Thames Water

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Annual Report and Accounts 1994

Corporate Profile

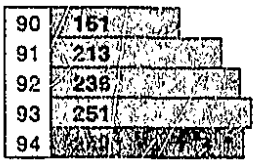
Thames Water Plc is the holding company of the Thames Water Group of companies. The four principal business divisions are: water and wastewater utility operations, international operations and process contracting, products and services, and environmental services. They carry out a wide range of water-related businesses to serve municipal, industrial and commercial customers throughout the world. The Group is pursuing a strategy to increase shareholder value through the application of its core skills and expertise to the growing international market particularly in the Americas, Europe and Asia Pacific.

Contents

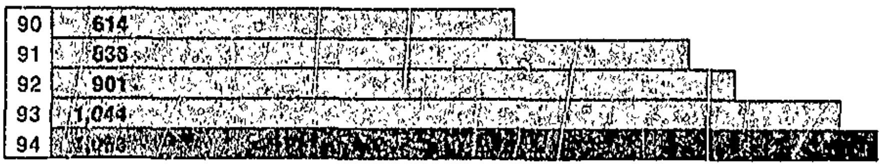
Financial Highlights

Year ended 31 March	1994 Pre-exceptional items £m	1994 Post-exceptional items £m	1993 £m
Pre-tax profit	276.7	241.7	251.3
Post-tax profit	257.3	222.3	229.6
Earnings per ordinary share	65.8p	56.8p	59.3p
Dividend per ordinary share		22.5p	21.0p

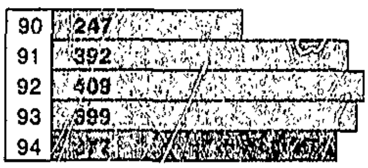
Pre-tax profit on ordinary activities £m



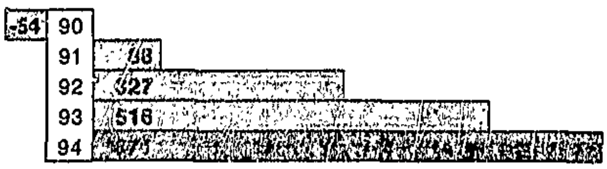
Turnover £m



Capital investment £m



Net debt outstanding £m



Sir Robert Clarke, appointed Chairman of Thames Water Plc on 1 April 1994.

Chairman's Statement

Much progress was made in the year. Before charging exceptional items profit before tax rose from £251m to £277m, and earnings per share increased from 59.3p to 65.8p. We are recommending that the final dividend per share be 15.1p, making a total of 22.5p for the year. This is an increase of 7% over last year. Dividend cover remains a healthy 2.5 times.

Excellent performance in the Utilities division was offset by adverse factors in our other divisions where markets have not fully recovered from recession. The accounts include £35m for exceptional items, for losses on old contracts in Egypt and for the restructuring of some of our companies to enhance our ability to exploit changing market opportunities. After charging the exceptional items, profit before tax was £242m, and earnings per share were 56.8p.

Our underlying trading performance is sound. The proposal to increase the dividend is a reflection of your Board's confidence in our long term strategy for increasing shareholder value.

The Utilities division made further progress in its programmes to improve customer service and product quality. Efficiency gains helped to improve operating margins. Average household bills of £151 for a year's combined water and wastewater services remained the lowest in England and Wales.

Development of our other businesses is important as we plan to continue with a progressive dividend policy over the medium term. We have always expected profit margins to be squeezed following the Office of Water Services review of Utilities prices, which will take effect from April 1995. Our acquisitions since privatisation have the aim of compensating for this in the second half of this decade.

On the property front, we made profits of £10.7m from disposal of surplus assets compared with £7.9m last year. We finalised an agreement with Berkeley Homes to carry out the development of the well-positioned former reservoir site at Barnes in south west London.

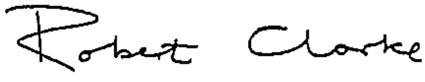
During the year we held two open days for shareholders, at Crossness and Banbury. Many shareholders who attended told us how much they enjoyed their visits. An invitation to this year's open days, in September, is enclosed with this report.

On a personal note, I was delighted to take up the chairmanship of your Company, and to be leading it through a challenging and exciting time in its evolution. I am particularly grateful to Sir Christopher Leaver for his leadership as Chairman until I was able to take up the role in April 1994.

I am also very pleased to welcome Bill Alexander to the main Board. Bill has been managing director of the regulated Utilities company since 1992.

It is of course people who 'make things happen' and I thank our employees throughout the Group for their valuable contribution in what has been another eventful year.

Since privatisation we have quickly established ourselves as a major international company, but one focused clearly on water and wastewater services. Our objective remains the same. It is to be the UK's premier water company and to add value for our shareholders by transferring our skills, experience and technology into the global marketplace. I believe we shall succeed.



Sir Robert Clarke
Chairman

Sir Robert Clarke with Sir Christopher Leaver, Chairman from May 1993 to March 1994.

Group Chief Executive's Operating Review

It has been another year of major change. The Utilities business continued its drive for improved services from capital investment and higher productivity. We also reorganised our non-regulated water businesses into three principal divisions. Operating results for each division are discussed in the following paragraphs.

Since the end of the year we have combined the Products and Services division with the Environmental Services division to improve marketing and reduce costs to our UK and international customers.

Utility Operations

Operating profit increased by 16% to £317m. Turnover of £872m was up by 7.5%. Operating costs were again tightly managed; excluding depreciation and infrastructure renewals, they rose by just 0.7%.

We have continued to deliver successfully our large capital investment programme, through innovative design and procurement. Our flagship project, the 50-mile Thames Water Ring Main in London was completed two years ahead of schedule and within its original £250m budget.

One of our major investment programmes is to improve drinking water quality. We are investing £350m on the installation of advanced water treatment processes at many of our plants. This will enable us to meet the strict European limit on pesticides by 1996. The water we supply continues to be of high quality and we expect this to be confirmed by the Government's Drinking Water Inspector in his report for 1993.

Our new customer service centre at Swindon became fully operational in July. This is a 'one stop shop' where our customers can call us on any matter, such as a new service, a burst main, or their bill. Inevitably there were some teething problems from the innovative new systems employed but these have been largely resolved and we are now beginning to deliver the high quality of service we expect for our customers.

International Operations and Process Contracting

The division's operating loss for the year of £43m on turnover of £120m, mainly arose from exceptional items amounting to £33m. These related to contract losses in Egypt and costs incurred in restructuring some of our companies. The loss-making contracts were awarded to subsidiaries prior to their acquisition by Thames Water in 1989. Since 1989, contracts have been subject to tighter control and more rigorous appraisal procedures.

Substantial marketing effort is required to pursue the increasing number of international opportunities for large water and wastewater infrastructure projects, and this has also contributed to the operating loss. Successes during the year included the award of long term concessions in Turkey and Mexico which are expected to commence in the current financial year.

Products and Services

Companies in the Products and Services division produced an operating profit of £2.3m after exceptional costs of £1.8m on turnover of £105m. Trading in the UK was affected by continued weakness in the industrial market. Leopold, our water products company in the USA progressed well, as did other companies operating in their niche markets.

We completed the rationalisation of the Simon product companies acquired in 1993, and integrated them with others in the division.

Environmental Services

Collectively the businesses in this division broke even at the operating level on turnover of £23m. The waste management and underground services companies performed well and profitably in weak markets. In January 1994 we sold our share of the Brophy landscaping business, and we now have full ownership of the utilities and grounds maintenance activities under the leadership of a new management team.

Property and Insurance

The support businesses dealing with property and insurance produced an operating profit of £4m on turnover of £23m. In addition the insurance company earned income of £4.2m from investments.

Employees

Future success depends on our highly skilled and well motivated people. Throughout the Group we have continued to invest heavily in training for job skills, with over 32,000 training days in the year. We also encourage our employees in their personal development. One example in the year was the launch of a new management diploma course in conjunction with Henley

Mike Hoffman, Deputy Chairman and *Group Chief Executive at Mogden* sewage treatment plant in south west London.

College, with 28 middle managers participating initially.

Research and Development
A key area of our R & D programme is the development of natural processes for water and wastewater treatment which avoid the use of chemicals. One example is the superfilter for removing pesticides which is described on page 12.

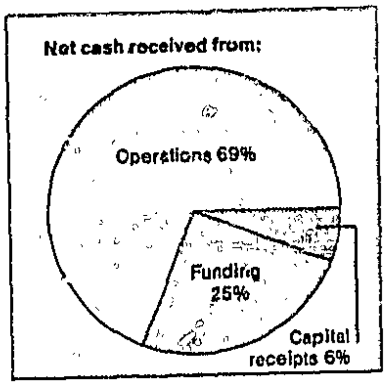
We have also developed a biological solution to meet the European urban wastewater treatment directive for phosphorus and nitrogen removal. Research into membranes has resulted in a new process which removes organic material from water.

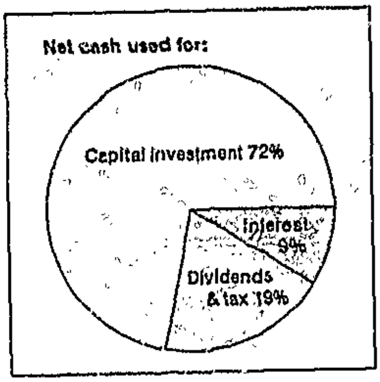
The Future
The outcome of the Office of Water Services (OFWAT) review of Utilities prices will be critical to our future performance. We need to establish a fair balance between shareholders and customers as part of the review process. We will continue the search for service and efficiency improvements, in order to maintain our position as the lowest cost provider of water and wastewater services in England and Wales.

In five years we have built a substantial international water company around our strong UK operations. The nature of our business enables us to plan for the longer term. We now have the building blocks in place and are taking the actions necessary to deliver significant and sustainable long term profit growth.

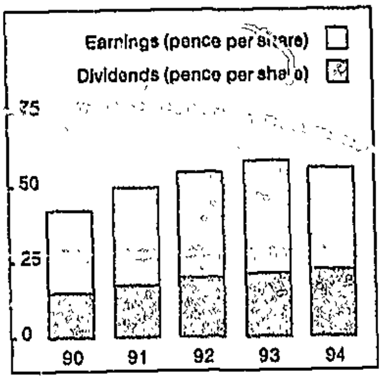
M. R. Hoffman.

Mike Hoffman
Deputy Chairman and
Group Chief Executive





Financial Review



Financial Results

Group operating profit, before exceptional items, increased by 16% to £319m. The operating margin achieved of 28.9% before exceptional items was higher than the 26.4% achieved in the previous year: the improvement is largely due to the good performance by the Utilities company in containing costs.

After charging £35m of exceptional items, Group profit before tax declined by 4% to £242m. Turnover was 5% higher at £1,093m. The underlying change in profit before exceptionals was an improvement of 10.1%.

The exceptional items occurred in the non-Utility businesses. They cover restructuring costs in various countries (£11.5m), together with losses on contracts inherited on acquisition (£23.5m).

The tax charge for the year was £20m. Nearly all of this relates to advance corporation tax (ACT) on the dividend distribution. Changes in the UK's ACT arrangements resulted in a £2m reduction in the tax charge.

Earnings per share were 4% lower at 56.8p. Before exceptional items, earnings per share increased by 11% to 65.8p. In view of the soundness of the underlying trading position the Board proposes to continue with its policy of real dividend growth.

Shareholder Returns

There were 391.3m shares in issue on average during the year. This was an increase of 1% over the previous year and largely arose from the decision of half our private shareholders, to take dividends in the form of new shares. We very much welcome this. An increase of 7% in the dividend per share to 22.5p is proposed. This is covered 2.5 times by earnings after exceptionals and 2.9 times by earnings before exceptional items.

The increase in shareholders' funds of £142m is analysed in note 12 to the accounts. In addition to retained profits, there were positive movements from the issue of scrip dividends (£13m) and the exercise of share options (£3.1m). Reductions amounting to £8.1m arose mainly from currency translation differences (£0.7m) and goodwill adjustments of £7.5m. These were associated with the previous year's acquisition of the Simon wastewater treatment companies and changes in the ownership of Brophy.

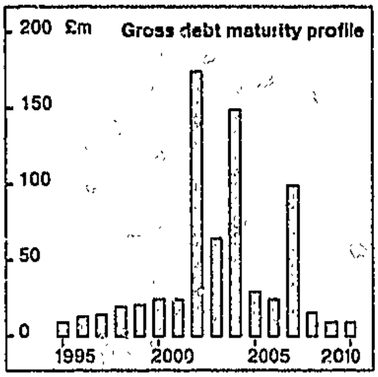
The return on shareholders' funds before exceptional items was 14.5%, and after exceptionals was 12.6%, compared with 14.2% in 1992/3.

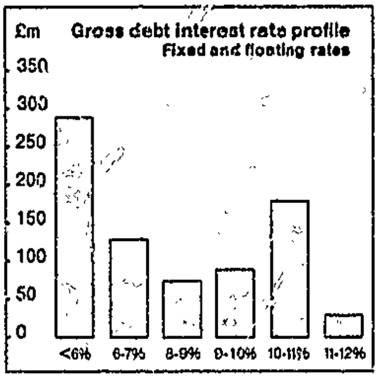
Capital Assets & Capital Structure

Retained profits of £134m together with depreciation and other non-cash items were used to help finance the very substantial investment programme. Total investment in fixed assets in the year was £377m of which £367m occurred in the Utility company where the programme to improve quality, service and efficiency is proceeding very well.

The cash generated by the Group was not sufficient to meet all financing needs. External funds were raised, increasing net debt by £155m.

As envisaged at the time of flotation of the Company in 1989, the ratio of debt to equity (gearing) continues to increase. At the year end gearing was 37% up from 31% at the start of the year.





Linda Kemeny, Group Treasurer, with members of her treasury team, Clare Burkinshaw, Peter Matza and Nigel Rolland.

Funds were raised from the following main sources:

Realisation of short term investments	£36m
EIB loans	£45m
Leasing	£26m

Additionally, $150m of 10-year Notes were issued in the USA in February 1994 to refinance short term dollar bank borrowings. Part of this issue was swapped into Deutschmarks to refinance similar short term borrowings in Germany.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity. The chart above shows the current maturity profile of the gross debt of £771m outstanding at 31 March 1994.

Interest rates payable on fixed-rate debts reflect mainly the timing of debt raised. In 1993/4 interest rates were relatively low. Accordingly the weighted average interest rate of 7.85% in the year was a little lower than the 8.25% average in the previous year. Interest in the year was covered 4.5 times by earnings.

Future Financing

The water industry is a capital intensive business and will remain so. The Utilities company is well on track to complete the £2bn five-year investment programme agreed to at the time of flotation. Investment requirements to meet service obligations will remain high in the second half of the decade.

The Utilities' financing regime will be materially affected by the periodic review of water prices currently being undertaken. Decisions of the Regulator are subject to appeal to the Monopolies and Mergers Commission. The Director General of OFWAT has publicly stated that gearing can be allowed to rise in order to reduce the pressure on customer prices. Whilst the long-term characteristics of the Utilities business justify a relatively high gearing level, it will be important to ensure this remains within reasonable bounds.

Treasury Policy

Group treasury operations are managed centrally by a small specialist team. The objective is to ensure the availability of a timely flow of funds at a cost which reflects the credit-worthiness of the Group.

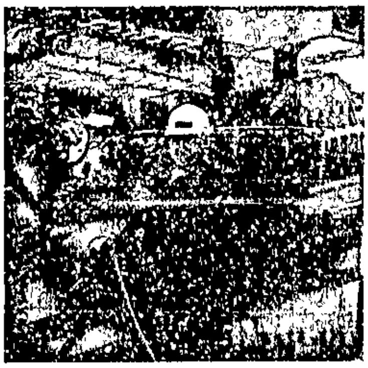
Formal statements of treasury policies and procedures are in place, which are specified and monitored by the Board.

The Group's approach to treasury management is to protect profits against risks arising from adverse movements in interest rates and currency exposures. Matching of assets and liabilities is carried out wherever practicable. Swap instruments and forward rate agreements are used to hedge interest rate and currency risks.

A ratio of two-thirds fixed rate to one-third floating rate is used as a guide in making decisions on maturities. The proportion of floating rate debt at the year end was 34%.

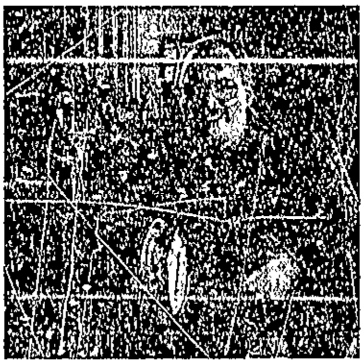
David Luffrum
Group Finance Director

Thames Water People in Action



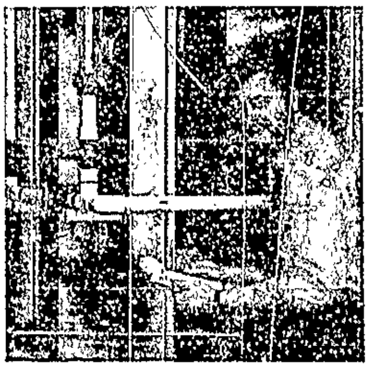
Lee Mountford, a development engineer at Simon Hartley is responsible for the development of new types of sludge thickening and dewatering equipment, including the Manor Membrane filter press installed at Ashford Common.

As a research biologist Kim Walter is involved in the development of new methods of testing drinking water to increase the speed at which results can be obtained, highlighting Thames Water's commitment to improving quality control.



Mark Doggett, a multi-skilled technician, joined Thames Water Utilities in 1987. After successful completion of the cross-skilling programme Mark is now trained in both mechanical and electrical disciplines, and is applying his skills at our large plants in west London.

Ernie Ward, project manager, Thames Water International in Thailand. TWI has been awarded a five year contract for the operation, maintenance and management of water and wastewater infra-structures at 18 large industrial estates in Thailand.



Chris Huijbregsen, design engineer from PWT Asia Pacific's Melbourne office, shown here collecting data from chemical dosing equipment at Yan Yean, Melbourne.

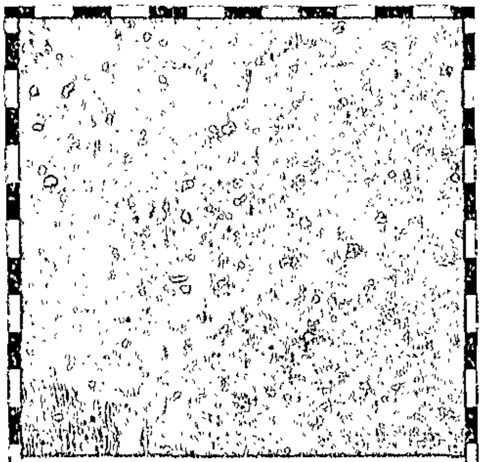
Terry Sweeney joined Thames Water Utilities in 1985. Since then he has gained his degree in Engineering and achieved Chartered Engineer status. As an ICA engineer Terry is responsible for the design and implementation of capital projects such as the advanced water treatment plant completed here at Kempton Park.

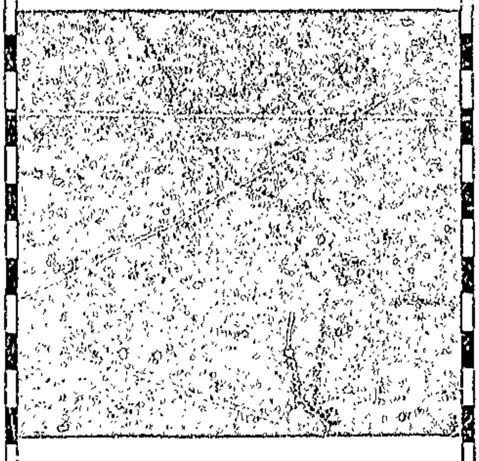
Supervisor Terry Pottinger and technician Lee King, are members of the Network Services Team, involved in activities such as leak detection and by-law enforcement.

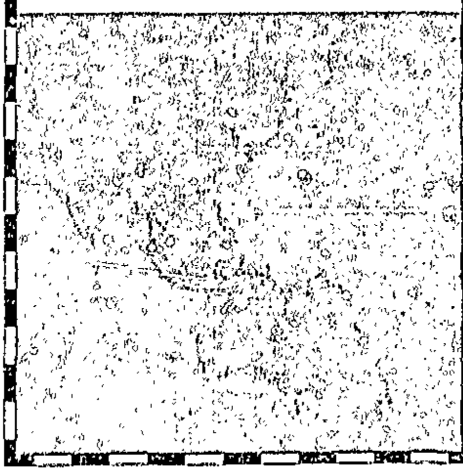
Kevin Bissell, senior shift controller at the London Water Control Centre, Hampton, is responsible for the monitoring and control of London's water supply which is principally through the Thames Water Ring Main.

Cathy Woods, Human Resource Manager, is currently studying for the Diploma in Management Studies in a programme tailored for Thames Water at Henley Management College.

At the FB Leopold Company manufacturing facility in Zelienople, Pennsylvania, Shipper-Receiver Jeff Waycholf prepares Leopold agitator bearings for shipment.







An International Water and Wastewater Company

The Thames Water Group of companies comprises four water-related business divisions serving domestic, municipal, industrial and commercial customers in the UK and throughout the world. These business divisions offer a comprehensive range of services.

Water and Wastewater Utility Operations
This division carries out the regulated businesses of supplying drinking water to, and collecting and treating wastewater from, several million customers throughout London and the Thames Valley. Improved product quality and customer service is flowing from our extensive capital investment programme.

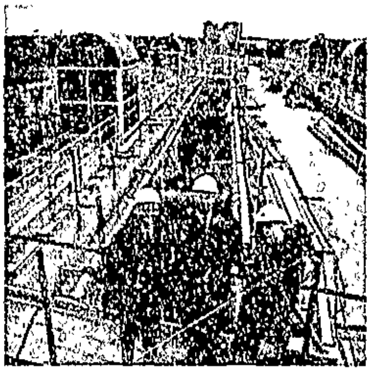
Products and Services
In this division we develop, manufacture and install products for industrial customers and water utility operators in many countries. These products are used in the treatment of water, wastewater and industrial process fluids. We are international leaders in membrane technology particularly for the food, beverage and pharmaceutical industries.

Environmental Services
Within the UK we offer utility operators and industrial and commercial customers specialist underground surveying and maintenance services. We carry out grounds maintenance for local authorities, treat industrial liquid wastes, and operate dry waste disposal facilities.

International Operations and Process Contracting
Our process engineering and contracting skills are used by many municipal and private water utility operators and industrial customers throughout the world to design and construct new treatment plants. This division is pursuing a number of major water infrastructure projects for Government and municipal customers; all the Group's skills can be brought together in long-term Build Operate Transfer (BOT) Projects.

Company operations are based in:

London and the Thames Valley, *UK*
Whitchurch, *Hampshire, UK*
Stoke-on-Trent, *Staffordshire, UK*
Winchester, *Hampshire, UK*
Zoetemeer, *Netherlands*
Bergen op Zoom, *Netherlands*
Essen, *Belgium*
Halle, *Germany*
Seville, *Spain*
Houston, *Texas, USA*
Eden Prairie, *Minnesota, USA*
Milford, *Ohio, USA*
Sunnyvale, *California, USA*
Zelienople, *Pennsylvania, USA*
Birmingham, *Alabama, USA*
Harmony, *Pennsylvania, USA*
Victoria, *Australia*
Frenchs Forest, *NSW, Australia*
Onehunga, *New Zealand*
Marshalltown, *S Africa*
Nasr City, *Cairo, Egypt*
Lagos, *Nigeria*
Bangkok, *Thailand*
Kuala Lumpur, *Malaysia*
Kuningan, Jakarta, *Indonesia*
Beijing, *China*
Sha Tin, *New Territories, Hong Kong*
Singapore
Tokyo, *Japan*

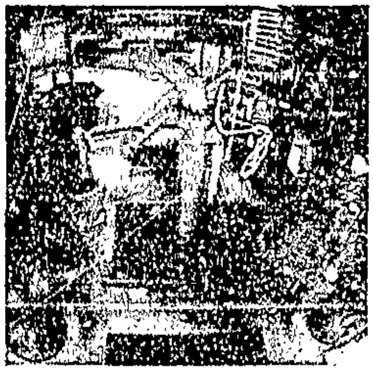


Bill Alexander, MD of Thames Water Utilities, on site at the new AWT plant under construction at Ashford Common, south west London with Roger Johnson, Works Manager, and Dave Glendinning, Project Manager. The total investment at Ashford Common will be over £80m, and will also increase capacity by nearly 70%.

Utility Operations

The main business of the Group is the water and wastewater utility operations, carried out by our principal operating company Thames Water Utilities. We supply drinking water to over seven million domestic customers, and collect and dispose of wastewater for over 11 million. Also we have 333,000 business customers in London and the Thames Valley.

Our business customers are engaged in every type of activity including manufacturing, power generation, education, healthcare, leisure, entertainment, retailing and financial services. We aim to provide all our customers with continuous adequate supplies of potable water that meet all the prescribed quality standards. We



The Thames Water Ring Main in London was completed during the year, two years ahead of schedule and within its original £250m budget. Over 50 miles long and at an average depth of 40m, the ring main will supply 1,300m litres of drinking water daily, 50% of London's demand.

aim to manage the controlled collection of their wastewater, its treatment and ultimate disposal to the highest environmental standards.

Each day our 100 water treatment works supply some 2,600 million litres through 31,000km of water mains. 84,000km of sewers collect and deliver some 3,200 million litres of wastewater to our 377 treatment plants.

We are implementing major strategies for improving product quality, customer service and efficiency. Central to these is our extensive capital investment programme; £367m was invested in the year.

The largest element in our large investment programme is to install advanced water treatment (AWT) processes at many of our plants. Major projects are progressing well at Walton and Ashford Common in London, and Farmoor near Oxford; our first completely new AWT plant

We have continued our programme to reduce leakage from the 31,000km of water mains in our distribution system. Modern technology such as leak noise correlators and electronic data loggers are used to detect and locate leaks with pinpoint accuracy.

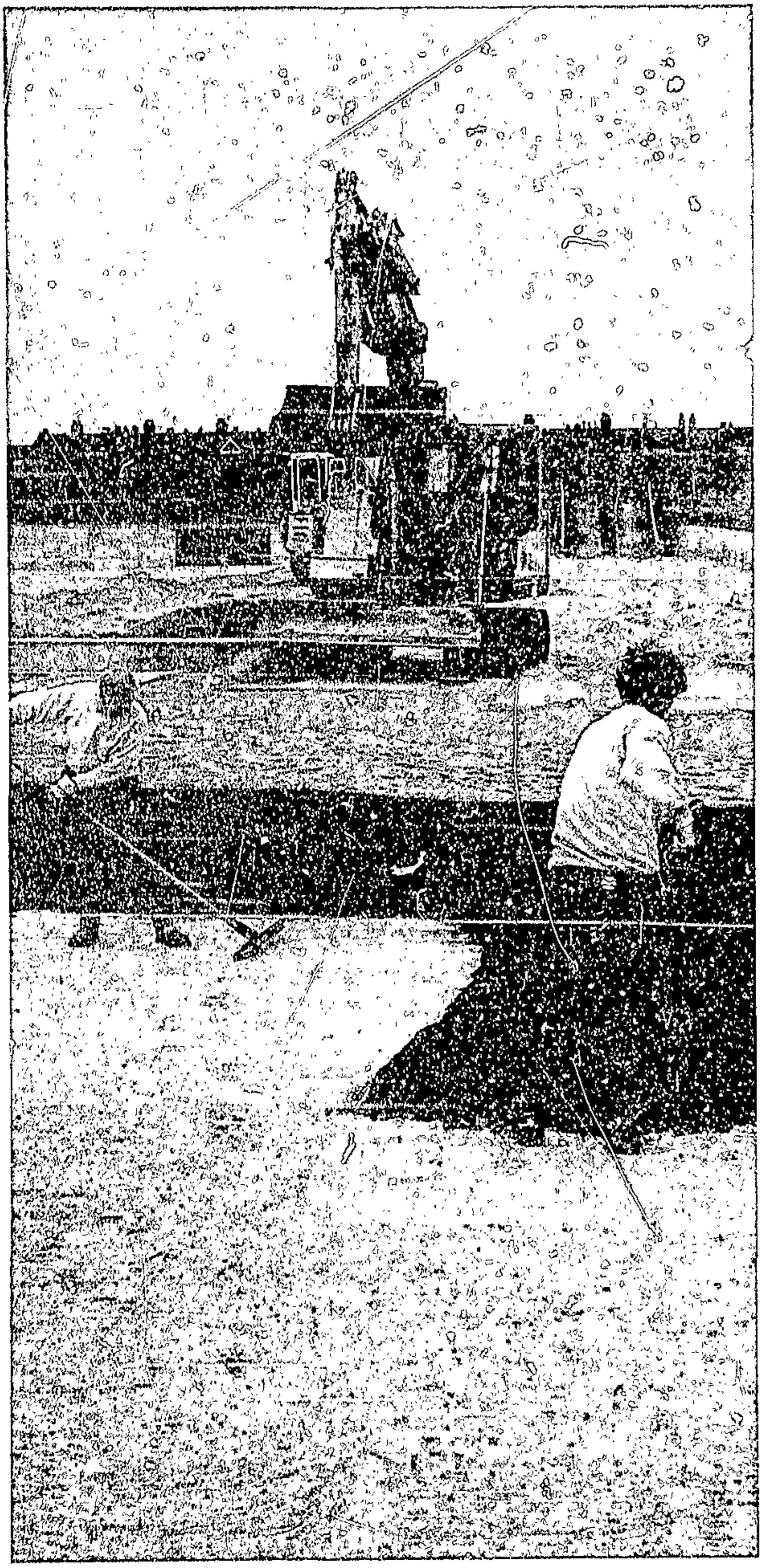
was commissioned at Banbury.

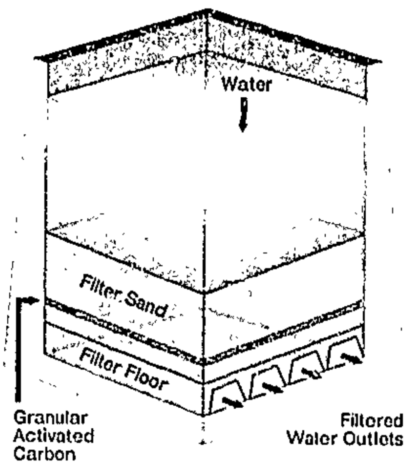
Developed in our research facilities, the AWT process removes pesticides that are sometimes found in water. By reducing the need for chlorine in the disinfection process it can also improve the taste and odour of drinking water.

The continued success of our leakage reduction programme enhanced by more sophisticated detection equipment together with the latest population and water demand forecasts, has enabled us to defer preparations for the proposed new raw water storage reservoir in south west Oxfordshire.

Major refurbishment at many of our larger sewage treatment plants continues. The quality standard set for treated wastewater discharges from our works in the Thames Valley is very high, and in this year 98% of our 377 plants complied fully.

During the year the NRA successfully prosecuted us on five occasions, although only one was for sub-standard treated wastewater. Two were accidental escapes of sewage sludge and two were for





The superfilter combines the advantages of Granular Activated Carbon (GAC) for the removal of pesticides and other organic substances from drinking water with the well tried and tested biological treatment process of slow sand filtration. Regular removal, cleaning and re-use of the sand layers is co-ordinated with removal, re-activation and re-use of the carbon to provide a cost efficient '2 in 1' process making best use of existing assets.

The Thames Water Superfilter being installed at Coppermills in north London.

The customer centre at Swindon provides a single point of contact for our customers. Each year our staff handle around 2 million telephone calls, over 1 million letters, and 10 million payments. New systems installed in 1993 produced a dramatic improvement in response times to telephone calls.

escapes of sewage caused by a blockage in the sewerage system.

Another major step in our programme to cease the disposal of treated sludge to the North Sea by 1998 was taken with the award of contracts to construct two incinerators at our large sewage treatment plants at Crossness and Beckton in east London.

Our two new laboratories, in Reading and Docklands, are enabling us to maintain tight control of product quality. They carry out over 2 million tests each year. This year the Drinking Water Inspector concluded that our system for processing the results of these tests should be audited once every four years rather than annually.

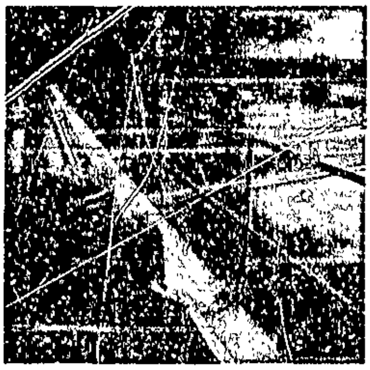
The refurbishment and upgrading at Crossness sewage treatment plant, south east London, has resulted in increased efficiency and reliability with more controllable effluent quality. Increased levels of digestion have reduced the amount of sludge dumped at sea, and methane gas is used to generate green electricity.

The engineering centre at Reading has gained BS 5750 for its quality control procedures. Throughout the company 530 individual processes have so far been awarded the Group Chief Executive's quality assurance award.

Since privatisation we have made a substantial investment in information management. Our major corporate systems are now in place and making a valuable contribution to tighter management control and increased productivity.

Advanced information systems are critical to the efficient operation of our new customer service centre at Swindon, which is handling 2 million telephone calls, 1.2 million letters, and 10 million payments from customers each year.

We again decided not to increase prices in real terms for utilities services by the full amount of 4.5% agreed at flotation. The 'K' factor by



The project to alleviate odour problems at Slough sewage treatment plant was completed in September 1993. This involved covering the channels carrying the flow of raw sewage to the plant, and improving the aeration stage of the treatment process.

which we are allowed to increase prices above inflation in both April 1993 and 1994 was 4.1%. The basket of prices and the changes we have made to the tariff structure were reviewed by OFWAT. Full details of prices and tariffs can be obtained by telephoning our customer centre, 0645 200800.

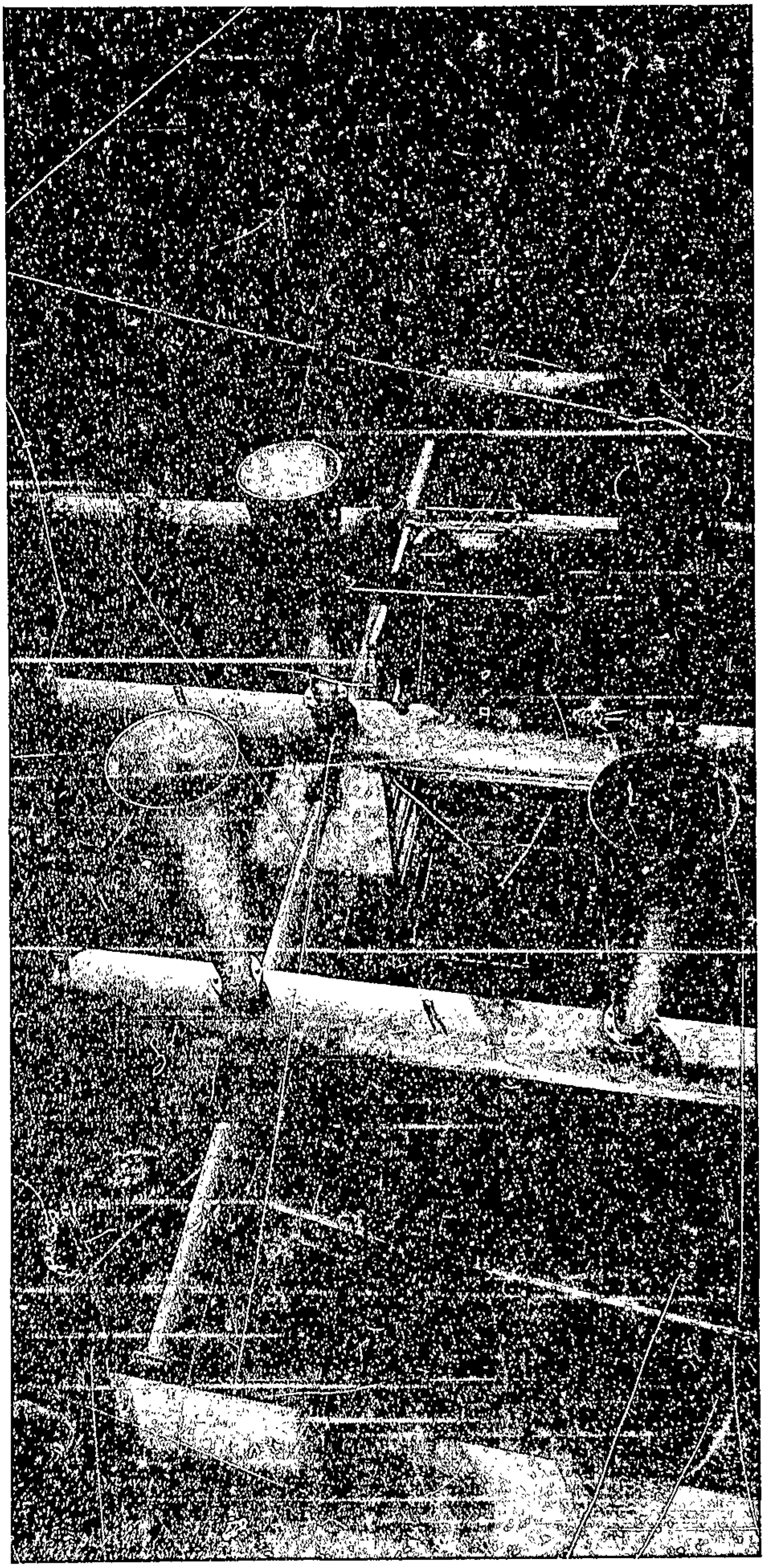
Products and Services

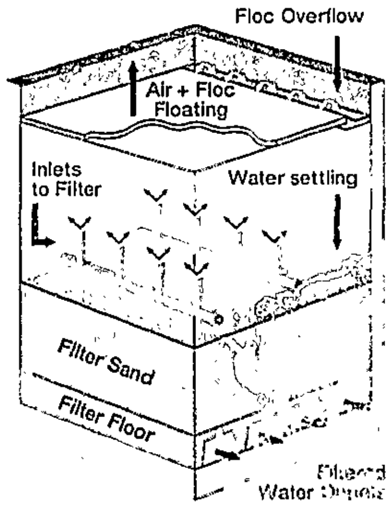
The business units in the Products and Services division aim to add value to raw water, potable water, and wastewater through the manufacture and sale of high quality water treatment products, systems and service to consumers and producers, and to contracting intermediaries.

Their industrial, commercial, and municipal customers are mainly spread throughout the UK and Europe, USA, and countries in the Asia Pacific region.

New markets in the USA are recovering, whilst in Europe continuing recession remains a key factor.

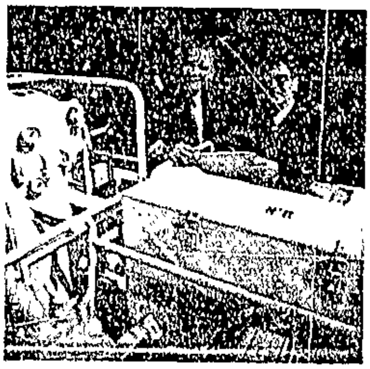
Strategic market spread was achieved in 1993 with the





The CoCo DAFF (Counter Current Dissolved Air Flotation/Filtration) process patented by Thames Water has been developed as a compact water treatment process designed to remove fine particles of material from traditional stored water sources. Fine air bubbles are introduced above the filter media to float seasonal blooms of algae (which would otherwise block filters), at the same time as water is filtering downwards through the media material in the conventional way.

Part of the CoCo DAFF Installation at Walton AWT plant, west London.

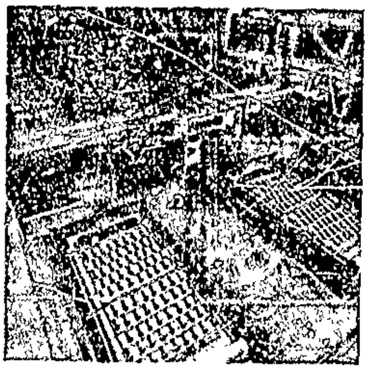


David Banfield, MD of Thames Water Products and Services, and Keith Atfield with one of the seven ST1 units recently supplied by Stella Meta Filters for use in Bosnia. The ST1 is a mobile water treatment unit which has been used extensively in civil and disaster relief situations.

integration of the recently acquired Simon water and wastewater businesses with those acquired in 1989 from Portals in the UK. Competitive edge comes from a combination of focused product portfolios, highly skilled employees, innovation through the Group's R & D programme, and niche marketing.

Permutit in the UK, Australia and South Africa supplies industrial and commercial water treatment equipment.

PCI Membrane Systems is a leading international supplier of membrane separation systems for the food, pharmaceutical and allied industries. Stella Meta Filters manufactures and supplies emergency disinfection equipment



Ashbrook Corporation has installed 24 high performance Winklepress belt filter presses for dewatering filter scum in the Jones Island wastewater treatment facility in Milwaukee USA. This is the largest installation of its kind under one roof.

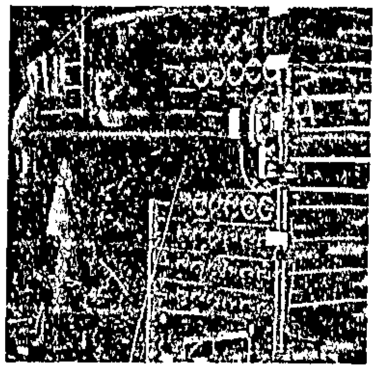
to defence contractors, and Portacel supplies a comprehensive range of chlorination equipment.

In Holland, Homé specialises in commercial water treatment systems, and Houseman in treatment chemicals, chemical cleaning and metal laundry. Talbot has extensive experience as a supplier of high quality pipeline products to the international market.

Simon Hartley has a strong international reputation for sewage treatment products; its business is now principally focused in two areas - sludge dewatering and penstocks.

In the USA, FB Leopold is a market leader in filter technology, supplying to municipal water utilities.

Ashbrook's key businesses are municipal and industrial sludge dewatering and treatment; it has a leading position in the US market. Hydro-Aerobics and Wastewater Treatment Systems (WTS) are suppliers of small package



The reverse osmosis unit shown above is one of a number that have been installed throughout Germany by PCI Membrane Systems Ltd. It is designed to treat contaminated rain water from landfill sites, known as leachate, which if left to filter through the ground could seep into and pollute aquifers.

biological and chemical effluent treatment equipment.

Environmental Services

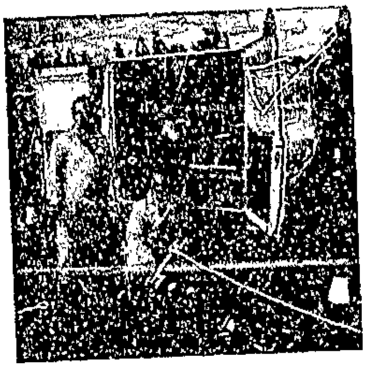
The Environmental Services division comprises three businesses, predominantly working in the UK: waste management, underground services and urban environment. These were either acquired or formed by joint venture since 1990.

Based around Thames Water Utilities' physical assets in London and the south east, Thames Waste Management handles both dry and liquid wastes. Industrial liquid effluent is transported by a fleet of tankers, and effluent treatment facilities have been opened at Riverside and Perry Oaks.

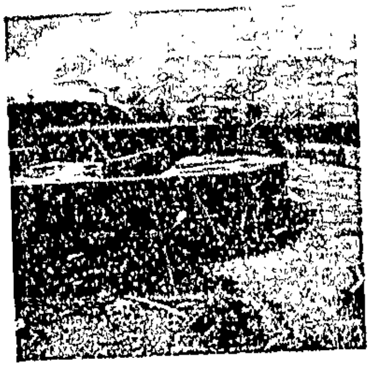
There is a landfill site at Norlands Lane, Chertsey, where a masterplan has been agreed with the planning authorities for long term infill with municipal and non-hazardous industrial waste.

The underground services business is made up of three

Andrew Robertson, MD of Thames Water Environmental Services, and plant manager Robin Finch at the Riverside waste treatment plant in Rainham, Essex. The plant is specially designed to treat tankered biodegradable industrial wastes, from the food, drink, cosmetics and household products industries.



To deal with the potential hazard of flammable/explosive atmospheres in sewers, Morgan Collis developed an 'explosion protected' CCTV System. This equipment is now used throughout the UK and Europe when surveying work is needed.



This sewage treatment plant at Warin in Germany, commissioned in 1992, was designed by UTAG. It is able to serve a population of 10,000 using the system of biological tanks with intermittent aeration, shown here.

specialist companies operating in the sewerage, water and gas distribution markets. Of these markets, expenditure on the gas network remains at a low level and sewerage has been affected by the deferment of investment until after the periodic price review. Increased emphasis is being placed on the water distribution system, with the companies able to contribute both to leakage reduction and quality improvement.

Morgan Collis provides site-based data acquisition activities such as CCTV, flow measurement and surveying, computerised data analysis and consultancy, including the preparation of drainage area plans.

The market for Metro Rod's drain cleaning business includes industrial, commercial and domestic clients. BOP profitably cleaned the British half of the channel tunnel after construction had been completed.

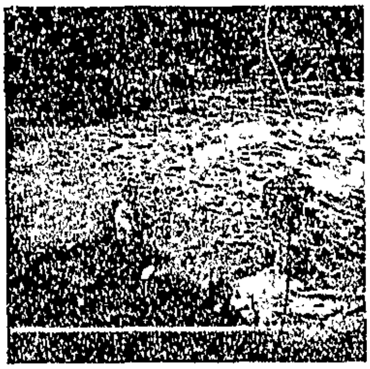
In the urban environment business the operations of Brophy, now fully owned by Thames Water following the sale of the landscape division, are in grounds maintenance and utilities maintenance. The latter carries out new works and maintenance for the water, electricity and telecommunications industries. The grounds maintenance division is the largest private sector contractor in the UK, with term contracts with over 50 local authorities.

International Operations and Process Contracting

This new division was formed during the year to bring together our design, contracting, consultancy and training businesses, and our growing international projects activities.

Through Thames Water International, the enlarged division is better equipped to promote the wide range of skills and experience across the Group to take advantage of the increasing opportunities throughout the world for major water infrastructure projects. These projects range from the operation and management of existing water utilities to the design, building, operation and financing of new water or wastewater network and process facilities.

This quasi-privatisation approach is attractive to governments, municipalities and water utilities as it enables them to benefit from our management and financing skills, while maintaining control through a defined regulatory environment. Typical projects involve establishing private companies in consortia with local partners, usually civil engineering contractors,



Thames Water International is part of a consortium which was awarded the right to develop water and wastewater infrastructure in the municipality of Naucalpan, Mexico City. Here, Bill Stead, TWI's sales and marketing director, is viewing the Rio Hondo. Improving the quality of the river water is one of the many features of the project.

into which some equity capital is injected, with the bulk of finance from non-recourse loans, often from international funding agencies.

Marketing is currently focused on three principal regions – Europe, the Americas, and the Asia Pacific region. We have started work on projects in Thailand (industrial estates infrastructure), and in Malaysia (operation and management in Sabah). We were awarded concessions for large infrastructure projects for Izmit in Turkey, and Naucalpan in Mexico; we hope to finalise contracts and start work later this year.

In December 1993 a consortium of which Abengoa Thames Water is a

This new drinking water treatment plant at Overton, Strathclyde uses dissolved air flotation (DAF) clarifiers in the treatment of reservoir water during periods of algal bloom. George Wall is contracts manager for PWT Projects who designed and constructed the plant in joint venture with J Henry Boot.

member was awarded a BOT contract involving the construction of a water treatment plant and trunk distribution system to connect sixteen small towns in Andalusia, near Seville.

Increased competition is a feature of the water and wastewater process design and construction market. Our customers in this specialist business are municipal water utilities, and industries such as power generation, pharmaceuticals and food. These activities are carried out by the companies we have acquired since 1989: PWT, Simon Hartley, and UTAG.

In the UK the market is moving towards wastewater as the Urban Waste Water Treatment Directive is implemented after 1995, providing opportunities for PWT's Lamella BAF process. Although the UK potable water market is weaker there are opportunities for Thames' CoCo DAFF process for advanced water treatment.

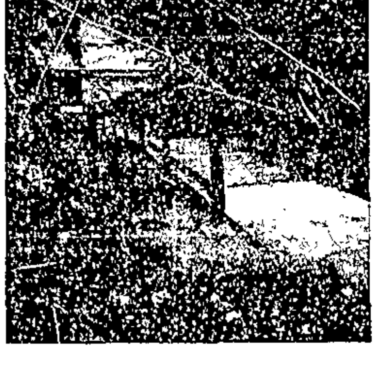
The Melaka Oil Refinery Waste Treatment Plant in Malaysia during the commissioning phase. This project is one of the many petrochemical waste treatment plants currently being constructed by PWT Asia Pacific.

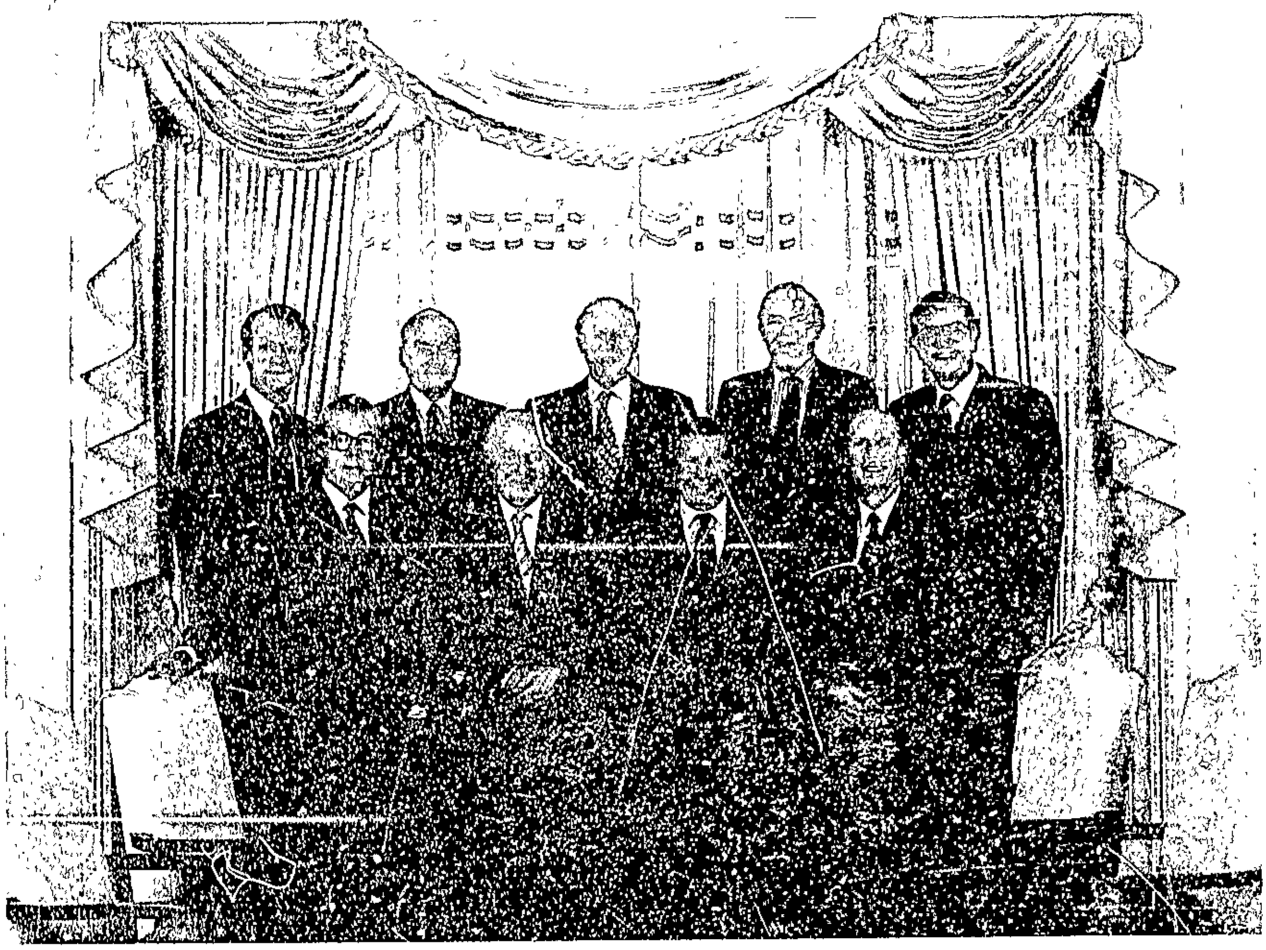
Major projects were started in the year at Karachi and United Arab Emirates, and a contract has recently been awarded at Ballinrees, in Northern Ireland.

Major projects completed include large water treatment plants at Overton, Strathclyde and Loy Yang in Australia, and water treatment installations for power stations at Anpara, India and Mount Piper, Australia.

Binnie TW provides operation and management advice, and training in many countries including Laos, Nigeria, India, Kuwait, Korea and the Lebanon.

The Maple Lodge Nature Reserve near Rickmansworth was built by Thames Water and specifically designed to suit the needs of the Maple Lodge Conservation Society.





Board Members

Sir Robert Clarke MA (65) *Chairman, was appointed to the Board of Thames Water Authority in July 1988 and became Chairman on 1 April 1994. Chairman of Share Dealing and Nomination Committees, member of Remuneration Committee. He is Chairman of United Biscuits (Holdings) plc.*

Michael Hoffman FEng (54) *Deputy Chairman and Group Chief Executive, joined Thames Water Authority in January 19[illegible] as Group Chief Executive. He is Chairman of Thames Water Utilities and other operating subsidiaries. He is currently a non-Executive Director of Cray Electronics Holdings Plc and PowerGen plc.*

David Luffrum IPFA (49) *Group Finance Director, was appointed to the Board of Thames Water Authority in March 1989. Member of Charities Committee.*

Sir Christopher Leaver GBE (56) *Vice-Chairman, was appointed to the Board of Thames Water Authority in 1983. He was Chairman of Thames Water Plc from May 1993 to March 1994. Chairman of Remuneration and Charities Committees and member of Nomination Committee. He is Chairman of Mayor Sworder & Co. Ltd.*

Sir Peter Harrop KCB MA (68) *non-Executive Director, was appointed to the Board of Thames Water Authority in October 19[illegible]6. Chairman of Environmental Audit Committee, member of Audit, Share Dealing and Remuneration Committees.*

Bill Harper IPFA (50) *Divisional Director – Products and Services, was appointed to the Board of Thames Water Authority in March 1989. Member of Environmental Audit Committee, Trustee Director of the Thames Water Pension Schemes.*

John Thomson MA (66) *non-Executive Director, was appointed to the Board of Thames Water Authority in 1984. Chairman of Audit Committee, and member of Nomination and Remuneration Committees. He is Chairman of Compass Group Plc.*

John Worlidge MA (66) *non-Executive Director, was appointed to the Board of Thames Water Authority in 1988. Member of Audit, Environmental Audit and Remuneration Committees. Trustee Director of the Thames Water Pension Schemes.*

GROUP COMPANY SECRETARY
Clive Carsley MA (49) *joined Thames Water in May 1989. He is Secretary to all Board Committees.*

Board Members from left to right: Bill Harper, Mike Hoffman, Sir Peter Harrop, Sir Robert Clarke, John Worlidge, Sir Christopher Leaver, John Thomson, David Luffrum and Clive Carsley.

Bill Alexander CEng (47) *Managing Director Thames Water Utilities, joined Thames Water in 1989, and was appointed to the Board in April 1994.*

Directors' Report

The Directors present their fifth Annual Report together with the audited accounts for the year ended 31 March 1994.

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 and its treatment and distribution to customers' premises;
- sewerage services to customers which involves the collection, treatment and disposal of sewage from customers' premises, together with the conveyance and treatment of surface water;
- international water and wastewater process design and contracting and the marketing of technical managerial services;
- the development and manufacture of products, the treatment of water, wastewater and industrial process fluids;
- the provision of underground, waste management and urban *environmental services;*
- other trading activities, including insurance and property development.

A list of the principal subsidiary undertakings appears on pages 38 to 40. Details of the progress made and information relating to the various activities of the Group during the year and for the future are given in the Group Chief Executive's Operating Review on pages 4 and 5.

Profits and Dividends
The Group profit for the year attributable to shareholders was £222m (1992/3 £229m). A review of the year's performance is included in the Financial Review on pages 6 and 7.

The Directors recommend payment of a final dividend of 15.1p per share, making a total for the year of 22.5p, amounting to £88m, leaving a retained profit of £134m for the year.

Fixed Assets
Note 13 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 is not less than 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 Sharesave Scheme and a number of senior executives *were granted new options under* the Executive Share Option Scheme. An appropriation of shares was made to employees under the Thames Water Profit Sharing Scheme in respect of the year ended 31 March 1993 and it is intended that a further appropriation will be made in respect of the year ended 31 March 1994.

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 in order to protect both our employees and members of the public. 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.

Employment of the Disabled
The Group recognises its responsibilities 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
2,769,112 ordinary shares were allotted to ordinary shareholders consequent on the offer of a scrip dividend.

186,436 ordinary shares were issued during the year to holders on the exercise of their options under the Company's Sharesave Scheme.

Options for 580,000 ordinary shares were exercised during the year under the Company's Executive Share Option Scheme. 212,110 ordinary shares were issued under the Company's Profit Sharing scheme for employees.

The effect of the transactions referred to above on the capital of the Company is detailed in note 25 to the accounts on pages 44 and 45.

Directors
The names of the present Directors of the Company are shown on page 18. With the exception of Mr Alexander, all Directors held office throughout the financial year.

After the death of Chairman Sir Roy Watts in April 1993, Sir Christopher Leaver was appointed to the office of Chairman of Thames Water until 31 March 1994. Sir Robert Clarke became Chairman on 1 April 1994 and Sir Christopher Leaver was appointed Vice Chairman. Michael R Hoffman continues as Deputy Chairman and Group Chief Executive.

In accordance with Article 106 of the Company's Articles of Association Mr David Luffrum and Mr Bill Harper will retire at the forthcoming Annual General Meeting and being eligible will offer themselves for re-election. As Executive Directors Mr Luffrum and Mr Harper have service contracts with the Company, subject to termination by three years' notice by the Company, or six months' notice by the Directors.

Directors' Interests in Shares
The beneficial interests of Directors, together with those of their families, in shares in the Company at the commencement and at the end of the year are shown in the table on page 34. 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 1994 to 17 June 1994. None of the Directors had any beneficial interest in the shares of any subsidiary company.

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. Options have also been granted to senior executives under the scheme. *During the year to 31 March 1994 no* additional Executive Share Options were granted to Executive Directors.

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
At 17 June 1994 the Directors had not been advised of any notifiable *interests in the issued ordinary* share capital. Clients of Mercury Asset Management Ltd and Capital Group Inc in aggregate accounted for 3.65% and 3.07% respectively on 25 May 1994.

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 Operating Review highlights the main areas where research activity is undertaken.

Environment
The Directors continue to regard care for the environment as one of the fundamental guiding principles of Thames Water. During the year additional environmental policies and detailed procedures have been adopted under the supervision of the Environmental Audit Committee.

The 1994 Environmental Review, which assesses progress and performance in key areas, will be published in July.

Political and Charitable Donations
Charitable donations amounting to *£111,000 were made during the* year. No donations were made for political purposes during the year.

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.

Auditors
A Resolution to re-appoint Coopers & Lybrand as the Company's auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting on 26 July 1994.

Special Business
In addition to the Ordinary Business to be transacted at the 1994 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:

- a Resolution renewing the power granted to Directors in July 1993 to issue equity securities for cash other than 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 dividend for the year ended 31 March 1994 and in respect of interim dividends for the year ending 31 March 1995.

By order of the Board
R C Carsley
Group Company Secretary
17 June 1994

Corporate Governance

In December 1992 the Cadbury Committee issued its report on the *financial aspects of Corporate* Governance.

Your Directors are pleased to confirm that throughout the year the company has complied fully with all the provisions of the Code of Best Practice now in force. We look forward to confirming compliance with the remaining two points (reporting on going concern and internal control) when professional guidance is published for all companies.

Under the Code there should be a clear division of responsibilities at the head of a company, and the board should include independent, non-Executive Directors of sufficient calibre and number for their views to carry significant weight.

Thames Water Plc clearly separates the responsibilities of the Chairman, Sir Robert Clarke, from those of the Group Chief Executive, Mike Hoffman. The Board of Thames Water Plc comprises four non-Executive and five Executive Directors.

The full Board meets monthly. There is a formal schedule of matters reserved for decision by the Board. This includes the review of strategy, business planning, major acquisitions and disposals, treasury, and risk management. At each meeting the Board reviews the performance of the major business units across the Group.

The work of the Board is supported by standing committees, all of which are chaired by non-Executive Directors. They include:

– **the Audit Committee,** which ensures that appropriate accounting and financial policies and procedures are implemented, that effective systems of internal control and internal and external audit are in place, and that auditors' recommendations are considered and appropriate actions taken. The Committee also recommends the audit fee to the Board;

– **the Environmental Audit Committee,** which supervises the adoption of environmental policies for the Group, and the translation of these policies into effective environmental procedures by all operating companies within the Group;

– **the Remuneration Committee,** which determines the level of remuneration of Executive Directors, including salary, performance bonus, executive share options, and pension arrangements;

– **the Share Dealing Committee,** which ensures that all dealings in the Company's shares by Directors and senior employees meet the standards required by The Stock Exchange and by the law;

– **the Charities Committee,** which makes charitable donations from a budget allocated by the Board, and considers community support activities and encourages employee charitable fund-raising; and

– **the Nomination Committee,** which is the forum within which Board membership and top management succession is discussed for recommendation to the Board.

Members of the Committees are detailed on page 18.

Report by the auditors to Thames Water Plc on the statement of compliance with the Code of Best Practice

We have reviewed the Directors' statement above concerning the Company's compliance with the Code of Best Practice published by the Committee on the Financial Aspects of Corporate Governance, insofar as it relates to those paragraphs of the Code which the London Stock Exchange has specified for our review.

We carried out our review having regard to the Bulletin "Disclosures relating to Corporate Governance" issued by the Auditing Practices Board. Our procedures primarily comprised enquiry of appropriate Directors and officers and examination of relevant documents. We are not required to review, and have not reviewed, the effectiveness of the Company's governance procedures.

Based on our review we have satisfied ourselves that the Directors' statement appropriately reflects the Company's compliance with the specified paragraphs of the Code.

Coopers & Lybrand
Chartered Accountants
London
17 June 1994

Statement of Directors' responsibilities

The Directors are required by UK company law to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Company and the Group as at the end of the financial year and of the profit or loss of the Group for that period.

The Directors confirm that suitable accounting policies have been used and applied consistently, and reasonable and prudent judgements and estimates have been made in the preparation of the financial statements for the year ended 31 March 1994. The Directors also confirm that applicable accounting standards have been followed and that the financial statements have been prepared on the going concern basis.

The Directors are responsible for keeping proper accounting records, for taking reasonable steps to safeguard the assets of the Company and the Group, and to prevent and detect fraud and other irregularities.

By order of the Board
R C Carsley
Group Company Secretary
17 June 1994

Report of the Auditors to the members of Thames Water Plc

We have audited the financial statements on pages 23 to 47.

Respective responsibilities of Directors and Auditors
As described above, the company's Directors are responsible for the preparation of financial statements. It is our responsibility to form an independent opinion, based on our audit, on those statements and to report our opinion to you.

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

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

Opinion
In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 1994 and of the profit, total recognised gains 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 Auditors
London
17 June 1994

Consolidated Profit and Loss Account

Year ended 31 March	Notes	1994 Before Exceptional Items £m	1994 Exceptional Items (note 4) £m	1994 Total £m	1993 Total £m restated
Turnover: Continuing operations		1,051.9	(11.6)	1,040.3	1,044.4
Acquisitions		52.9	-	52.9	
	2	1,104.8	(11.6)	1,093.2	1,044.4
Operating costs	3	(785.8)	(23.4)	(809.2)	(769.2)
Operating profit: Continuing operations		319.5	(35.0)	284.5	275.2
Acquisitions		(0.5)	-	(0.5)	
		319.0	(35.0)	284.0	275.2
Profit on sale of fixed assets				4.0	8.1
Loss from interests in associated undertakings				(1.8)	(2.1)
Other income	6			3.4	0.9
Interest	7			(47.9)	(30.8)
Profit on ordinary activities before taxation				241.7	251.3
Taxation on profit on ordinary activities	8			(19.4)	(21.7)
Profit for the financial year	9			222.3	229.6
Dividends	10			(88.5)	(81.7)
Retained profit transferred to reserves	27			133.8	147.9
Earnings per ordinary share	11			56.8p	59.3p
Earnings per ordinary share before exceptional items	11			65.8p	59.3p

Statement of Total Recognised Gains

Year ended 31 March		1994 £m	1993 £m restated
Profit for the financial year		222.3	229.6
Currency translation differences	27	(0.7)	(4.1)
Total recognised gains for the financial year		221.6	225.5

The notes on pages 28 to 47 form part of these accounts.

Consolidated and Company Balance Sheets

At 31 March	Notes	Group 1994 £m	Group 1993 £m restated	Company 1994 £m	Company 1993 £m restated
Fixed assets					
Tangible assets	13	**2,700.1**	2,420.5	**0.2**	0.3
Investments	14	**3.3**	5.1	**547.3**	505.9
		2,703.4	2,425.6	**547.5**	506.2
Current assets					
Stocks and work in progress	15	**34.1**	32.0	**-**	-
Debtors	16	**282.1**	285.8	**92.5**	35.0
Investments	17	**125.1**	169.4	**80.4**	109.7
Cash at bank and in hand		**17.0**	26.6	**2.9**	6.1
		458.3	513.8	**175.8**	150.8
Creditors: amounts falling due within one year	18	**(531.6)**	(628.7)	**(89.6)**	(150.7)
Net current (liabilities) assets		**(73.3)**	(114.9)	**86.2**	0.1
Total assets less current liabilities		**2,630.1**	2,310.7	**633.7**	506.3
Creditors: amounts falling due after more than one year	19	**(673.8)**	(502.9)	**(93.9)**	-
Convertible debt	20	**(80.9)**	(80.5)	**(80.9)**	(80.5)
Provisions for liabilities and charges	23	**(42.6)**	(36.8)	**(0.8)**	(0.6)
Net assets		**1,832.8**	1,690.5	**458.1**	425.2
Capital and reserves					
Called up share capital	25	**393.4**	389.7	**393.4**	389.7
Share premium	26	**3.9**	1.5	**3.9**	1.5
Reserves and retained profits	27	**1,435.5**	1,299.3	**60.8**	34.0
Equity shareholders' funds		**1,832.8**	1,690.5	**458.1**	425.2

The notes on pages 28 to 47 form part of these accounts.

The accounts were approved by the Board on 17 June 1994.

Sir Robert Clarke
Chairman

Robert Clarke

M R Hoffman
Deputy Chairman/Group Chief Executive

M R Hoffman

D J Luffrum
Group Finance Director

Consolidated Cash Flow Statement

Year ended 31 March	Group 1994 £m	1993 £m
Net cash inflow from operating activities (note a)	358.8	328.1
Returns on investments and servicing of finance		
• Interest received	15.4	26.1
• Interest paid	(55.0)	(51.2)
• Interest element of finance lease rental payments	(9.7)	(3.6)
• Dividends paid	(70.6)	(67.7)
Net cash outflow from returns on investments and servicing of finance	(119.9)	(96.4)
Taxation		
• UK corporation tax paid	(21.4)	(22.3)
• Overseas tax paid	(0.5)	(0.4)
Net cash outflow from taxation	(21.9)	(22.7)
Investing activities		
• Purchase of tangible fixed assets	(358.7)	(366.5)
• Purchase of subsidiary undertakings net of cash and cash equivalents acquired (note e)	(10.1)	(15.9)
• Purchase of fixed asset investments	-	(3.4)
• Sales of tangible fixed assets	6.0	10.9
• Capital contributions	25.4	23.5
• Other	-	(0.3)
Net cash outflow from investing activities	(337.4)	(351.7)
Net cash outflow before financing	(120.4)	(142.7)
Financing		
• Issue of ordinary share capital	3.1	4.7
• Long term loans	145.9	55.0
• Repayment of long term loans	(6.9)	(2.5)
• Expenses of issuing shares	(0.4)	(1.5)
• Bond issue expenses	(1.0)	-
• Short term investments	47.0	(14.3)
• Short term borrowings	(26.6)	(13.0)
• Capital element of finance lease rental payments	(10.3)	(9.4)
Net cash inflow from financing	150.8	19.0
Increase/(decrease) in cash and cash equivalents (note b)	30.4	(123.7)

The subsidiary undertakings acquired during the year utilised £11.7m of the Group's operating cash flow, paid £0.8m in respect of net returns on investments and servicing of finance and spent £2.4m on investing activities.

Notes to the Consolidated Cash Flow Statement

a	**Reconciliation of operating profit to net cash inflow from operating activities**	**1994 £m**	1993 £m restated
	Operating profit	**284.0**	275.2
	Depreciation	**81.9**	68.5
	Decrease in stocks	**1.3**	14.3
	Decrease/(increase) in debtors	**9.6**	(35.7)
	(Decrease)/increase in creditors	**(26.5)**	0.8
	Increase in long term provisions	**5.8**	8.2
	Other	**2.7**	(3.2)
	Net cash inflow from operating activities	**358.8**	328.1

b	**Analysis of the balances of cash and cash equivalents**	**1994 £m**	1993 £m	Change in year £m
	Cash at bank and in hand	**17.0**	26.6	(9.6)
	Short term investments	**69.9**	67.2	2.7
	Bank overdrafts	**(39.5)**	(59.4)	19.9
	Loans of less than three months maturity	**(34.9)**	(52.3)	17.4
	Decrease in cash and cash equivalents	**12.5**	(17.9)	30.4

The increase in cash and cash equivalents between 1992 and 1993 was £123.7m.

c	**Analysis of changes in financing during the year**	Share capital and share premium £m	Loans and finance leases £m	Current asset investments £m
	Balance at 1 April 1992	386.1	521.2	(87.9)
	Cash inflows from financing	3.2	30.1	(14.3)
	Shares issued for non-cash consideration	1.9	–	–
	Finance leases raised during the year	–	43.3	–
	Loans and finance lease obligations of acquired subsidiaries	–	4.9	–
	Other	–	0.8	–
	Balance at 31 March 1993	391.2	600.3	(102.2)
	Cash inflows from financing	2.7	102.0	47.0
	Shares issued for non-cash consideration	2.8	–	–
	Finance leases raised during the year	–	36.3	–
	Other	0.6	0.6	–
	Balance at 31 March 1994	**397.3**	**739.2**	**(55.2)**

- The £2.8m shares issued for non-cash consideration represent shareholders' election to take shares rather than cash dividends following the offer by the Company of a scrip dividend alternative.
- Finance leases amounting to £36.3m were contracted for during the year to fund capital plant, equipment and vehicles.

Notes to the Consolidated Cash Flow Statement

d Purchase of subsidiary undertakings

	1994 £m
Net assets acquired	
• tangible fixed assets	3.7
• stocks	3.4
• debtors	5.7
• cash at bank	–
• creditors: amounts falling due within one year	(12.4)
• creditors: amounts falling due after more than one year	(2.9)
	(2.5)
Goodwill	5.2
Total	2.7
Satisfied by	
• cash consideration	2.7
• deferred consideration	–
	2.7

e Analysis of the net outflow of cash and cash equivalents in respect of the purchase of subsidiary undertakings

	1994 £m
Cash consideration	(2.7)
Cash at bank of acquired subsidiaries	–
Bank overdrafts of acquired subsidiaries	(7.4)
Net outflow of cash and cash equivalents in respect of the purchase of subsidiaries	(10.1)

Notes to the Accounts

1 **Principal accounting policies**

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

a **Basis of preparation** The accounts have been prepared in accordance with the historical cost convention and with applicable accounting standards in the United Kingdom and, except for the treatment of certain capital contributions, with the Companies Act 1985. An explanation of the departure from the requirements of the Act is given in note 1(e) below.

The reporting requirements of Financial Reporting Standard 4 (FRS 4) – Capital Instruments have been adopted in these accounts. This adoption has not required any change in accounting policy but has resulted in a restatement of comparative figures to remove share issue expenses from the Statement of Total Recognised Gains and to bring the reporting of commercial paper liabilities into line with the requirements of FRS 4.

b **Basis of consolidation** The consolidated accounts include the accounts of the Company and all of its subsidiaries. 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. Intra-group sales and profits are eliminated on consolidation.

c **Turnover** which excludes value added tax or equivalent sales 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** comprise:

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

i **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. 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 **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.

iii **Other assets** are included at cost less accumulated depreciation.

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

e **Capital contributions** received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 4 to the Companies Act 1985 which requires fixed assets to be stated at their purchase price without deduction of contributions which are accordingly accounted for as deferred income. This departure from the requirement of the Act is, in the opinion of the Directors, necessary for the accounts to give a true and fair view because infrastructure assets do not have a finite life and are not depreciated. Accordingly related capital contributions would not be recognised in the profit and loss account. The effect of the departure on the value of tangible fixed assets is disclosed in note 13.

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.

f **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 relation to the assets' written down values. 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.

g **Investments**

Fixed asset investments

i **In the accounts of the Company** Investments held as fixed assets are stated at cost less provisions for permanent diminution in value.

ii **In the Group accounts** Interests 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 interests 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.

h **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 in provisions for liabilities and charges.

i **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 to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any difference between the cost charged and the amounts paid by the Group is treated as a prepayment or accrual.

j **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 are 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 average rates of exchange for 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.

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

l **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.

m **Provision for insurance liabilities** Provision is made for known and estimated liabilities arising from uninsured claims against the Group and for claims against its wholly owned insurance company.

n **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.

o **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

2 **Segmental analysis**

The segments by class of business vary from those reported in previous years as, in the opinion of the Directors, they more appropriately define the markets in which the Group operates. Comparative figures have been restated.

The segments by class of business are:

Utilities: the regulated water and wastewater business.

Process Contracting and International Operations: international water and wastewater process design and contracting and the marketing of technical managerial services.

Products and Services: the development and manufacture of products for the treatment of water, wastewater and industrial process fluids.

Environmental Services: the provision of underground, waste management and urban environmental services.

Other trading activities: insurance and property.

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

The Products and Services and Environmental Services businesses have been combined with effect from April 1994 and will be reported as one segment in the 1995 accounts.

Turnover	1994			1993		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m restated	Inter-segment £m restated	Third parties £m restated
By class of business						
Utilities	–	1.2	871.0	–	1.3	809.9
Process Contracting and International Operations	0.8	23.2	96.1*	–	22.9	159.2
Products and Services	1.0	5.2	99.1	1.4	2.7	57.8
Environmental Services	0.1	5.2	18.1	0.2	2.2	14.9
Other trading activities	–	13.6	8.9	–	10.0	2.6
Total	1.9	48.4	1,093.2	1.6	39.1	1,044.4

	1994			1993		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m restated	Inter-segment £m restated	Third parties £m restated
Geographical segment by origin						
UK	47.4	1.7	980.5	39.9	0.3	913.1
Continental Europe	–	–	35.5	–	–	69.5
Americas	–	0.6	48.3*	–	–	29.8
Africa	–	–	4.1	–	–	4.5
Asia Pacific	0.5	–	24.8	0.5	–	27.5
Total	47.9	2.3	1,093.2	40.4	0.3	1,044.4

*after charging exceptional items of £11.6m (see note 4).

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 in the same segment.

Turnover by destination does not materially differ from turnover by origin.

Comparatives for third party turnover for the Utilities and UK segments have been restated to include £1.7m (1993: £1.6m) of gravel royalties income which has previously been included in other income.

Notes to the Accounts

2 **Segmental analysis** (continued)

Profit before tax/net assets

By class of business	Profit (loss) before tax 1994 £m	Profit (loss) before tax 1993 £m restated	Net assets (liabilities) 1994 £m	Net assets (liabilities) 1993 £m restated
Utilities	**326.2**	281.0	**2,535.3**	2,232.6
Process Contracting and International Operations	**(41.3)***	0.7	**14.9***	29.6
Products and Services	**2.3***	2.5	**20.9***	18.5
Environmental Services	**(1.4)**	(1.3)	**17.1**	13.4
Other trading activities	**4.0**	(0.4)	**(3.2)**	(8.2)
Other activities	**(0.2)**	(0.4)	**(80.7)**	(79.4)
	289.6	282.1	**2,504.3**	2,206.5
Interest	**(47.9)**	(30.8)		
Net debt			**(671.5)**	(516.0)
Total	**241.7**	251.3	**1,832.8**	1,690.5

* after charging exceptional items (see note 4)

By geographical segment	Profit (loss) before tax 1994 £m	Profit (loss) before tax 1993 £m	Net assets (liabilities) 1994 £m	Net assets (liabilities) 1993 £m
UK	**323.7**	277.6	**2,460.5**	2,154.0
Continental Europe	**(9.6)**	2.7	**20.4**	17.4
Americas	**(24.5)**	1.1	**25.3**	35.8
Africa	**0.2**	(0.1)	**–**	0.6
Asia Pacific	**(0.2)**	0.8	**(1.9)**	(1.3)
	289.6	282.1	**2,504.3**	2,206.5
Interest	**(47.9)**	(30.8)		
Net debt			**(671.5)**	(516.0)
Total	**241.7**	251.3	**1,832.8**	1,690.5

Segmental result before tax and net assets of associated undertakings are not separately disclosed since they are not material to the Group.

Notes to the Accounts

3 Operating costs

Analysis of operating costs by type of expense	**1994** Continuing operations £m	Acquisitions £m	Total £m	**1993** £m
Manpower costs	236.9	14.6	251.5	245.5
Other external charges	249.1	4.3	253.4	252.6
Materials and consumables	94.9	23.9	118.8	112.7
Other operating charges	95.7	8.6	104.3	86.3
Infrastructure renewals charge	27.0	–	27.0	26.4
Depreciation:				
• own assets	72.9	1.1	74.0	59.5
• assets held under finance leases	7.7	0.2	7.9	9.0
Rentals under operating leases:				
• hire of plant and machinery	2.7	0.5	3.2	2.4
• other	3.5	0.1	3.6	7.7
Auditors' remuneration:				
• for audit work	0.8	0.1	0.9	0.8
• for non-audit work	0.3	–	0.3	0.4
Research and development	7.4	–	7.4	7.1
	798.9	53.4	852.3	810.4
Own work capitalised	(43.1)	–	(43.1)	(41.2)
	755.8	53.4	809.2	769.2

Other operating charges include £23.4m of exceptional items (see note 4).

Included in auditors' remuneration is £62,450 in respect of audit fees incurred by the Company in 1994 (1993: £49,995).

4 Exceptional items

	1994 Turnover £m	Other operating charges £m	Total £m	**1993** £m
Process Contracting and International Operations				
• Exceptional losses resulting from disputes on contracts awarded to Group companies prior to their acquisition by Thames	(11.6)	(11.9)	(23.5)	–
• Costs of rationalisation and restructuring of non-regulated businesses	–	(9.7)	(9.7)	–
	(11.6)	(21.6)	(33.2)	–
Products and Services				
• Costs of rationalisation and restructuring of non-regulated businesses	–	(1.8)	(1.8)	–
	(11.6)	(23.4)	(35.0)	–

In order to assist in understanding the Group's results for the year and in view of the materiality of exceptional items to the current year's results, the Directors believe that it is appropriate to show separately on the face of the profit and loss account the operating profit of the Group before and after exceptional items.

Notes to the Accounts

5 **Information regarding Directors and employees**

Directors' emoluments	1994 £000	1993 £000
Fees for non-Executive Directors	74	91
Executive Directors:		
• Salary	554	544
• Bonus	–	–
• Other benefits	37	27
• Pension contributions	141	211
	732	782
Total	806	873

- Following the death of Sir Roy Watts in April 1993, Sir Christopher Leaver was appointed Chairman for the period May 1993 to March 1994 and Mr Michael Hoffman was appointed Deputy Chairman in addition to his responsibilities as Group Chief Executive.
- Sir Christopher's salary for the year of £70,812 is included above in emoluments for executive Directors together with the emoluments of Sir Roy Watts, Mr Hoffman, Mr Luffrum and Mr Harper. Mr Hoffman's annual salary was increased on 1 July 1993 from £212,000 to £250,000.
- Sir Robert Clarke has been appointed Chairman of the Company with effect from 1 April 1994. Sir Christopher Leaver has been appointed Vice Chairman. Mr Hoffman continues as Group Chief Executive and Deputy Chairman.
- Emoluments of the Executive Directors are determined by the non-Executive Directors who comprise the Remuneration Committee of the Board. The Committee reviews remuneration each year, taking appropriate external advice. A performance-related bonus scheme is in place, based on earnings per share exceeding a level prescribed by the non-Executive Directors. No bonuses are payable to Executive Directors in respect of 1994 as the target was not achieved.

Directors' emoluments disclosed in accordance with Part I of Schedule 6 of the Companies Act 1985	1994 £000	1993 £000
Chairmen:		
• Salary	94	149
• Bonus	–	–
• Other benefits	10	6
• Pension contributions	8	99
	112	254

Emoluments of the Chairmen include £34,129 (remuneration £25,141; other benefits £566; pension contributions £8,422) for Sir Roy Watts in respect of his period as Chairman.

	1994 £000	1993 £000
Highest paid Director:		
• Salary	240	209
• Bonus	–	–
• Other benefits	7	6
• Pension contributions	70	59
	317	274

The Company has made a provision in 1994 amounting to £76,000 (1993: £32,000) in respect of an additional unfunded pension for the highest paid Director. The cost is not included in Directors' emoluments as payment of the pension remains solely at the discretion of the Company. Any payment will be disclosed in Directors' emoluments in the year in which it is paid.

5 **Information regarding Directors and employees (continued)**

Scale of Directors' emoluments (excluding pension contributions)	1994 number	1993 number
£ 15,001 – £ 20,000	4	4
£ 20,001 – £ 25,000	–	1
£ 25,001 – £ 30,000	1	–
£ 80,001 – £ 85,000	1	–
£ 90,001 – £ 95,000	–	1
£100,001 – £105,000	1	–
£105,001 – £110,000	–	1
£130,001 – £135,000	1	–
£150,001 – £155,000	–	1
£215,001 – £220,000	–	1
£245,001 – £250,000	1	–

Directors' interests in the share capital of the Company

The beneficial interests of Directors, together with those of their families, in shares of the Company at the commencement and at the end of the year are shown in the table below.

Shares	1994 number	1993 number
Sir Robert Clarke	3,540	3,389
Sir Christopher Leaver	3,931	3,931
M R Hoffman	62,045	59,301
W R Harper	10,403	19,925
Sir Peter Harrop	2,149	1,100
D J Luffrum	19,937	19,932
J M Thomson	2,000	2,000
E J Worlidge	2,158	2,065

Executive Share Options

	1993 number	1994 number	Notional value £000	Exercise price	Date when exercisable	Expiry date
M R Hoffman	49,000	49,000	54.9	356p	15.11.94	Nov 2001
	10,000	10,000	18.5	283p	18.6.93	June 2000
W R Harper	22,000	22,000	26.6	347p	2.7.94	July 2001
	11,000	11,000	12.3	356p	15.11.94	Nov 2001
D J Luffrum	6,000	6,000	11.1	283p	18.6.93	June 2000
	25,000	25,000	30.3	347p	2.7.94	July 2001
	13,000	13,000	14.6	356p	15.11.94	Nov 2001

No executive share options were granted or exercised during the year nor did any lapse.

The non-Executive Directors are not eligible for executive share options under the rules of the Thames Water Executive Share Option Scheme. Sir Robert Clarke has waived his right as Chairman to executive share options.

M R Hoffman has a further 9,176 options (1993: 9,176) under the Thames Water Sharesave Scheme. The exercise prices of these shares range from 176p to 296p.

The notional value of the executive share options is based on the difference between the market price of the Company's shares at 16 June 1994 (468p) and the exercise price.

Notes to the Accounts

5 Information regarding Directors and employees (continued)

	1994 £m	1993 £m
Employee information		
Group employment costs including Executive Directors' emoluments were:		
• Salaries and wages	**213.0**	208.4
• Social security costs	**20.9**	18.8
• Pension contributions (note 30)	**19.0**	19.6
Total	**252.9**	246.8

Total employment costs contain £1.4m (1993: £1.3m) which is included in the infrastructure renewals charge in note 3.

	1994 number	1993 number restated
Average weekly number of persons employed by the Group, *including Executive Directors, analysed by class of business*		
Utilities	**6,893**	7,381
Process Contracting and International Operations	**1,482**	1,651
Products and Services	**1,086**	786
Environmental Services	**623**	471
Other activities	**57**	63
Total	**10,141**	10,352

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.

6 Other income	1994 £m	1993 £m
• Net rents receivable	**3.4**	0.9

7 Interest	1994 £m	1993 £m
Bank loans, overdrafts and other loans		
• Repayable within five years otherwise than by instalments	**(8.7)**	(8.8)
• Repayable within five years by instalments	**(2.9)**	(1.9)
• Not wholly repayable within five years	**(41.6)**	(39.2)
Finance charges in respect of finance leases	**(9.7)**	(7.4)
Other finance charges	**(0.6)**	(0.7)
Interest payable and similar charges	**(63.5)**	(58.0)
Interest receivable	**15.6**	27.2
Total	**(47.9)**	(30.8)

8 Taxation on profit on ordinary activities

No liability to UK mainstream corporation tax arises on the result for the year due to the availability of capital allowances and tax losses brought forward. The taxation charge in the profit and loss account comprises advance corporation tax (ACT) deemed irrecoverable of £18.9m (1993: £21.3m) together with overseas taxes of £0.5m (1993: £0.4m). The ACT remains available to reduce future UK corporation tax liabilities.

Notes to the Accounts

9 **Profit for the financial year**

Of the consolidated profit attributable to the shareholders, £104.7m (1993: £93.6m) has been dealt with in the accounts of the Company. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

10 **Dividends**	1994 pence per share	1994 £m	1993 pence per share	1993 £m
Interim	7.4	29.0	6.9	26.7
Final proposed	15.1	59.5	14.1	55.0
	22.5	88.5	21.0	81.7

Certain shareholders have elected to receive shares in lieu of current and future dividends. Details of shares allotted under the scrip dividend option during the year ended 31 March 1994 are shown in note 25.

11 **Earnings per ordinary share**	1994 Net £m	1994 Nil £m	1993 Net £m	1993 Nil £m
Profit for the financial year	222.3	241.2	229.6	250.9
Earnings per ordinary share	56.8p	61.6p	59.3p	64.8p
Exceptional items	9.0p	9.0p		
Earnings per ordinary share before exceptional items	65.8p	70.6p		

On the net basis earnings per ordinary share have been calculated by dividing the profit for the financial year by the weighted average number of ordinary shares in issue during the year (391.3m).

On the nil distribution basis profit for the financial year is stated before the charge for irrecoverable ACT as this arises solely from the declaration of the dividend.

There would be no significant dilution of earnings per ordinary share from the exercise of outstanding share options and the conversion of the £82m Convertible debt.

12 **Reconciliation of movements in shareholders' funds**	1994 £m	1993 £m
Profit for the financial year	222.3	229.6
Dividends	(88.5)	(81.7)
	133.8	147.9
Exercise of share options	3.1	4.7
Value of shares issued in lieu of dividends	13.4	8.4
Share issue expenses	0.2	(1.5)
Foreign exchange movements	(0.7)	(4.1)
Goodwill written off	(7.5)	(17.6)
	142.3	137.8
Shareholders' funds at the beginning of the year	1,690.5	1,552.7
Shareholders' funds at the end of the year	1,832.8	1,690.5

Notes to the Accounts

13 Tangible fixed assets	Group Land & buildings £m	Group Infrastructure assets £m	Group Plant & equipment £m	Group Total £m	Company Plant & equipment £m
Net cost at 1 April 1993	1,056.6	963.4	820.6	2,840.6	0.4
Fair value adjustments	–	–	(0.2)	(0.2)	–
Additions at cost	100.1	85.6	190.9	376.6	–
Acquisition of subsidiaries	0.3	–	7.3	7.6	–
Disposals	(11.7)	–	(45.1)	(56.8)	–
Capital contributions	–	(16.5)	–	(16.5)	–
Net cost at 31 March 1994	**1,145.3**	**1,032.5**	**973.5**	**3,151.3**	**0.4**

	Group Land & buildings £m	Group Infrastructure assets £m	Group Plant & equipment £m	Group Total £m	Company Plant & equipment £m
Depreciation at 1 April 1993	197.7	–	222.4	420.1	0.1
Provided during the year	20.7	–	61.2	81.9	0.1
Acquisition of subsidiaries	0.1	–	3.8	3.9	–
Disposals	(11.2)	–	(43.5)	(54.7)	–
Depreciation at 31 March 1994	**207.3**	–	**243.9**	**451.2**	**0.2**
Net book value					
At 31 March 1994	**938.0**	**1,032.5**	**729.6**	**2,700.1**	**0.2**
At 31 March 1993	*858.9*	*963.4*	*598.2*	*2,420.5*	*0.3*

- In order to give a true and fair view (note 1e) the cost of infrastructure assets is stated after the deduction of capital contributions amounting to £78.7m (1993: £62.2m).
- The net book value of land and buildings is analysed as follows:

	1994 £m	1993 £m
Freehold land and buildings	927.8	849.1
Leaseholds: over 50 years	9.0	9.1
under 50 years	1.2	0.7
	938.0	858.9

No depreciation has been charged on freehold land included at a cost of £4.9m (1993: £2.8m).

- Details of the Group's tangible fixed assets which are held under finance leases are:

	Cost 1994 £m	Cost 1993 £m	Net book value 1994 £m	Net book value 1993 £m
Plant and equipment	158.0	121.7	127.8	101.6

- Tangible fixed assets at 31 March 1994 include £382m (1993: £416m) of assets in the course of construction.

Notes to the Accounts

14 Fixed asset investments	Group Interests in associated undertakings £m	Company Investment in subsidiary undertakings £m
Value at 1 April 1993	5.1	505.9
Additions	0.3	44.3
Amounts written off	–	(3.3)
Foreign exchange adjustments	(0.3)	0.4
Share of losses for the year	(1.8)	–
Value at 31 March 1994	**3.3**	**547.3**

Group

- The cost of the Group's interests in associated undertakings at 31 March 1994 amounted to £8.1m (1993: £11.8m). The Group's share of post-acquisition accumulated losses at 31 March 1994 was £3.9m (1993: £2.1m). The associated undertakings are unlisted.

Company

Investments amounting to £44.3m were made by the Company during the year through subsidiary holding companies to assist in the development of the Group's non-regulated trading activities.

Acquisitions

The reported figures for acquisitions on the face of the profit and loss account are those of the Simon companies which were purchased from Simon Engineering Plc under an agreement dated 6 February 1993 and those of the Brophy Group Plc. The results of the Simon companies were not consolidated in the year ended 31 March 1993 since they were not material to the results of the Group.

The Group assumed control of the Brophy Group Plc, formerly an associated undertaking, by purchasing its remaining ordinary shares for £2.7m under an agreement dated 22 January 1994. Goodwill arising on consolidation (see note 27) has been calculated on the fair values of net liabilities acquired (£2.5m) which are not considered to be materially different to book value.

At 31 March 1994 the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

Subsidiary undertakings	Country of *incorporation*, registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held Indirectly	Nature of business
Utilities					
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
Process Contracting and International Operations					
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
PWT Projects Limited	*England and Wales*	*Ordinary*		*100%*	*Design contracting*
PWT Asia Pacific Pty Limited	Australia	Ordinary		100%	Design contracting
PWT New Zealand Limited	New Zealand	Ordinary		100%	Contracting
PWT (Singapore) Pte Limited	*Singapore*	*Ordinary*		*100%*	*Design contracting*
Paterson Candy (Malaysia) Sdn.Bhd.	Malaysia	Ordinary		100%	Design contracting
PWT (Hong Kong) Limited	Hong Kong	Ordinary		100%	Design contracting
Simon Hartley HK Limited	Hong Kong	Ordinary		100%	Wastewater projects
Waste Solutions Inc	United States	Ordinary		100%	Waste treatment

14 **Fixed asset investments** (continued)

Subsidiary undertakings	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held Directly	Indirectly	Nature of business
Thames Water Deutschland GmbH	Germany	Ordinary		100%	Management company
Mitteldeutsche Wasser-und Umwelttechnik AG (UTAG)	Germany	Ordinary		100%	Water contracting and consultancy
Products and Services					
Thames Water Products and Services Limited	England and Wales	Ordinary	100%		Management company
The Permutit Company Limited	England and Wales	Ordinary		100%	Industrial water treatment plant
Simon Hartley Limited	England and Wales	Ordinary		100%	Sewage treatment
Stella-Meta Filters Limited	*England and Wales*	*Ordinary*		*100%*	*Mobile water treatment and disinfection*
PCI Membrane Systems Limited	England and Wales	Ordinary		100%	Process and effluent treatment
F W Talbot & Company Limited	England and Wales	Ordinary		100%	Pipeline products
The Permutit Company Pty Limited	Australia	Ordinary		100%	Industrial water treatment plant
PWT South Africa (Pty) Limited	*South Africa*	*Ordinary*		*100%*	*Contracting and products*
Thames Water Benelux BV	Netherlands	Ordinary		100%	Industrial water treatment plant and chemicals
Thames Water Holdings Inc	United States	Common Convertible		100% 100%	Management company
Ashbrook Corporation Inc	United States	Ordinary		100%	Sewage treatment products
Hydro-Aerobics Inc	*United States*	*Ordinary*		*80%*	*Packaged sewage treatment*
WTS Inc	United States	Ordinary		100%	Industrial effluent treatment
F B Leopold Company Inc	United States	Ordinary		100%	Water products
FloCovery Systems Inc	United States	Ordinary		100%	Industrial water products
Environmental Services					
Thames Water Environmental Services Limited	England and Wales	Ordinary	100%		Management company
Brophy Group Plc	England and Wales	Ordinary		100%	Utilities and grounds maintenance
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
Thames Waste Management Limited	England and Wales	Ordinary		100%	Waste management and treatment
Other trading activities					
Isis Insurance Company Limited	*Isle of Man*	*Ordinary*	*100%*		*Insurance*
Kennet Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Developments Limited	England and Wales	Ordinary	100%		Property

Notes to the Accounts

14 Fixed asset investments (continued)

Subsidiary undertakings	Country of incorporation, registration and operation	Class of share capital held	Proportion of shares held Directly	Proportion of shares held Indirectly	Nature of business

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

Associated undertakings					
Binnie Thames Water Limited	England and Wales	Ordinary		50%	International consultancy
Subterra Holdings Limited	England and Wales	Ordinary		60%	Pipeline rehabilitation services
PWT Japan Limited	Japan	Ordinary		50%	Finance company
ATW Medioambiente SA	Spain	Ordinary		40%	Water and waste treatment

15 Stocks and work in progress

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Raw materials and consumables	20.8	20.3	–	–
Work in progress	8.3	7.6	–	–
Finished goods and goods for resale	5.0	4.1	–	–
Total	34.1	32.0	–	–
Work in progress includes long-term contract balances as follows				
Net cost less foreseeable losses	100.6	95.8	–	–
Applicable payments on account	(98.4)	(94.3)	–	–
Total	2.2	1.5	–	–

16 Debtors

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Due within one year				
Trade debtors	189.6	163.6	–	–
Amounts recoverable on contracts	8.4	39.8	–	–
Amounts owed by subsidiary undertakings	–	–	89.2	32.0
Other debtors	9.3	17.3	–	–
Prepayments and accrued income	65.1	54.5	1.3	1.4
Infrastructure renewals expenditure	3.6	6.0	–	–
	276.0	281.2	90.5	33.4
Due after more than one year				
Trade debtors	4.2	2.9	–	–
Amounts recoverable on contracts	0.7	0.7	–	–
Amounts owed by subsidiary undertakings	–	–	2.0	1.6
Other debtors	1.2	1.0	–	–
Total	282.1	285.8	92.5	35.0

Notes to the Accounts

17	Current asset investments	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
	Government and Local Authority loans	–	2.5	–	–
	Fixed term deposits and certificates of deposit	80.2	116.2	67.7	87.5
	Fixed and floating interest rate securities	44.9	50.7	12.7	22.2
	Total	**125.1**	169.4	**80.4**	109.7

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

18	Creditors: amounts falling due within one year	Group 1994 £m	Group 1993 £m restated	Company 1994 £m	Company 1993 £m restated
	Bank loans	14.9	37.1	2.8	4.8
	Bank overdrafts	39.5	59.4	–	7.8
	Other loans	0.8	43.7	–	32.8
	Obligations under finance leases	7.2	8.8	–	–
	Progress claims and advance payments	83.0	86.3	–	–
	Trade creditors:				
	• operating	66.8	66.5	–	–
	• capital	98.8	117.5	–	–
	Bills of exchange payable	21.0	–	–	–
	Amounts owed to subsidiary undertakings	–	–	0.7	20.5
	Advance corporation tax	22.7	25.2	22.7	25.2
	Taxation and social security	8.4	6.8	–	–
	Accruals and deferred income	96.4	110.5	2.3	4.3
	Other creditors	12.6	9.9	1.6	0.3
	Proposed dividend	59.5	55.0	59.5	55.0
	Total	**531.6**	628.7	**89.6**	150.7

Commercial paper amounting to £27.8m included in other loans as at 31 March 1993 was disclosed as creditors: amounts falling due after more than one year because it was supported by a committed revolving credit facility extending until 1995. Comparative figures have been restated to include these loans as creditors: amounts falling due within one year in order to comply with the reporting requirements of FRS4.

19 Creditors: amounts falling due after more than one year

	Group		Company	
	1994 £m	1993 £m restated	1994 £m	1993 £m restated
Bank loans	230.1	191.1	–	–
Other loans	301.2	201.0	–	–
Obligations under finance leases	118.0	90.4	–	–
Amounts owed to subsidiary undertakings	–	–	93.9	–
Other creditors	24.5	20.4	–	–
Total	673.8	502.9	93.9	–

20 Convertible debt

In September 1991, the Company issued £82m 9½% Convertible Subordinated Bonds due 2006 at par before issue costs. At the option of the holder, each £1 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.

21 Loans

	Group		Company	
	1994 £m	1993 £m restated	1994 £m	1993 £m restated
Bank loans				
• Within one year	14.9	37.1	2.8	4.8
• Between one and two years	1.4	2.1	–	–
• Between two and five years	37.6	22.3	–	–
• After more than five years	191.1	166.7	–	–
Total	245.0	228.2	2.8	4.8
Other loans				
• Within one year	0.8	43.7	–	32.8
• Between one and two years	2.2	4.7	–	–
• Between two and five years	1.8	1.8	–	–
• After more than five years: other loans	297.2	194.5	–	–
convertible debt	80.9	80.5	80.9	80.5
Total	382.9	325.2	80.9	113.3

- Loans are repayable between 1994 and 2030.
- Of the loans repayable after more than five years hence, £390.7m (1993: £261.9m) are in respect of loans wholly repayable after that date, of which £25m (1993: Nil) are bank loans and £365.7m (1993: £261.9m) are other loans.
- The aggregate amount of loans repayable by instalments, any part of which falls due for repayment more than five years hence is £200m (1993: £180m) and £15.6m (1993: £15.9m) for bank loans and other loans respectively.
- During the year, $150m 6⅝% Notes due 2004 were issued in the US market for a consideration of $149.4m before issue costs. The proceeds from the issue have been used to refinance short term Dollar and Deutschmark borrowings. $40m has been swapped into Deutschmarks to protect against adverse exchange rate fluctuations.

Notes to the Accounts

21 **Loans** (continued)

- The range of interest rates on bank loans is 4.6% to 11.5% (1993: 3.5% to 11.5%) and on other loans is 3% to 10.5% (1993: 3% to 11%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.

  The Group has arranged long dated interest rate swaps which have the effect of fixing the rate of interest at an average of 9.33% on sterling borrowings of £15m for a remaining term of 14 years. In addition the Group has arranged interest rate swaps which convert £45m of sterling borrowings from an average fixed rate of 10.2% to floating rates for a weighted average remaining term of six years.

- Other loans include loans totalling £32.4m (1993: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.

22 **Obligations under finance leases**

	Group	
	1994 £m	**1993 £m**
Amounts due under finance leases are payable as follows:		
• Within one year	**18.1**	15.4
• Between one and two years	**10.0**	8.4
• Between two and five years	**32.8**	23.8
• After more than five years	**204.9**	170.1
	265.8	217.7
Less finance charges allocated to future periods	**(140.6)**	(118.5)
Total	**125.2**	99.2

- The aggregate amount of finance leases, any part of which falls due for repayment after more than five years, is £113.3m (1993: £84.4m).
- Interest rates on finance leases are linked to LIBOR.
- The Group is committed to further outstanding lease facilities of £15.6m to fund capital investment.
- The Company has no finance lease obligations.

23 **Provisions for liabilities and charges**

	Group					Company
	Contract provisions £m	Insurance £m	Restructuring/ other £m	Pensions £m	Total £m	Deferred Taxation £m
Balance at 1 April 1993	5.0	24.8	3.2	3.8	**36.8**	0.6
Fair value adjustments	-	-	(0.2)	-	**(0.2)**	-
Provided during the year	5.0	3.3	1.9	0.7	**10.9**	0.2
Utilised during the year	(0.6)	-	(0.6)	-	**(1.2)**	-
Released during the year	(1.0)	-	(2.7)	-	**(3.7)**	-
Balance at 31 March 1994	**8.4**	**28.1**	**1.6**	**4.5**	**42.6**	**0.8**

Notes to the Accounts

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 1994 £m	Group 1993 £m
• Accelerated capital allowances		
– infrastructure assets	214.6	176.3
– other assets	240.9	187.4
• Other timing differences	(16.6)	(11.6)
• Losses	(73.5)	(79.8)
• Advance corporation tax	(96.8)	(77.9)
	268.6	194.4

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.

25 Share capital

Share capital of the Company	Group 1994 £m	Group 1993 £m
• Authorised 525,000,000 ordinary shares of £1 each One Special Rights redeemable preference share of £1	525.0	525.0
• Allotted, called up and fully paid 393,418,443 ordinary shares of £1 each (1993: 389,670,785) One Special Rights redeemable preference share of £1	393.4	389.7

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 dividends, to amounts receivable on a winding up, or to vote at general meetings, although it 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:

	Number of shares allotted 1994 000	Number of shares allotted 1993 000	Consideration 1994 £m	Consideration 1993 £m
Scrip dividends	2,769	1,864		
Employee share schemes				
• Sharesave Scheme	187	67	0.4	0.1
• Executive Share Option Scheme	580	1,639	1.8	4.6
• Profit Sharing Scheme	212	–	0.9	–
	3,748	3,570	3.1	4.7

Scrip dividends

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

- 1993 final dividend 1,730,975 shares – 12 August 1993
- 1994 interim dividend 1,038,137 shares – 21 January 1994

25 Share capital (continued)

Employee share schemes

The Company has adopted the following schemes for 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.
- the Thames Water Profit Sharing Scheme is a scheme whereby a bonus may be declared in the form of shares in Thames Water Plc, subject to profit targets being attained and to the conditions for eligibility. Shares have been appropriated under this scheme and are held in trust under the terms of the scheme.

Options granted and outstanding at 31 March 1994

Date of grant	Number of ordinary shares	Option price per share	Normal date of exercise
Thames Water Sharesave Scheme			
Five-year scheme			
• 12 December 1989	2,298,950	176p	Feb 1995 – July 1995
• 13 July 1990	405,764	227p	Oct 1995 – Mar 1996
• 12 July 1991	513,830	288p	Oct 1996 – Mar 1997
• 29 November 1991	564,432	296p	Feb 1997 – July 1997
• 10 July 1992	384,626	349p	Oct 1997 – Mar 1998
• 9 July 1993	620,899	372p	Oct 1998 – Mar 1999
Seven-year scheme			
• 12 December 1989	1,065,906	176p	Feb 1997 – July 1997
• 13 July 1990	187,368	227p	Oct 1997 – Mar 1998
• 12 July 1991	293,757	288p	Oct 1998 – Mar 1999
• 29 November 1991	302,267	296p	Feb 1999 – July 1999
• 10 July 1992	213,567	349p	Oct 1999 – Mar 2000
• 9 July 1993	149,191	372p	Oct 2000 – Mar 2001
Thames Water Executive Share Option Scheme			
• 17 January 1990	17,000	278p	1993-2000
• 18 June 1990	16,000	283p	1993-2000
• 2 July 1991	680,000	347p	1994-2001
• 15 November 1991	73,000	356p	1994-2001
• 23 June 1992	284,000	418p	1995-2002
• 1 December 1992	32,000	480p	1995-2002
• 18 June 1993	10,000	466p	1996-2003
• 19 November 1993	31,000	521p	1996-2003

26 Share premium

	£m
Balance at 1 April 1993	1.5
Premium on issue of 0.9m ordinary shares	2.2
Expenses of issuing shares	(0.4)
Over accrual of issue costs in previous year	0.6
Balance at 31 March 1994	**3.9**

27 Reserves and retained profits

	The Company £m	Subsidiary undertakings £m	Associated undertakings £m	Goodwill reserve £m	Total £m
Profit and loss account					
Balance at 1 April 1993	34.0	1,359.5	(2.1)	(92.1)	**1,299.3**
Profit (loss) for the financial year	104.7	119.4	(1.8)	–	**222.3**
Dividends	(88.5)	–	–	–	**(88.5)**
Foreign exchange adjustments	–	(0.7)	–	–	**(0.7)**
Value of shares issued in lieu of dividends	13.4	–	–	–	**13.4**
Capitalisation of shares issued in lieu of dividends	(2.8)	–	–	–	**(2.8)**
Goodwill	–	–	–	(7.5)	**(7.5)**
Balance at 31 March 1994	**60.8**	**1,478.2**	**(3.9)**	**(99.6)**	**1,435.5**

Goodwill of £10.7m was written off during the year on:

- the acquisition of ordinary shares in Brophy Group Plc: £5.2m.
- adjustments to the fair values of assets and liabilities in the Simon companies where the reduction in book values of assets acquired amounted to £16.5m compared to the estimated provision of £11m in 1993.

Offset by goodwill written back of £3.2m comprising:

- reductions in the purchase prices of FB Leopold Inc (£2.2m) and Subterra Limited (£1m).

28 Operating leases

At 31 March 1994 the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Land and buildings				
Leases which expire:				
• Between one and five years	**0.8**	0.6	–	–
• After more than five years	**2.1**	4.3	**0.4**	0.4
Total	**2.9**	4.9	**0.4**	0.4
Other				
Leases which expire:				
• Between one and five years	**5.2**	3.6	–	–
• After more than five years	–	0.1	–	–
Total	**5.2**	3.7	–	–

29 Capital commitments

	Group 1994 £m	Group 1993 £m	Company 1994 £m	Company 1993 £m
Contracted for but not provided in the financial statements	**245**	192	–	–
Authorised but not yet contracted for	**924**	712	–	–

In addition to these commitments, the Group 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

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 ongoing pension cost for the Group during the year ended 31 March 1994 was £19m (1993: £19.6m) of which £1.4m (1993: £1.8m) 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, adjusted to meet the pensions reporting requirements of Statement of Standard Accounting Practice number 24 where material differences arise.

Current levels of pension charge and contributions to the UK schemes are based on actuarial reviews of the various schemes as at 6 April 1993. The principal assumptions used in determining the pension cost were that salary increases, excluding allowance for promotional increases, would be 7% 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. Dividend growth would be 4½% per annum.

The actuarial methods used were the Projected Unit method and the Attained Age method as considered appropriate by the actuaries.

For the largest schemes of the Group the total market value of assets as at the valuation date was £483m and the actuarial value of these assets represented 102% 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 employer contributions to the schemes. In the year ended 31 March 1994 these payments amounted to £0.3m (1993: £1.2m).

The funding of the schemes does not reflect the possible future changes which may be necessary following the judgement in the European Court of Justice regarding the Barber v GRE sex discrimination case or of judgements in related cases. The impact of these judgements is expected to be relatively small as the provisions of each of the Group pension schemes are based on a common retirement age for men and women.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £394.6m (1993: £268m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £121.6m at 31 March 1994 (1993: £172.8m). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations which have been entered into in the normal course of business.

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. Anyone requiring a copy of these accounts including the specified statements for the year ended 31 March 1994 should apply to: The Company Secretary, Nugent House, Vastern Road, Reading RG1 8DB. Tel: 0345 414140 (calls from the UK will be charged at the local rate).

Group Five Year Summary

Year ended 31 March	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Turnover: continuing operations	**1,093.2**	1,044.4	900.5	838.0	613.7
Operating costs	**(809.2)**	(769.2)	(665.3)	(646.0)	(453.2)
Operating profit	**284.0**	275.2	235.2	192.0	160.5
Costs of privatisation	**-**	-	-	0.7	(18.7)
Profit on sale of fixed assets	**4.0**	8.1	9.9	8.1	8.4
(Loss)/profit from interests in associated undertakings	**(1.8)**	(2.1)	(0.2)	0.1	0.1
Other income	**3.4**	0.9	0.3	0.4	1.1
Interest	**(47.9)**	(30.8)	(8.9)	11.7	9.1
Profit on ordinary activities before taxation	**241.7**	251.3	236.3	213.0	160.5
Taxation on profit on ordinary activities	**(19.4)**	(21.7)	(25.2)	(19.8)	(12.9)
Profit for the financial year	**222.3**	229.6	211.1	193.2	147.6

As at 31 March	1994 £m	1993 £m	1992 £m	1991 £m	1990 £m
Fixed assets	**2,703.4**	2,425.6	2,106.4	1,750.6	1,421.8
Net current (liabilities)/assets	**(73.3)**	(114.9)	(21.9)	(125.1)	51.3
Creditors: amounts falling due after more than one year	**(673.8)**	(502.9)	(425.6)	(140.8)	(98.9)
Convertible debt	**(80.9)**	(80.5)	(80.0)	-	-
Provisions for liabilities and charges	**(42.6)**	(36.8)	(26.2)	(26.4)	(27.3)
Net assets	**1,832.8**	1,690.5	1,552.7	1,458.3	1,346.9
Share capital	**393.4**	389.7	386.1	384.2	384.2
Share premium	**3.9**	1.5	-	-	-
Reserves and retained profits	**1,435.5**	1,299.3	1,166.6	1,074.1	962.7
Equity shareholders' funds	**1,832.8**	1,690.5	1,552.7	1,458.3	1,346.9

The five year summary has been restated to comply with the reporting requirements of FRS4.

Turnover and operating costs for the year ended 31 March 1994 are stated after charging exceptional items of £11.0m and £23.4m respectively (see note 4 to the accounts).

Shareholder Information

Category	Number of Holders	%	Holding	%
Private Persons	258,918	95.72	75,428,291	19.17
Banks and nominees	10,132	3.75	243,987,574	62.02
Insurance, investment and other limited companies	1,093	0.41	39,918,999	10.14
Pension funds	67	0.02	16,665,463	4.24
Other corporate bodies	280	0.10	17,401,259	4.43
	270,496	100.00	393,418,443	100.00

Size of holding	Number of Holders	%	Holding	%
1–500	240,820	89.03	57,437,277	14.60
501–1,000	21,086	7.80	14,027,393	3.57
1,001–5,000	7,016	2.59	12,655,683	3.22
5,001–50,000	975	0.36	16,854,776	4.28
50,001–100,000	178	0.07	13,151,473	3.34
100,001–1,000,000	357	0.13	115,276,394	29.30
Greater than 1,000,000	64	0.02	164,015,437	41.69
	270,496	100.0	393,418,443	100.0

The majority of shareholders with holdings above 50,000 are insurance companies, pension funds, unit trusts, banks and similar institutions. These organisations represent many thousands of people who, through their policies memberships, holdings and accounts, have an indirect interest in the progress of the Company.

Financial Calendar

Financial year ended 31 March 1994

20 June 1994 Ex-dividend date for final dividend

30 June 1994 Record (or qualifying) date for 1994 final dividend

26 July 1994 Barbican Centre, London 1994 Annual General Meeting

1 September 1994 Final dividend payable

Financial year ended 31 March 1995

1 November 1994 Announcement of half-yearly results for six months to 30 September 1994

February 1995 Interim dividend payable

Scrip Dividend Alternative

Information on the scrip dividend alternative will be circulated in the near future to those shareholders who have not already joined the Scrip Dividend Mandate Scheme.

Scrip Dividend Mandate Scheme

If you have already joined the Scrip Dividend Mandate Scheme you will receive shares automatically. Any small cash balances which may have been carried forward from the last dividend will be taken into account when calculating your entitlement to shares. Details of the final dividend per share and the value of each new share can be found in the Chairman's letter accompanying this Report.

If however you wish to receive cash instead of shares, a letter cancelling your Scrip Dividend Mandate must be received by the Company's Registrar at the address shown below *by not later than 3pm on 10 August 1994*: The Registrar, Thames Water Plc, The Royal Bank of Scotland plc, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR.

Payment direct to bank

Cash dividends mandated by Shareholders to a bank or to certain building society accounts will be paid via BACS (Bankers' Automated Clearing Services). Tax vouchers will normally be posted direct to the shareholder's registered address.

Share Register

From 1 May 1993 the Company's share register has been maintained by The Royal Bank of Scotland plc. Shareholders who have questions about the Scrip Dividend Mandate Scheme or who require help or information about their shareholding may either write to the Registrar at the address above or telephone on 031-523 6230 or 031-523 6231.

Share Price Information Line (CityCall)

Callers can obtain a current share price on 0891 222302. Calls cost 39p per minute cheap rate and 49p at all other times inclusive of VAT.

Share Dealing Service

Shareholders are able to use the services of a low-cost postal share dealing service operated for Thames Water Plc by Cazenove & Co. For further details contact: Thames Water Shareholder Enquiry Unit, 13th Floor, Nugent House, Vastern Road, Reading RG1 8DB.

Shareholder Enquiries

Shareholders with enquiries about Thames Water Plc or shareholder matters can contact the Shareholder Enquiry Unit by writing to the address above or by telephoning 0345 414140. Local call rates apply from the UK. Please note that the 0345 code must be used even if calling from Reading.

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

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