asset investments	(3.6)	(1.0)
• Sales of tangible fixed assets	10.6	11.1
• Capital contributions	24.6	20.2
• Other	(0.1)	0.3
Net cash outflow from investing activities	(355.1)	(296.8)
Net cash outflow before financing	(163.2)	(121.9)
Financing		
• Issue of ordinary share capital	(0.1)	-
• Long term loans	(76.5)	(35.0)
• Repayment of long term loans	4.4	10.5
• 9½% Convertible Subordinated Bonds	(82.0)	-
• 10½% Guaranteed Bonds	(150.0)	-
• Bond issue expenses	2.9	-
• Short term investments of greater than three months' maturity	60.1	17.1
• Repayment of short term investments of greater than three months' maturity	(8.9)	(68.4)
• Short term borrowings of greater than three months' maturity	(0.3)	(9.6)
• Repayment of short term borrowings of greater than three months' maturity	9.7	-
• Capital element of finance lease rental payments	5.7	2.2
Net cash inflow from financing	(235.0)	(83.2)
Increase/(decrease) in cash equivalents	71.8	(38.7)
	(163.2)	(121.9)

Notes to the Consolidated Cash Flow Statement

a	Reconciliation of operating profit to net cash inflow from operating activities	1992	1991
		£m	£m
	Operating profit	234.0	189.5
	Depreciation charges	53.9	40.7
	Decrease in stocks	3.8	0.8
	Increase in debtors	(30.4)	(11.1)
	(Decrease)/increase in creditors	7.0	0.7
	Increase in long term provisions	4.9	11.9
	Other	1.2	(0.4)
	Net cash inflow from operating activities	274.4	232.1
b	Purchase of subsidiary undertakings	1992	
		£m	
	Net assets acquired		
	• tangible fixed assets	20.5	
	• investments	1.5	
	• stocks	15.3	
	• debtors	19.5	
	• cash at bank	6.2	
	• creditors less than one year	(51.7)	
	• creditors greater than one year	(15.8)	
		(4.5)	
	Goodwill	44.0	
	Total	39.5	
	Satisfied by		
	• cash	37.7	
	• loan notes	1.7	
	• deferred consideration	0.1	
		39.5	
c	Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings	1992	
		£m	
	Cash consideration	(37.7)	
	Cash at bank of acquired subsidiaries	6.2	
	Bank overdrafts of acquired subsidiaries	(5.5)	
	Net cash outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(37.0)	

Notes to the Consolidated Cash Flow Statement

d	Analysis of the balances of cash and cash equivalents	1992	1991	Change in
		£m	£m	year £m
	Cash at bank and in hand	31.6	8.4	23.2
	Short term investments	151.2	65.0	86.2
	Bank overdrafts	(54.1)	(25.6)	(28.5)
	Loans less than three months	(48.5)	(39.4)	(9.1)
		80.2	8.4	71.8

e	Analysis of changes in financing during the year	Share capital	Loans and
		£m	finance leases £m
	Balance at 1 April 1991	384.2	97.0
	Cash inflows from financing	0.1	234.9
	Shares issued for non cash consideration	1.8	-
	Finance leases raised during the year	-	58.9
	Loans and finance lease obligations of acquired subsidiaries	-	16.9
	Balance at 31 March 1992	386.1	407.7

- Loans and finance leases are stated net of current asset investments of maturity greater than three months.
- The £1.8m shares issued for non cash consideration represents shareholders' election to take shares rather than dividends in cash following the offer by the Company of a scrip dividend alternative.
- Finance leases amounting to £58.9m were raised during the year to fund capital plant, equipment and vehicles.

Notes to the Accounts

1 Introduction

These accounts present the financial results of Thames Water Plc for the year ended 31 March 1992. The 1991 results included 15 months' trading of the PWT Worldwide group of companies which were acquired on 15 December 1989.

2 Principal accounting policies

A summary of the more important Group accounting policies, which have been applied consistently, is set out below.

- a Accounting convention** The accounts have been prepared in accordance with the historical cost convention and in accordance with applicable accounting standards.
- b Basis of consolidation** The consolidated accounts include the accounts of the Company and all of its subsidiaries. Except where stated otherwise in the notes to the accounts the results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the date of their acquisition or up to the date of their disposal. In the event that the accounts of subsidiary undertakings are drawn up to a year-end different from that of the parent company, appropriate adjustments are made to the Group accounts to reflect any significant transactions in the intervening period. Where significant, intra-group sales and profits are eliminated on consolidation.
- c Turnover** Turnover, which excludes value added tax, represents the income receivable in the ordinary course of business for goods and services provided and, in respect of contract work in progress, the value of work carried out.
- d Tangible fixed assets and depreciation** Tangible fixed assets comprise:

- Infrastructure assets (being mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines);
- Other assets (including properties, overground plant and equipment); and
- Landfill sites

i Infrastructure assets Infrastructure assets comprise a network of systems. Expenditure on infrastructure assets relating to increases in capacity or enhancements of the network is treated as additions which are included at cost after deducting capital contributions. Contributions received in respect of infrastructure assets are deducted from the cost of fixed assets in order to give a true and fair view of the cost to the Group of the assets employed in the business. Expenditure on maintaining the operating capability of the network in accordance with defined standards of service is charged as an operating cost and is classified as infrastructure renewals expenditure.

No depreciation is charged on infrastructure assets because the network of systems is required to be maintained in perpetuity and therefore has no finite economic life.

ii Other assets Other assets are included at cost less accumulated depreciation. Where material, contributions received towards the cost of other assets are accounted for as deferred income and released to the profit and loss account over the useful lives of the assets.

Freehold and long leasehold land is not depreciated. Assets in the course of construction are not depreciated until they are commissioned. Other assets are depreciated evenly over their estimated economic lives, which are principally as follows:

Buildings:

- Operational structures 40-80 years
- Other 30-60 years

Fixed and mobile plant 20-40 years

Vehicles, computers, fixtures and fittings 4-10 years

iii 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 from 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.

- e Leased assets** Where assets are financed by leasing arrangements which transfer substantially all the risks and rewards of ownership of an asset to the lessee (*finance leases*), the assets are treated as if they had been purchased and the corresponding capital cost is shown as an obligation to the lessor. Leasing payments are treated as consisting of a capital element and finance costs, the capital element reducing the obligation to the lessor and the finance charges being written off to the profit and loss account over the period of the lease in

Notes to the Accounts

relation to the assets' written down value. The assets are generally depreciated over the shorter of their estimated useful lives and the lease period.

All other leases are regarded as operating leases. Rental costs arising under operating leases are expensed in the year in which they are incurred.

f Investments

Fixed asset investments

i **In the accounts of the Company** Investments held as fixed assets are stated at cost less amounts written off.

ii **In the Group accounts** Shares in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax results and attributable taxation of the associated undertakings based on audited financial statements for the year. In the consolidated balance sheet the shares in associated undertakings are shown as the Group's share of the net assets excluding goodwill of the associated undertakings.

Current asset investments: Investments held as current assets are stated at the lower of cost and net realisable value.

g **Stocks and work in progress** Stocks and work in progress, with the exception of long-term contract work in progress, are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads.

Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts.

Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs the excess is disclosed as provisions for liabilities and charges.

h **Pension costs** The majority of the Group's employees belong to pension schemes which are funded by both employers' and employees' contributions and which are of the defined benefit type. The pension cost is assessed in accordance with the advice of an independent qualified actuary. Any difference between the cost charged and the amounts paid by the Group is treated as a prepayment or accrual.

i **Foreign currencies** All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Assets and liabilities in foreign currencies have been translated into sterling at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account. The results of overseas subsidiary undertakings are translated at rates of exchange ruling during the year. The differences arising from the translation of year-end assets and liabilities at closing rates together with the restatement of opening balance sheets of overseas subsidiary undertakings at closing rates are dealt with through reserves together with exchange differences on the translation of foreign currency borrowings funding such investments.

j **Research and development** Research and development expenditure is charged to the profit and loss account in the year in which it is incurred.

k **Taxation** The charge for taxation is based on the profit for the year as adjusted for disallowable and non taxable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise. In the Company, provision is made at such rate as reflects the anticipated consideration payable or receivable in respect of any future group relief claims or surrenders.

l **Provision for insurance liabilities** Provision is made in these accounts for liabilities arising from uninsured claims against the Group and for claims against its wholly owned insurance company.

m **Goodwill** Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary and associated undertakings acquired, is written off against reserves in the year in which it arises.

n **Interest** Interest payable is written off to the profit and loss account as it is incurred except that relating to monies borrowed to finance specific long-term contracts which is included in the cost of long-term contract work in progress. Interest receivable from the temporary investment of these monies is credited to the cost of long-term contract work in progress.

Notes to the Accounts

3 Segmental analysis

The selected segments by class of business are:

Water supply the provision, treatment, and distribution of potable water supply to customers served by Thames Water Utilities Limited.

Sewerage services the conveyance, treatment, and disposal of sewage from customers served by Thames Water Utilities Limited.

PWT Worldwide the design and management of the construction of water and waste water treatment plant and the supply of industrial, commercial, and defence water treatment systems as well as pipeline products and membrane systems.

Other trading activities non-regulated sewerage services, international training and consultancy, insurance, and property development.

Other activities those carried out by the Company in managing its investments.

Turnover	1992			1991		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
By class of business						
Water supply	-	0.2	322.0	-	0.5	293.4
Sewerage services	-	0.4	424.6	-	0.5	377.1
PWT Worldwide	1.8	13.2	131.6	1.4	12.8	155.5
Other trading activities	0.2	10.5	21.1	-	8.6	9.5
Total	2.0	24.3	899.3	1.4	22.4	835.5

Turnover in the PWT Worldwide segment in 1991 represents 15 months' trading.

By origin	1992			1991		
UK	22.9	3.1	823.8	22.2	1.1	764.0
Continental Europe	-	-	6.7	-	-	6.9
Americas	-	-	25.0	-	-	28.8
Africa	-	-	4.0	-	-	5.5
Australasia	0.1	0.1	35.5	0.1	-	26.7
Asia	0.1	-	4.3	0.4	-	3.6
Total	23.1	3.2	899.3	22.7	1.1	835.5

By destination	1992			1991		
UK	22.5	3.0	803.0	22.1	0.7	749.0
Continental Europe	-	-	10.6	0.1	-	13.2
Americas	0.2	-	16.4	-	-	12.1
Africa	-	-	17.3	-	0.1	22.6
Australasia	0.3	0.1	31.2	0.1	0.2	22.1
Asia	0.1	0.1	20.8	0.4	0.1	16.5
Total	23.1	3.2	899.3	22.7	1.1	835.5

Turnover is derived from the following sources:

- third parties: transactions between Group companies and external customers.
- inter-segment: transactions between Group companies trading in different segments.
- intra-segment: transactions between Group companies trading within the same segment.

Notes to the Accounts

3 Segmental analysis (continued)

Profit before tax/net assets

By class of business	Profit/(loss) before tax		Net assets/(liabilities)	
	1992 £m	1991 £m	1992 £m	1991 £m
Water supply	61.3	57.4	633.8	624.0
Sewerage services	168.5	155.0	951.7	905.7
PWT Worldwide	3.3	(3.5)	15.4	12.5
Other trading activities	1.0	0.2	(9.2)	4.2
Other activities	2.2	3.2	(39.0)	(88.1)
Total	236.3	212.3	1,552.7	1,458.3
By geographical segment				
UK	235.2	213.8	1,535.7	1,450.1
Continental Europe	0.8	0.7	5.3	2.5
Americas	0.1	(0.5)	6.3	1.0
Africa	0.2	-	1.4	0.7
Australasia	0.1	(1.9)	2.5	2.5
Asia	(0.1)	0.2	1.5	1.5
Total	236.3	212.3	1,552.7	1,458.3

Segmental result before tax and net assets of associated undertakings are not included since they are not material to the segments in which they operate.

4 Operating costs

	1992 £m	1991 £m
Analysis of operating costs by type of expense		
Manpower costs	212.3	196.6
Other external charges:		
• Power	41.8	39.9
• Local authority rates	43.4	42.1
• Sewerage agencies	28.1	26.7
• Hired and contracted services	118.5	120.0
Materials and consumables	99.5	106.6
Infrastructure renewals charge	25.7	25.5
Other operating charges	75.9	77.8
Depreciation	53.9	40.7
	699.1	675.9
Own work capitalised	(33.8)	(29.9)
Total	665.3	646.0

Notes to the Accounts

5	Operating profit	1992 £m	1991 £m
	Operating profit is stated after charging		
	Directors' emoluments	0.8	0.8
	Rentals under operating leases:		
	• Hire of plant and machinery	2.4	1.6
	• Other	5.7	4.8
	Depreciation:		
	• Own assets	49.2	37.5
	• Assets held under finance leases	4.7	3.2
	Auditor's remuneration	0.6	0.5
	Research and development	7.0	7.0

Included in auditor's remuneration is £46,000 in respect of audit fees incurred by the Company in 1992 (1991: £45,000).

Fees payable to the auditor by Thames Water Plc and its UK subsidiary undertakings for non-audit work carried out in 1992 amounted to £0.9m.

6	Information regarding directors and employees	1992 £000	1991 £000
	Directors' emoluments		
	Fees for non-executive directors	91	85
	Executive directors:		
	• Remuneration	508	463
	• Bonus	-	92
	• Other benefits	24	21
	• Pension contributions	197	186
		729	762
	Directors' emoluments disclosed in accordance with Part V of Schedule 5 of the Companies Act 1985		
	Chairman:		
	• Remuneration	140	129
	• Bonus	-	26
	• Other benefits	5	5
		145	160
	Highest paid director:		
	• Remuneration	194	170
	• Bonus	-	34
	• Other benefits	5	5
		199	209

The remuneration of the executive Directors is determined by the non-executive Directors who comprise the Remuneration Committee of the Board. A performance related bonus scheme for executive Directors is in place based upon earnings per share (EPS) exceeding a level stipulated by the non-executive Directors. The increase in EPS of 9.4% was not high enough to trigger bonus payments in 1992. However, the movement in share price has increased the potential value of the Directors' share options, details of which are shown on page 20 of the annual report.

Notes to the Accounts

6 Information regarding directors and employees (continued)

Scale of Directors' emoluments

£ 15,001 - £ 20,000	4	4
£ 20,001 - £ 25,000	1	1
£ 25,001 - £ 30,000	1	-
£ 30,001 - £ 35,000	-	1
£ 35,001 - £ 40,000	1	-
£ 40,001 - £ 45,000	-	1
£ 45,001 - £ 50,000	1	-
£ 50,001 - £ 55,000	-	1
£ 55,001 - £ 60,000	1	-
£ 60,001 - £ 65,000	-	1
£ 65,001 - £ 70,000	1	-
£ 70,001 - £ 75,000	-	1

1992 number	1991 number
----------------	----------------

1992 £m	1991 £m
------------	------------

Employee information

Group employment costs including executive Directors' emoluments were:

- Salaries and wages
- Social security costs
- Pension contributions

181.2	168.3
14.7	13.3
17.7	16.5
213.6	198.1

Total

Total employment costs contain £1.3m (1991: £1.5m) which is included in the infrastructure renewals charge in note 4.

1992 number	1991 number
----------------	----------------

Average number of persons employed by the Group, including executive Directors, analysed by service

Water supply	4,464	4,238
Sewerage services	3,098	3,162
PWTWorldwide	1,449	1,554
Other trading activities	282	81
Other activities	55	49
Total	9,348	9,084

4,464	4,238
3,098	3,162
1,449	1,554
282	81
55	49
9,348	9,084

Transactions with Directors and officers

There are no transactions or arrangements which are required to be disclosed under the provisions of the Companies Act 1985.

1992 £m	1991 £m
------------	------------

7 Other income

Other income comprises

- Share of result from interests in associated undertakings
- Profit on sale of tangible fixed assets
- Net rents receivable

(0.2)	0.1
11.1	10.6
0.3	0.4
11.2	11.1

Total

Notes to the Accounts

	1992 £m	1991 £m
8 Interest		
Bank loans, overdrafts and other loans		
• Repayable within five years otherwise than by instalments	(7.4)	(6.1)
• Repayable within five years by instalments	(0.7)	(0.3)
• Not wholly repayable within five years	(20.5)	(6.7)
Finance charges in respect of finance leases	(2.6)	(1.1)
Interest payable and similar charges	(31.2)	(14.2)
Interest receivable	22.3	25.9
Total	(8.9)	11.7

9 Taxation on profit on ordinary activities

No liability to UK corporation tax arises on the result for the year due to the availability of capital allowances. The taxation charge in the profit and loss account comprises advance corporation tax (ACT) £24.7m (1991: £19.3m) deemed irrecoverable together with overseas taxes of £0.5m (1991: £0.5m). The ACT remains available to reduce future corporation tax liabilities.

10 Extraordinary income

The extraordinary credit of £0.7m in the year ended 31 March 1991 was a refund of costs provided for in the previous year in respect of the Offer for Sale of the Company's shares.

11 Profit of Thames Water Plc

Of the consolidated profit attributable to the shareholders of Thames Water Plc, £77.8m (1991: £68.5m) has been dealt with in the accounts of the Company. Thames Water Plc has taken advantage of the legal dispensation allowing it not to publish a separate profit and loss account.

	1992		1991	
	pence per share	£m	pence per share	£m
12 Dividends				
Interim	6.4	24.7	6.0	23.0
Final proposed	12.8	49.4	11.5	44.2
	19.2	74.1	17.5	67.2

Certain shareholders have elected to receive shares in lieu of current and future dividends. Details of shares allotted under the scrip dividend alternative during 1992 are shown in note 25.

13 Earnings per ordinary share

Profit on ordinary activities after taxation: £211.1m (1991: £192.5m).

Earnings per ordinary share 54.8p (1991: 50.1p).

Earnings per ordinary share have been calculated by dividing the profit on ordinary activities after taxation by the weighted average number of ordinary shares in issue during the year (385m).

Earnings per ordinary share are 61.2p (1991: 55.1p) on a nil distribution basis. The nil distribution basis assumes no charge for irrecoverable ACT as this arises solely from the declaration of the dividend.

	Cost		Depreciation		Net book value	
	1992 £m	1992 £m	1992 £m	1992 £m	1991 £m	1991 £m
14 Tangible fixed assets						
Group						
Land and buildings	966.2	176.1	790.1		639.0	
Plant and machinery	1,481.8	170.0	1,311.8		1,109.3	
	2,448.0	346.1	2,101.9		1,748.3	
Company						
Plant and machinery	0.4	—	0.4		0.4	

Notes to the Accounts

14 Tangible fixed assets (continued)

	Group			Total £m
	Freehold land and buildings £m	Leaseholds		
		over 50 years £m	under 50 years £m	
Land and buildings				
Movements during the year				
Cost at 1 April 1991	797.8	-	1.2	799.0
Acquisition of subsidiaries	0.6	13.5	-	14.1
Additions at cost	150.3	2.8	-	153.1
Cost at 31 March 1992	948.7	16.3	1.2	966.2
Depreciation at 1 April 1991	159.6	-	0.4	160.0
Provided during the year	16.1	-	-	16.1
Depreciation at 31 March 1992	175.7	-	0.4	176.1
Net book value				
At 31 March 1992	773.0	16.3	0.8	790.1
At 31 March 1991	638.2	-	0.8	639.0

Only £3.4m (1991: £2.3m) of the Group's freehold land is identified as such in these accounts. No depreciation has been charged on this freehold land.

	Group			Company	
	Infra- structure assets £m	Plant, machinery and vehicles £m	Fixtures, fittings, equipment £m	Total £m	Fixtures, fittings, equipment £m
Plant and machinery					
Movements during the year					
Balance at 1 April 1991	801.9	321.8	117.8	1,241.5	0.4
Acquisition of subsidiaries	-	7.1	2.1	9.2	-
Additions at cost	121.5	90.0	44.0	255.5	-
Disposals	-	(3.0)	(0.5)	(3.5)	-
Balance at 31 March 1992	923.4	415.9	163.4	1,502.7	0.4
Capital contributions	(20.9)	-	-	(20.9)	-
Net cost at 31 March 1992	902.5	415.9	163.4	1,481.8	0.4
Depreciation at 1 April 1991	-	82.2	50.0	132.2	-
Acquisition of subsidiaries	-	2.6	0.2	2.8	-
Provided during the year	-	20.8	17.0	37.8	-
Disposals	-	(2.3)	(0.5)	(2.8)	-
Depreciation at 31 March 1992	-	103.3	66.7	170.0	-
Net book value					
At 31 March 1992	902.5	312.6	96.7	1,311.8	0.4
At 31 March 1991	801.9	239.6	67.8	1,109.3	0.4

The cost of infrastructure assets is stated net of capital contributions received in respect of those assets. As a result the net book value of infrastructure assets is £41m (1991: £20.2m) lower than it would have been had this policy not been adopted from 1 April 1990.

Notes to the Accounts

14 Tangible fixed assets (continued)

Tangible fixed assets at 31 March 1992 include £376m (1991: £344m) of assets in the course of construction. Details of the Group's tangible fixed assets included above which are held under finance leases are shown below.

	Cost		Net book value	
	1992 £m	1991 £m	1992 £m	1991 £m
Plant, machinery and vehicles	60.1	5.0	55.9	4.5
Fixtures, fittings and equipment	18.3	17.4	11.8	10.0

15 Fixed asset investments

	Group	Company
	Interests in associated undertakings £m	Investment in subsidiary undertakings £m
Value at 1 April 1991	2.3	419.0
Additions	7.5	46.6
Goodwill written off	(5.1)	-
Share of losses for the year	(0.2)	-
Value at 31 March 1992	4.5	465.6

Group

- The cost of shares in associated undertakings at 31 March 1992 amounted to £10.5m (1991: £3m). The Group's share of the post acquisition reserves at 31 March 1992 were Nil (1991: £0.2m). The associated undertakings are unlisted.
- Investments made by the Group during the year were as follows:
 - On 22 January 1992 a 60% interest was acquired in Subterra Holdings Limited, a joint venture company formed with Northumbrian Water Group Plc to purchase the whole of the issued share capital of Subterra Limited and its subsidiary company A J Whiteside Limited. The joint venture company has not been consolidated since neither party is able to exercise dominant influence over the management of the company. The Group's share of the purchase price, £5.8m, was partly paid in cash (£3.4m) and partly in loan notes (£0.3m) and includes deferred consideration of £2.1m dependent upon the profit performance of Subterra Holdings Limited for the period ending 31 March 1994. Goodwill of £5.1m arising on the transaction was written off (see note 26).
 - Acquired interests arising from the purchase of Mittledeutsche Wasser-und Umwelttechnik AG and its subsidiaries (UTAG) - £1.3m, and F B Leopold Holdings Corporation and its subsidiaries (Leopold) - £0.2m.
 - £0.2m in ATW Medioambiente SA.

Company

Investments made by the Company during the year through subsidiary holding companies were as follows:

- A £1.7m equity contribution to assist with the purchase of UTAG from the Treuhandanstalt under the terms of a share sale agreement completed on 5 March 1992 (see note 29).
- £25.8m for the purchase of the entire issued share capital of Leopold from the shareholders of that company under the terms of a share sale agreement dated 31 January 1992; the purchase price comprised cash amounting to £23m and deferred consideration of £2.8m.
- £19.1m to fund several smaller acquisitions and assist in the development of the Group's other trading activities.

Notes to the Accounts

15 Fixed asset investments (continued)

At 31 March 1992 the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Subsidiary undertakings					
Thames Water Utilities Limited	England and Wales	Ordinary	100%		Water and sewerage services
Thames Water Utilities Finance Plc	England and Wales	Ordinary		100%	Finance company
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Thames Water International Services Holdings Limited	England and Wales	Ordinary	100%		Management company
Thames Water International Services Limited	England and Wales	Ordinary		100%	International consultancy
Thames Water Holdings Inc	United States	Common Convertible	100% 100%		Management company
L'A Water Treatment Corporation	United States	Ordinary		100%	Design contracting
F B Leopold Company Inc	United States	Ordinary		100%	Water products
Kennet Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Environmental Services Limited	England and Wales	Ordinary	100%		Management company
Metro Rod Plc	England and Wales	Ordinary		100%	Drain, pipe cleaning and pest control services
Morgan Collis Group Limited	England and Wales	Ordinary		100%	Sewerage services
Peter Bryant (Cesspits) Limited	England and Wales	Ordinary		100%	Waste collection
Sub-Scan Limited	England and Wales	Ordinary		100%	Sewerage services
South Bucks Effluent Company Limited	England and Wales	Ordinary		100%	Waste collection
Thames Waste Management Limited	England and Wales	Ordinary		100%	Waste management and collection
PWTWorldwide Limited	England and Wales	Ordinary	100%		Management company
PWT Overseas Limited	England and Wales	Ordinary		100%	Management company
The Permutit Company Limited	England and Wales	Ordinary		100%	Water treatment plant

Notes to the Accounts

15 Fixed asset investments (continued)

	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Subsidiary undertakings					
Stella-Meta Filters Limited	England and Wales	Ordinary	100%		Filtration systems
PCI Membrane Systems Limited	England and Wales	Ordinary	100%		Membranes
PWT Projects Limited	England and Wales	Ordinary	100%		Design contracting
F W Talbot & Company Limited	England and Wales	Ordinary	100%		Pipeline products
The Permutit Company of Australia Pty Limited	Australia	Ordinary	100%		Water treatment plant
Permutit-Boby Australia Pty Limited	Australia	Ordinary	100%		Design contracting
PWT Botswana Pty Limited	South Africa	Ordinary	100%		Contracting and products
PWT New Zealand Limited	New Zealand	Ordinary	100%		Contracting and products
PWT (Singapore) Pte Limited	Singapore	Ordinary	100%		Design contracting
Paterson Candy International (Nigeria) Limited	Nigeria	Ordinary	60%		Design contracting
Paterson Candy (Malaysia) Sdn.Bhd.	Malaysia	Ordinary	100%		Design contracting
PWT (Hong Kong) Limited	Hong Kong	Ordinary	100%		Design contracting
PWT South Africa (Pty) Limited	South Africa	Ordinary	100%		Contracting and products
Houseman BV	Netherlands	Ordinary	100%		Chemicals
Houseman NV	Belgium	Ordinary	100%		Chemicals
Homé Waterbehandeling BV	Netherlands	Ordinary	100%		Water treatment plant
Thames Water Deutschland GmbH	Germany	Ordinary	100%		Management company
Mitteldeutsche Wasser-und Umwelttechnik AG	Germany	Ordinary	100%		Water contracting and consultancy

A full list of subsidiary undertakings within the Thames Water Group will be filed at Companies House with the Company's annual return.

Associated undertakings

Brophy Group Plc	England and Wales	Ordinary	50%	Environmental services
		Preference	100%	
Subterra Holdings Limited	England and Wales	Ordinary	60%	Pipeline products
ATW Medioambiente SA	Spain	Ordinary	40%	Water and waste treatment

Notes to the Accounts

16	Stocks and work in progress	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Raw materials and consumables	21.6	19.4	-	-
	Work in progress	17.7	14.2	-	-
	Finished goods and goods for resale	3.7	3.1	-	-
	Total	43.0	36.7	-	-
	Work in progress includes long-term contract balances as follows				
	Net cost less foreseeable losses	78.8	94.9	-	-
	Applicable payments on account	(67.6)	(94.9)	-	-
	Total	11.2	-	-	-
17	Debtors	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Due within one year				
	Trade debtors	133.8	107.3	-	-
	Amounts recoverable on contracts	20.4	13.2	-	-
	Amounts owed by subsidiary undertakings	-	-	34.5	80.0
	Other debtors	25.8	19.2	-	0.2
	Prepayments and accrued income	41.2	38.2	1.8	0.2
	Infrastructure renewals expenditure	5.7	1.1	-	-
		226.9	179.0	36.3	80.4
	Due after more than one year				
	Trade debtors	-	0.2	-	-
	Amounts recoverable on contracts	1.7	-	-	-
	Amounts owed by subsidiary undertakings	-	-	0.3	-
	Other debtors	0.8	0.7	-	-
	Total	229.4	179.9	36.6	80.4
18	Current asset investments	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Government and Local Authority loans	-	0.3	-	-
	Fixed term deposits and certificates of deposit	146.2	80.2	90.8	21.4
	Fixed and floating interest rate securities	92.9	21.2	37.3	-
	Total	239.1	101.7	128.1	21.4

The market value of investments is not significantly different from cost.

Notes to the Accounts

19	Creditors: amounts falling due within one year	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Bank loans and temporary borrowings (see note 21)	11.5	5.8	-	-
	Bank overdrafts	54.1	25.6	9.3	3.0
	Other loans (see note 21)	45.7	39.3	44.1	37.7
	Obligations under finance leases (see note 22)	7.4	4.2	-	-
	Progress claims and advance payments	83.5	63.4	-	-
	Trade creditors:				
	• operating	63.8	58.6	-	-
	• capital	121.1	119.4	-	-
	Amounts owed to subsidiary undertakings	-	-	20.8	20.0
	Other creditors	14.9	9.1	-	-
	Advance corporation tax	26.2	22.4	26.2	22.4
	Taxation and social security	6.1	4.4	-	-
	Accruals and deferred income	81.3	55.4	4.7	2.7
	Proposed dividend	49.4	44.2	49.4	44.2
	Total	565.0	451.8	154.5	130.0

Included in loans falling due within one year is £40m (1991: £36m) comprising commercial paper issued under a £200m Commercial Paper programme. This programme is supported by a committed revolving credit facility, including a committed LIBOR based interest rate, which extends until 1995. The paper is rolled over as it falls due in order to fund long term investment.

20	Creditors: amounts falling due after more than one year	Group		Company	
		1992 £m	1991 £m	1992 £m	1991 £m
	Bank loans (see note 21)	125.0	60.0	-	-
	Other loans (see note 21)	296.6	55.9	80.0	-
	Obligations under finance leases (see note 22)	57.9	7.9	-	-
	Other creditors	26.1	17.0	-	-
	Total	505.6	140.8	80.0	-

Notes to the Accounts

21 Loans	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
Bank loans				
• Within one year	11.5	5.8	-	-
• Between one and two years	-	-	-	-
• Between two and five years	7.0	-	-	-
• After more than five years	118.0	60.0	-	-
Total	136.5	65.8	-	-
Other loans				
• Within one year	45.7	39.3	44.1	37.7
• Between one and two years	4.6	0.8	-	-
• Between two and five years	3.8	2.3	-	-
• After more than five years	288.2	52.8	80.0	-
Total	342.3	95.2	124.1	37.7

Notes:

1 During the year:

- Thames Water Utilities Finance Plc issued £150m 10½% Guaranteed Bonds due 2001 to finance capital investment in the regulated business, Thames Water Utilities Limited.
- Thames Water Plc issued £82m 9½% Convertible Subordinated Bonds due 2006 to finance expansion of non regulated business. At the option of the holder, each bond can be converted into ordinary shares of 100 pence, credited as fully paid, at an initial conversion price of 428 pence per ordinary share. Unless converted by the bondholder the Bonds will be redeemed at their principal amount on 19 September 2006.

2 Loans are repayable between 1992 and 2030.

3 Of the loans repayable after more than five years hence, £261.5m (1991: £32.4m) are in respect of loans wholly repayable after that date, all of which are other loans.

4 The aggregate amounts of loans repayable by instalments, any part of which falls due for repayment after more than five years hence is £125m (1991: £60m) and £31m (1991: £20.8m) for bank loans and other loans respectively.

5 Included in 'Other loans' are loans totalling £32.4m (1991: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.

6 The range of interest rates on bank loans is 4.4% to 11.5% (1991: 6% to 16%) and other loans is 3% to 11.5% (1991: 3% to 14.1%).

Notes to the Accounts

22 Obligations under finance leases

Amounts due under finance leases are payable as follows:

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
• Within one year	7.7	4.8	-	-
• Between one and two years	11.0	3.8	-	-
• Between two and five years	20.6	5.3	-	-
• After more than five years	117.6	0.4	-	-
	156.9	14.3	-	-
Less finance charges allocated to future periods	(91.6)	(2.2)	-	-
Total	65.3	12.1	-	-

The aggregate amount of finance leases, any part of which falls due for repayment after more than five years is £46.9m (1991: Nil).

In addition, the Group is committed to outstanding lease facilities of £39m to fund capital investment

23 Provisions for liabilities and charges

	Group	Company
	£m	£m
Balance at 1 April 1991	26.4	-
Acquisition of subsidiary undertakings	0.2	-
Provided during the year	5.8	0.4
Utilised during the year	(2.6)	-
Released during the year	(3.6)	-
Balance at 31 March 1992	26.2	0.4

Group

The provisions mainly comprise insurance liabilities - £20.8m (1991: £17.5m).

Company

The provisions comprise deferred taxation arising from short term timing differences - £0.4m (1991: Nil).

24 Deferred taxation

The Group's medium and long-term plans for capital investment together with the asset base transferred from Thames Water Authority on vesting indicate that for the foreseeable future the amount of tax allowances in respect of eligible plant and machinery will exceed the depreciation on existing and new assets. Accordingly, no provision for deferred taxation is required in the Group accounts.

An analysis of amounts unprovided is as follows:

	Group		Company	
	1992 £m	1991 £m	1992 £m	1991 £m
• Accelerated capital allowances				
- infrastructure assets	133.9	88.2	-	-
- other assets	135.6	66.4	-	-
• Other timing differences	(7.6)	(3.4)	-	-
• Losses	(66.7)	(52.1)	-	-
• Advance corporation tax	(56.9)	(32.2)	-	-
	138.3	66.9	-	-

As infrastructure assets are not depreciated, deferred taxation will crystallise only in the event of any disposal of these assets at amounts in excess of their written down value for tax purposes. In the opinion of the Directors the likelihood of such a liability crystallising in the future is remote.

Notes to the Accounts

25 Share capital

Share capital of the Company

• Authorised		
525,000,000 ordinary shares of £1 each		£525,000,000
Special rights redeemable preference share of £1		£1
• Allotted, called up and fully paid		
386,101,007 ordinary shares of £1 each		£386,101,007
Special rights redeemable preference share of £1		£1

The special rights redeemable preference share is redeemable at any time at par at the option of the Secretary of State after consulting the Company. This share, which may only be held by the Secretary of State or another person acting on behalf of HM Government, does not carry any rights to vote at general meetings but entitles the holder to attend and speak at such meetings. Certain matters, in particular the alteration of specific sections of the Articles of Association of the Company (including the Article relating to limitations that prevent a person from owning or having an interest in 15% or more of the ordinary shares in Thames Water Plc), require the prior written consent of the holder of the special share.

Details of ordinary shares allotted during the year are as follows:

	Scrip dividends	Sharesave scheme	Executive Share Option scheme	Total
Number of shares allotted	1,847,117	20,616	22,000	1,889,733
	£000	£000	£000	£000
Consideration	6,553	37	61	6,651

Scrip dividends

Ordinary shares were allotted to ordinary shareholders consequent on the offer of a scrip dividend alternative as follows:

- 1991 final dividend 1,294,850 shares – 20 September 1991
- 1992 interim dividend 552,267 shares – 17 January 1992

Sharesave scheme

During the year ended 31 March 1992, 20,616 ordinary shares were allotted for a consideration of £36,799 under the Thames Water Sharesave Scheme to employees who exercised their option to receive shares on leaving the Group.

Employee share schemes

The issued and paid up share capital of the Company at 31 March 1992 includes 1,092,783 ordinary shares which are held in trust on behalf of employees who are beneficially entitled to the shares through special arrangements made under the Free and Matching Offer Share scheme at the time of the Offer for Sale in November 1989. The scheme, which has been specifically established by the Company for employees to acquire ordinary shares in Thames Water Plc, can only be used in future years if the directors so determine.

The Company has adopted two share option schemes for employees, and options have been granted to eligible employees to subscribe for ordinary shares in the Company in accordance with the rules of the respective schemes. The Thames Water Sharesave Scheme is a 'save as you earn' share option scheme with options exercisable, in normal circumstances, after completion of a five or seven year contract. The Thames Water Executive Share Option scheme is a scheme for senior executives with options exercisable between the third and tenth anniversaries of the date of grant.

Notes to the Accounts

25 Share capital (continued)

Options granted and outstanding at 31 March 1992

Date of grant	Number of ordinary shares	Option price per share	Normal date of exercise
Thames Water Sharesave Scheme			
5-year scheme			
• 12 December 1989	2,622,239	176p	Dec 1994 – June 1995
• 13 July 1990	453,037	227p	July 1995 – Jan 1996
• 12 July 1991	574,080	288p	July 1996 – Jan 1997
• 29 November 1991	655,109	296p	Nov 1996 – May 1997
7-year scheme			
• 12 December 1989	1,127,320	176p	Dec 1996 – June 1997
• 13 July 1990	199,356	227p	July 1997 – Jan 1998
• 12 July 1991	319,723	288p	July 1998 – Jan 1999
• 29 November 1991	315,977	296p	Nov 1998 – May 1999
Thames Water Executive Share Option Scheme			
• 17 January 1990	1,713,000	278p	1993-2000
• 18 June 1990	98,000	283p	1993-2000
• 20 November 1990	309,000	303p	1993-2000
• 2 July 1991	775,000	347p	1994-2001
• 11 November 1991	94,000	356p	1994-2001

26 Reserves and retained profits	The Company	Subsidiary undertakings	Associated undertakings	Goodwill written off	Total
	£m	£m	£m	£m	£m
Profit and loss account					
Balance at 1 April 1991	7.0	1,092.0	0.2	(25.1)	1,074.1
Profit (loss) for the financial year	77.8	133.5	(0.2)	-	211.1
Dividend payable	(74.1)	-	-	-	(74.1)
Value of shares issued in lieu of dividends	6.7	-	-	-	6.7
Capitalisation for shares issued in lieu of dividends	(1.8)	-	-	-	(1.8)
Goodwill written off	-	-	-	(49.4)	(49.4)
Balance at 31 March 1992	15.6	1,225.5	-	(74.5)	1,166.6

Goodwill of £49.4m was written off during the year and has arisen from the following transactions:

- £12.7m on the acquisition of UTAG (see note 29);
- £28.3m on the acquisition of Leopold (see note 29);
- £5.1m on the purchase of shares in Subterra Holdings Limited (see note 15);
- £3.3m from several small acquisitions.

27 Capital commitments	Group		Company	
	1992	1991	1992	1991
	£m	£m	£m	£m
Contracted for but not provided in the financial statements	250	215	-	-
Authorised but not yet contracted for	649	633	-	-

In addition to these commitments, Thames Water Plc has long-term capital investment plans to meet shortfalls in performance and asset condition and to provide for new demand and growth.

Notes to the Accounts

28 Operating leases

At 31 March 1992 Thames Water Plc was committed to making the following payments during the next year in respect of non-cancellable operating leases.

	Group		Company
	Land and buildings	Other	Land and buildings
	£m	£m	£m
Leases which expire:			
• Between one and five years	0.6	2.1	—
• After more than five years	3.8	0.3	0.4
Total	4.4	2.4	0.4

29 1992 Acquisitions

All acquisitions completed during the year have been accounted for using the acquisition method of accounting. Details of major acquisitions are as follows.

UTAG

Under the terms of a share sale agreement the Group completed the purchase of UTAG from the Treuhandanstalt on 5 March 1992. The purchase price, which was settled in cash, amounted to £9.5m inclusive of costs. Of this amount £8.5m was in respect of the inheritance of loans from the Treuhandanstalt to UTAG. In addition, further debt amounting to £10.1m was acquired.

The accounting reference date for UTAG is 31 December. The accounting reference date has been brought into line with that of Thames Water Plc such that the accounts of Thames Water Plc for the year ending 31 March 1993 will consolidate 15 months' financial results of UTAG. The effective commencement of trading within the Group was 1 January 1992.

Audited accounts are being prepared for the year ended 31 December 1991. The result for the year ended 31 December 1991 is not yet known pending the finalisation of accounts for that year.

The balance sheet of UTAG has been consolidated as at 31 December 1991. The financial results of the acquired companies for the period 1 January 1992 to 31 March 1992 have not been consolidated as, in the opinion of the Directors, they are not material to the results of the Group. Goodwill arising on consolidation (see note 26) has been calculated on the fair value of the net assets of the acquired group at 31 December 1991. The following table shows the difference between the provisional fair value of assets and liabilities purchased and the book values in the balance sheet at 31 December 1991.

	Book value	Provisions	Fair value
	£m	£m	£m
Fixed assets	16.5	—	16.5
Current assets	36.2	—	36.2
Creditors: amounts falling due within one year	(36.3)	(3.0)	(39.3)
Creditors: amounts falling due after more than one year	(25.1)	—	(25.1)
Net liabilities	(8.7)	(3.0)	(11.7)

The fair value provisions comprise £1m for anticipated trading losses on companies which are to be closed and £2m for further restructuring of the Group.

Leopold

The share sale agreement of Leopold was completed on 3 February 1992; the effective commencement of trading within the Group was 1 February 1992.

The accounting reference date for Leopold is 31 May. It has been brought into line with that of Thames Water Plc such that the accounts of Thames Water Plc for the year ending 31 March 1993 will consolidate 14 months' financial results. The last audited accounts for Leopold were for the year ended 31 May 1991. The financial result for Leopold between 1 June 1991 and 31 January 1992 was a loss of £0.9m and for the year ended 31 May 1991, a profit of £0.8m.

The balance sheet for Leopold at 31 January 1992 has been consolidated. The financial results for the period 1 February 1992 to 31 March 1992 have not been consolidated since, in the opinion of the Directors, they are not material to the results of Thames Water Plc. Goodwill arising on consolidation (see note 26) has been calculated by reference to the fair value of the net assets of Leopold at 31 January 1992.

Notes to the Accounts

29 1992 Acquisitions (continued)

The book value of net assets acquired amounted to £1.4m. Fair value provisions have been made for rationalisation costs of £1.2m and for the write off of intangible assets amounting to £2.7m.

There have been no changes in the net asset values of either UTAG or Leopold between their respective acquisition dates and 31 March 1992 which are significant to the results of the Group.

30 Pension schemes

Pension arrangements for the majority of the Group's employees are of the defined benefit type funded through pension schemes whose assets are held separately from those of the Group in independently administered funds.

The total pension cost for the Group was £17.7m (1991: £16.5m) of which £0.5m (1991: £0.5m) relates to the overseas schemes. The pension cost relating to the UK schemes is assessed in accordance with advice received from Bacon & Woodrow, the consulting actuaries to the schemes. The pension costs relating to the overseas schemes are assessed in accordance with local practice.

Current levels of pension charge and contributions to the schemes are based on initial actuarial reviews of the various schemes as at 6 April 1990. The principal assumptions used in determining the pension cost were that salary increases, excluding allowance for promotional increases, would be between 7% and 7.5% per annum and that the rate of return on investments would amount to 9% per annum. Pension increases would be granted in line with the rules of each scheme and any statutory requirements.

The actuarial methods used were the Projected Unit method for schemes open to new members and the Attained Age method for the scheme which is closed to new members.

For the largest schemes of the Group the total market value of assets as at the valuation date was £280m and the actuarial value of these assets represented 104% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

In addition to the ongoing cost of the UK Pension arrangements, the Group operates discretionary arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional contributions to the schemes. In the year ended 31 March 1992 these payments amounted to £4.1m (1991: £4.3m).

The funding of the schemes does not reflect the possible changes which may be required following the Social Security Act 1990 and the judgement in the European Court of Justice regarding the Barber v GRE sex discrimination case. The likely impact of these points in the future will be to increase pension costs generally. However, the practice under the defined benefit pension schemes operated in the UK by the Group has been to provide for a reasonable level of inflation-proofing which is likely to meet statutory requirements. It is therefore expected that the impact of the Social Security Act 1990 will be relatively small. Similarly, the impact of the Barber v GRE judgement is expected to be relatively small as the main Thames Water pension schemes include flexible provisions regarding retirement based on a common retirement age.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £178.6m (1991: £68.5m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £50.2m at 31 March 1992 (1991: £44.1m).

32 Thames Water Utilities Limited

Condition F of the Instrument of Appointment under which Thames Water Utilities Limited operates, requires specified accounting statements to be published with its annual accounts or those of its parent company. Copies are available and anyone requiring a copy of these accounts including the specified statements should apply to:

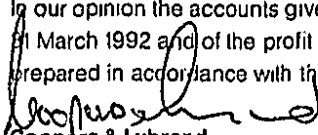
J K Boudier
Finance Director
Thames Water Utilities Limited
Nugent House
Vestern Road
Reading RG1 8DB

Report of the Auditor

to the Members of Thames Water Plc

We have audited the accounts on pages 22 to 45 in accordance with Auditing Standards.

In our opinion the accounts give a true and fair view of the state of affairs of the Company and the Group at 31 March 1992 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.



Coopers & Lybrand

Chartered Accountants and Registered Auditor
London

19 June 1992

Group Five Year Summary

Year ended 31 March	1988 £m	1989 £m	1990 £m	1991 £m	1992 £m
Consolidated profit and loss accounts					
Turnover	523.3	557.6	611.5	835.5	899.3
Operating profit	178.3	187.5	158.3	189.5	234.0
Other income	12.4	18.0	11.8	11.1	11.2
Interest	(10.0)	1.7	9.1	11.7	(8.9)
Profit on ordinary activities before taxation	180.7	207.2	179.2	212.3	236.3
Taxation on profit on ordinary activities	-	-	(12.9)	(19.8)	(25.2)
Extraordinary items	-	(3.2)	(18.7)	0.7	-
Profit for the financial year	180.7	204.0	147.6	193.2	211.1
Consolidated balance sheets					
As at 31 March	1988 £m	1989 £m	1990 £m	1991 £m	1992 £m
Tangible fixed assets	1,092.2	1,218.1	1,421.8	1,750.6	2,106.4
Net current assets/(liabilities)	59.9	119.5	51.3	(125.1)	(23.8)
Creditors: amounts falling due after more than one year	(184.9)	(185.9)	(98.9)	(140.8)	(503.7)
Provisions for liabilities and charges	(8.6)	(10.6)	(27.3)	(26.4)	(26.2)
	958.6	1,141.1	1,346.9	1,458.3	1,552.7
Called up share capital	-	-	384.2	384.2	386.1
Reserves and retained profits	958.6	1,141.1	962.7	1,074.1	1,166.6
	958.6	1,141.1	1,346.9	1,458.3	1,552.7

The financial information set out above for the two years ended 31 March 1989 has been extracted from the audited financial statements of Thames Water Authority for those years adjusted by the elimination of financial information of the profits and losses and balance sheet items attributable to functions which were transferred to the National Rivers Authority and Port of London Authority and by the application of current accounting policies on a consistent basis throughout the period.

The Directors recommend that care should be taken in drawing conclusions from a comparison between the results for the three years ended 31 March 1990, 1991 and 1992 and those for previous years. The changes which took place during the year ended 31 March 1990 in capital structure, regulatory expenditure and other costs associated with Plc status render comparisons potentially misleading.

Shareholder Information

Analysis of shareholdings as at 31 March 1992

	Holders	%	Shares held ('000s)	%
1 - 500	287,927	94.1	67,360	17.4
501 - 1,000	12,180	4.0	8,387	2.2
1,001 - 5,000	4,630	1.5	8,608	2.2
5,001 - 50,000	866	0.3	15,353	4.0
50,001 - 100,000	151	<0.1	11,309	2.9
100,001 - 1,000,000	348	0.1	110,047	28.5
Over 1 million	63	<0.1	165,037	42.8
	306,165	100.0	386,101	100.0
Individuals			77,606	20.1
Insurance Companies			39,768	10.3
Pension Funds			155,213	40.2
Unit and Investment Trusts			43,243	11.2
Nominees* and other Corporate bodies			58,688	15.2
HM Government			11,583	3.0
			386,101	100.0

*Most nominee holdings have been included in other categories according to the beneficial ownership of the shares concerned.

Financial calendar

Financial year ended 31 March 1992

15 June 1992 Ex-dividend date for final dividend

25 June 1992 Record (or qualifying) date for 1992 final dividend

28 July 1992 Barbican Centre, London 1992 Annual General Meeting

4 September 1992 Final dividend payable

Financial year ending 31 March 1993

3 November 1992 Announcement of half-yearly results for six months to 30 September 1992

February 1993 Interim dividend payable

Shareholder enquiries

Shareholders with enquiries about Thames Water Plc or shareholder matters can contact the Shareholder Enquiry Unit at local call cost on 0345 414140.

Share register

The Company's share register is maintained by National Westminster Bank PLC. Shareholders requiring help or information about their shareholding may either write to The Registrar, Thames Water Plc, National Westminster Bank PLC, Registrar's Department, PO Box 82, Caxton House, Redcliffe Way, Bristol BS99 7NH or telephone on 0272 763006.

Share price information line (CityCall)

Callers can obtain a current share price on 0891 222302. The charge is 36p per minute cheap rate and 48p per minute peak rate inclusive of VAT.

Customer enquiries

Thames Water Utilities customers with any queries or problems should contact us on 071 837 3300 if they live in London, or 0345 200800 outside London.

Registered Office

Thames Water Plc, 14 Cavendish Place, London W1M 9DJ.
Registered in England and Wales No. 2366623.