



THAMES WATER Plc

COMPANY NUMBER: 2366623



Annual Report and Accounts 1995



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Financial highlights

Year ended 31 March	1995	1994	1994
		Excluding exceptional items	Including exceptional items
Pre-tax profit	£303.7m	£276.7m	£241.7m
Post-tax profit	£282.2m	£257.3m	£222.3m
Earnings per ordinary share	71.3p	65.8p	56.8p
Dividend per ordinary share	25.3p	22.5p	22.5p

Pre-tax profit on ordinary activities £m

1991	[REDACTED]
1992	[REDACTED]
1993	[REDACTED]
1994	[REDACTED]
1995	304

Turnover £m

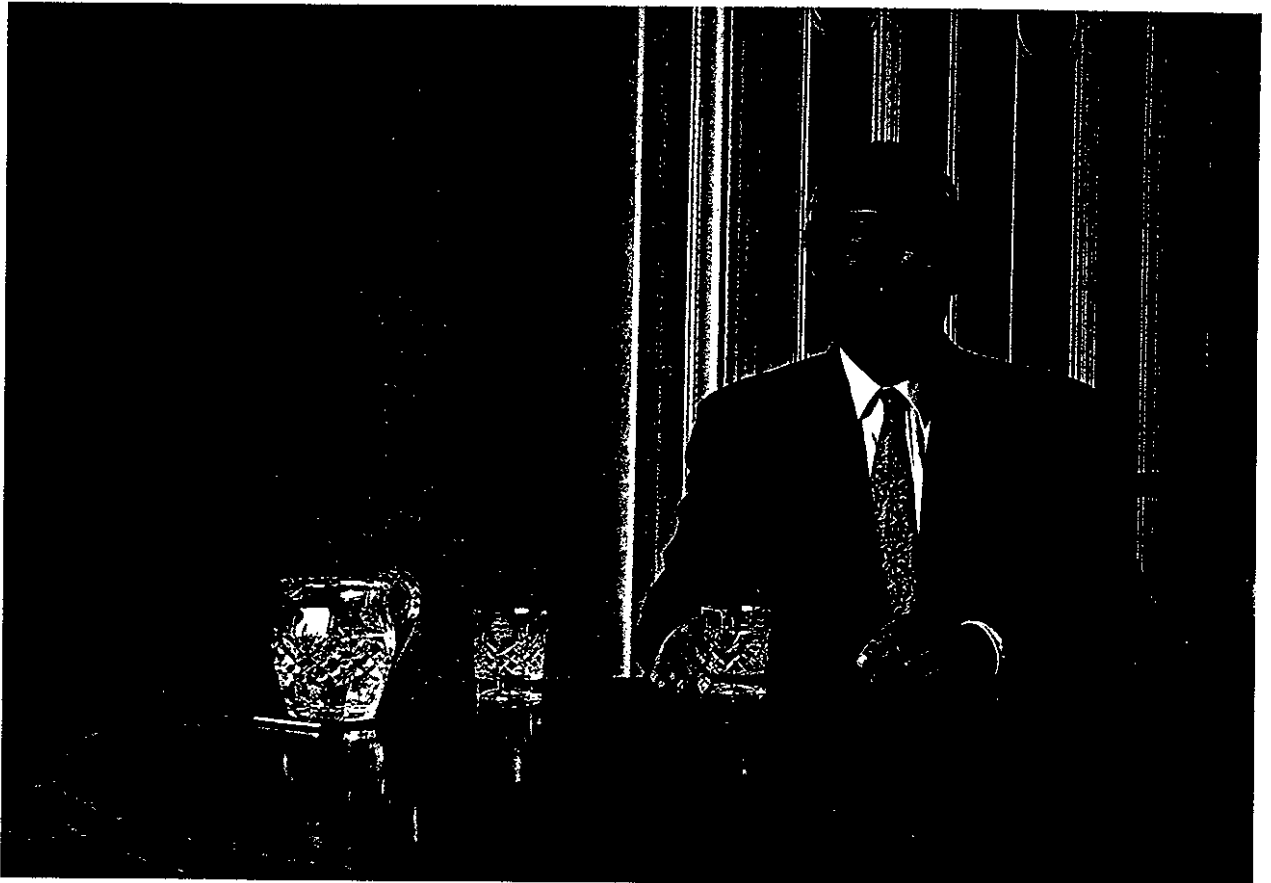
1991	[REDACTED]
1992	[REDACTED]
1993	[REDACTED]
1994	[REDACTED]
1995	1,174

Capital investment £m

1991	[REDACTED]
1992	[REDACTED]
1993	[REDACTED]
1994	[REDACTED]
1995	314

Net debt outstanding £m

1991	[REDACTED]
1992	[REDACTED]
1993	[REDACTED]
1994	[REDACTED]
1995	611



Sir Robert Clarke, Chairman. "I am pleased to report an excellent year for both shareholders and customers. Our financial position remains strong and we are confident that we can deliver significant real dividend growth over the next five years."

Right: Her Majesty The Queen receives a specially commissioned glass decanter from Chairman Sir Robert Clarke at the inauguration of the Thames Water Ring Main on 11 November 1994.

Chairman's statement

I am pleased to report an excellent year for both shareholders and customers. Profit before tax has risen from £242m to £304m, and earnings per share increased from 56.8p to 71.3p. The underlying increase in earnings per share, excluding the exceptional items in 1993/94 was 8.4%. The Board of Directors is recommending a final dividend of 17.1p, making a total for the year of 25.3p. This is an increase of 12.4% over last year, with the dividend being covered 2.8 times. Sound cash management has led to a reduction of gearing from 37% to 30%.

For customers we have improved services dramatically. Household bills are the lowest in England and Wales and we intend to keep them that way into the next century.

Our regulated Utilities Division returned another year of excellent performance. The highlights are discussed in the Group Chief Executive's operating review and in later sections in this report.

We have also continued to invest in developing our non-regulated activities which overall made an operating loss of £4.8m. These developments are highly focused on water and wastewater activities in the United Kingdom and internationally.

Sir Peter Harrop will be retiring from the Board at the AGM. I would like to take this opportunity to thank him on behalf of the Board and shareholders for his nine years with us. He has made a very substantial and positive contribution since he joined the Board of Thames Water Authority in 1986, and has been an outstanding Chairman of the Environmental Audit Committee.

I am very pleased to welcome two non-Executive Directors who joined the main Board in November 1994. They are Roger Carr who is Chief Executive of Williams Holdings Plc and Tony Hobson who is Finance Director of Legal & General Group Plc. Their broad business skills and experience will further strengthen the Board's capabilities.

It has again been a year of great change, particularly for our employees who have responded magnificently to the challenge. I thank them for their continuing commitment.

Last year's shareholders' open day at Mogden sewage works attracted 4,000 visitors. We are again offering shareholders the opportunity to visit one of our operating plants, which this year will be our most recently improved water treatment works at Walton, Surrey in September. An invitation is enclosed.



In November Her Majesty The Queen inaugurated the Thames Water Ring Main. This set the seal on a magnificent engineering project which will benefit Londoners for many years to come.

We have now completed our first five years in the private sector. The company has gone through massive changes in that time, but our overall strategy remains constant. We intend to be a world leader in the provision of water and wastewater services to the advantage of our customers and shareholders. Our financial position

remains strong and we are confident that we can continue to deliver significant real dividend growth over the next five years.

Robert E. Clarke

Sir Robert Clarke, Chairman

Mike Hoffman, Deputy Chairman and Group Chief Executive at Fobney AWT site. "Excellent progress has been made towards achieving our objectives and we look forward to the challenges of the next five-year period."



Group Chief Executive's operating review

Good progress has been made in another eventful year. The trading performances of our business divisions and my view of the future are summarised below.

Utility operations

Operating profit increased by 12% to £357m. Turnover of £919m was up by 5%. Operating costs excluding depreciation and infrastructure renewals continued to be tightly managed and rose by just 0.2%.

During the year the periodic price review was concluded by the Office of Water Services (OFWAT). The agreed value of 'K' in the pricing formula RPI+K is 0.5 for a ten-year period commencing 1 April 1995. This contains demanding efficiency targets but we intend to outperform them.

We were disappointed at being assessed as of only average efficiency but OFWAT made the judgement based

on direct operating costs only rather than total costs. It has subsequently been acknowledged that the latter is a more appropriate basis of comparison. The latest figures published by OFWAT show Thames has total unit costs 17% below average for water and 28% below for wastewater.

In the first five years since flotation, we have met the output commitments that we made in 1989. The main achievements in service improvements are shown in a table on page 13.

The capital programme continued to be well managed. Since 1989, we have achieved savings of more than £300m from the original capital programme as a consequence of excellent engineering design and good project management. We were also able to take advantage of very competitive construction industry pricing.

These savings were ploughed back into additional or earlier improvements in services for customers, such as:

- advanced water treatment being introduced on average some two years earlier than originally planned
- Thames Water Ring Main completed 18 months early
- a further 23 sewage treatment works improved
- a major new customer centre established in Swindon to provide a fast and friendly service to customers calling from anywhere within the Thames region.

The new customer centre, which experienced some initial teething problems in 1993, is now running well under excellent leadership and customers are experiencing a good turnaround on enquiries.

We have paid great attention to customers' views on the design and layout of our bill and we have enlarged the number of payment plans to suit individual customer's requirements.

Products and services

The companies in the Products and Services Division were regrouped during 1994. They made an operating profit of £2.8m (£2.3m). Turnover increased from £129m to £158m. This was due mainly to the inclusion for the first time of turnover of £47m from Brophy which was previously accounted for as an associate company and is now wholly owned by Thames Water.

Divisional management has commenced a programme of refocusing these companies, with particular emphasis on the UK and international public supply and wastewater markets.

The Permutit companies, operating in the UK and Australian industrial markets, were profitably sold for £6.3m in April 1995.

International operations and process contracting

The division's operating loss for the year of £13.9m on turnover of £128m included £9.2m which was spent on marketing and pre-contract activities in our quest for projects where we will 'extend the experience' of successful operation and construction of water, wastewater and infrastructure facilities in London and the Thames Valley.

Although at an advanced stage, extended negotiations have delayed the start of a number of key projects.

Trading conditions for traditional design contracting remained very competitive. Levels of activity are still low in the UK and also in eastern Germany where further severances and other cost reductions were implemented.

During the year the division was strengthened by the appointment of a number of experienced people including Tony Eckford as Managing Director. Tony

brings considerable experience from his previous employment in international process engineering.

Property and insurance

Turnover in the property companies increased from £11m to £12m: operating profits were £4.1m (£4.7m). The programme to create value from sites made surplus from capital projects, such as the Thames Water Ring Main, is now gathering pace and prospects for the future are good.

Low insurance claims helped the captive insurance company to achieve operating profits of £3.1m (loss £0.7m). The captive carried £41m of investments at the year end, valued individually at the lower of cost or market value. The general decline in bond markets required the write down of some investment values but these were offset by investment income of £2.6m.

Employees

Developing the abilities and skills of our employees is key to our success and we have continued throughout the year to move ahead with our programme of continuous development. All employees are encouraged to take ownership of their own learning and the majority of the training programmes we now provide have national accreditation.

It is important to be aware of the opinions of employees on all aspects of our operations and to this end we commissioned an opinion survey within the Utilities Division. This has provided valuable feedback which we are now using to improve our management processes and style. One thing I was particularly pleased to find from this survey was the very high ratings employees gave to our training and development activities.

Research and development

We have continued to invest in research and development directed towards technology that improves our operating

capability and increases value from our investment programme.

Development and implementation of patented advanced water treatment processes is enabling us to improve drinking water quality for our customers more rapidly than planned. Recent technological developments in sewage treatment and sewer monitoring give us the opportunity to meet exacting new environmental standards more cost effectively. Worldwide exploitation of these technologies by our companies is being established.

The future

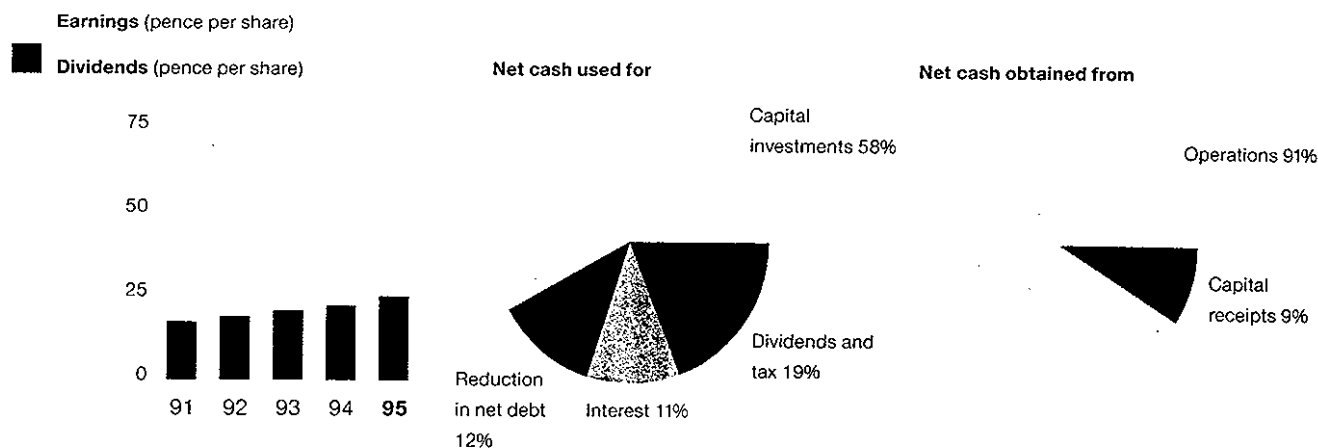
We will continue with our extensive programmes of cost containment and attention to customer service. In the year ahead, we hope to be awarded a number of important international concessions which will enable us to extend our substantial knowledge in building and operating water and wastewater plants into other markets. We will work with international and local partners in appropriate circumstances.

These actions, together with continued positive cash management, will contribute to earnings growth and create balance sheet headroom. Dividend cover will be reduced from its current high level.

We are confident significant real dividend growth will be possible alongside the provision of high quality customer services at the lowest prices.



M R Hoffman, Group Chief Executive



Financial review

Financial results

Group operating profit increased by 26% to £358m. The underlying increase was 12% after adjusting for exceptional items in 1993/94. The operating margin achieved of 30.5% was higher than the 28.9% in the previous year; the improvement is mainly due to continuing good performance in the Utility in containing costs.

Group profit before tax increased by 26% to £304m. The underlying increase was 10%. Turnover was 6% greater at £1,174m.

The tax charge for the year was £21.5m. This was almost wholly advance corporation tax (ACT) on the dividend distribution. The tax charge was reduced by £4.7m as a result of some shareholders electing to take their dividend in shares rather than cash. The company will probably become a payer of mainstream corporation tax in 1996/97. Because of the continuing high level of capital investment and the availability of unrelieved ACT, the full rate of corporation tax is unlikely to apply until

well after the year 2000.

Underlying earnings per share grew by 8.4% to 71.3p. As a result of the good earnings and cash management performance the Board proposes to continue its policy of real dividend growth for a fifth successive year.

Shareholder returns

There were 395.9m shares in issue on average during the year. This was an increase of 1% over the previous year and largely arose from the welcome decision of half our private shareholders to take dividends in the form of new shares. An increase of 12.4% in the dividend per share to 25.3p is proposed. This is covered 2.8 times by earnings.

The increase in shareholders' funds of £202m is analysed in note 14 to the accounts. In addition to retained profits, there were positive movements from the issue of scrip dividends (£17m), the exercise of share options (£5m), offset by adverse movements of £1m in respect of currency translation differences, share issue expenses and goodwill write-offs.

The return on shareholders' funds was 14.6%, compared with 12.6% in 1993/94 (14.5% before exceptional items).

Capital assets and capital structure

Total investment in fixed assets during the year was £314m, of which £306m was in the Utility company. The benefits of the Utility's investment are being seen in major improvements in quality and customer service indicators across the board, as shown on page 13.

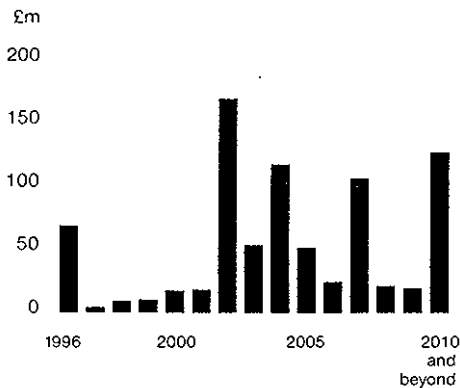
Operating cash flows and contributions from connection charges and land disposals exceeded the financing requirements of the Group.

As a result the ratio of debt to equity (gearing) reduced from 37% at the start of the year to 30% at the year end.

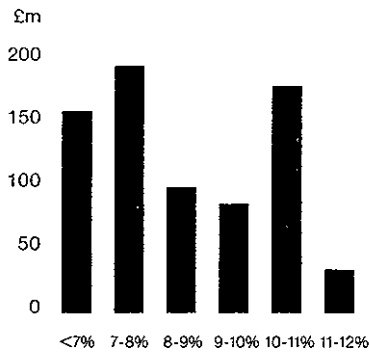
Although in total net debt was reduced, additional attractive long-term funding was secured for the Utility business with the conclusion of a £125m lease facility over a four year drawdown term followed by a 20-year primary lease period.

The funding policy of the Group is to

Gross debt maturity profile



Gross debt interest rate profile
Fixed and floating rates



D J Luffrum, Group Finance Director

maintain a broad portfolio of debt, diversified by source and maturity. The chart above shows the current maturity profile of the gross debt of £830m outstanding at 31 March 1995.

Interest costs reflect mainly the timing of debt raised. Rises in interest rates during 1994/95 are reflected in an increase in the weighted average interest rate to 8.5%, from the 7.85% average in the previous year. This increase was mitigated by additional interest earned on short-term deposits placed during the year which at the year end amounted to £219m. Interest in the year was covered 5.3 times by earnings.

Future financing

The water industry is a capital intensive business; some £1.9bn has been invested by Thames over the past five years. Investment requirements will remain high in the second half of the decade; our plan is to meet all service obligations within an internal investment target of £1.75bn up to the year 2000. Assuming no fundamental changes are made to the regulatory arrangements or

tax regime, operating profits and other sources of cash flow should allow these investments to be financed with only modest changes in gearing.

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.

Following recent events in the banking market, a review of financial counterparty risk has recently been concluded. As a result we have introduced a revised framework of credit criteria to ensure acceptable counterparty risk across a broad range of financial transactions.

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 contracts 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 35%.

Going concern

The finances of the company are in good order. Profitability has consistently been improved and the balance sheet is strong. The Directors expect that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

D J Luffrum, Group Finance Director

Thames Water people in action

Right: Sophia Rychlik of External Relations, pictured in front of the Thames Water stand at the Chelsea Flower Show. The stand, an exhibit of Water Efficiency for Home and Garden, won the Silver Award in the Educational and Scientific Section.



Near right: Alf Fowler, Field Supervisor in Thames Valley, shown here locating an outside stop valve.



Right: The Education Liaison Department has been working with local schools developing new educational resources. Here Claudette Andrews, Education Liaison Co-ordinator, supervises schoolchildren using the 'James Pond' interactive computer game.



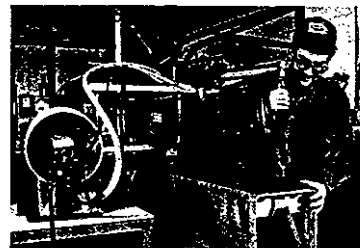
Near right: Wayland Pope, Development Planning Manager, and Hamish Ferguson, Property Lawyer, considering details of a legal agreement prior to finalising negotiations.



Right: Andy Forestiero, Senior Project Engineer, making a final inspection of the £2m Ashford Common Disinfection plant.



Near right: Jeff Hart, a Plastics Division Laminator at the F.B. Leopold Company, with Leopold's newest product in the United States.



Above right: John Maddy, Operations Trainer at Beckton STW, shown here with staff from Beckton.



Above: Hydro-Aerobics employees Steve Tatum, left, and Jeff Ansteatt examine a Wastewater Treatment System in Ohio.

Below left: John Ford, Construction Site Manager for the extensive capital works project at Deephams Sewage Treatment Works in north east London.



Left: Liz Groves, Team Manager at the Customer Centre, Swindon. Her team's responsibilities include approving customer refunds.



Far left: Peter Glass, Senior Engineer, is responsible for supporting the use of the Computer Aided Design System on which all engineering drawings are produced.

Left: Company shepherd Gerald Levinge, pictured amongst Thames Water's 1,000-strong flock of sheep, which provide a cost-effective way of maintaining the grounds around the company's west London reservoirs.



Far left: We have strong links with IMD (International Institute for Management Development) in Lausanne, Switzerland, where for the last two years a senior executive programme has been held.

Left: Nelson Mzamo of PWT South Africa, standing in front of a plant to be delivered to Tongaat Hullet Sugar refinery in Kwazulu Natal, for the softening of boiler feed water.



Left: Anthony Lawrence and colleague Anthony O'Donnell of Brophy Plc, seen here repairing a main and bypass outside Fortis Green Pumping Station in north London.

Left: Kim Nelmes, Marketing Executive in the International Division, is developing sector, territorial and competitor information for market survey analysis.

Thames Water Group operations

The Thames Water Group of companies operates in London and throughout the world providing the supply of water and wastewater services, consultancy, contracting, and products and services to customers in the industrial, municipal and commercial sectors. The Group is structured into three business divisions offering an extensive range of services.

Utility operations

Thames Water Utilities carries out the regulated business of providing drinking water to seven million customers, and treating wastewater from 11m customers within London and the Thames Valley area. With evermore stringent water quality targets, the division is a world leader in advances in the development of water and wastewater treatment.

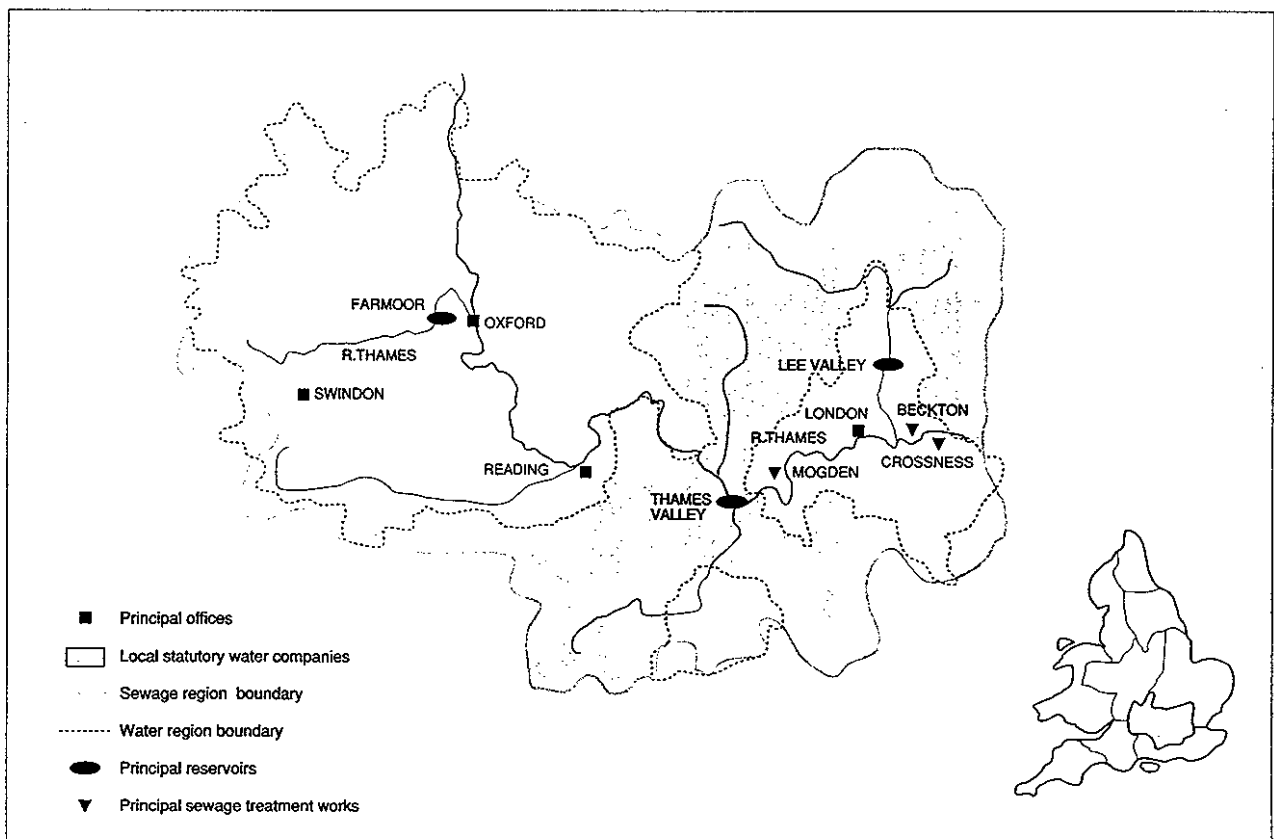
Products and services

With operations based around the world, Thames Water Products and Services supplies water and wastewater treatment products to commercial, industrial and municipal operators. The division's customers are spread across many industries, including food and beverage, pharmaceutical, municipal (water and wastewater) and electronics. The division also contained the environmental businesses of the Group which carry out specialist services for local authorities and utility operations in addition to liquid and dry waste disposal.

International operations and process contracting

Using the skills and experience built up in the Utility business, Thames Water International operates in a number of

markets around the world to design, construct and operate water and wastewater treatment plants for industrial and municipal customers. Using the core skills of the Group, and working with local partners the division competes for major infrastructure projects in selected geographic markets.



The Group operates in the following major locations:



Hong Kong, a base for some of Thames Water's operations in China and the Far East.

UK

London
Thames Valley
Winchester
Stoke-on-Trent
Macclesfield
Newcastle upon Tyne

Continental Europe

Zoetemeer, Netherlands
Bergen-op-Zoom, Netherlands
Essen, Belgium
Halle, Germany
Seville, Spain

Americas

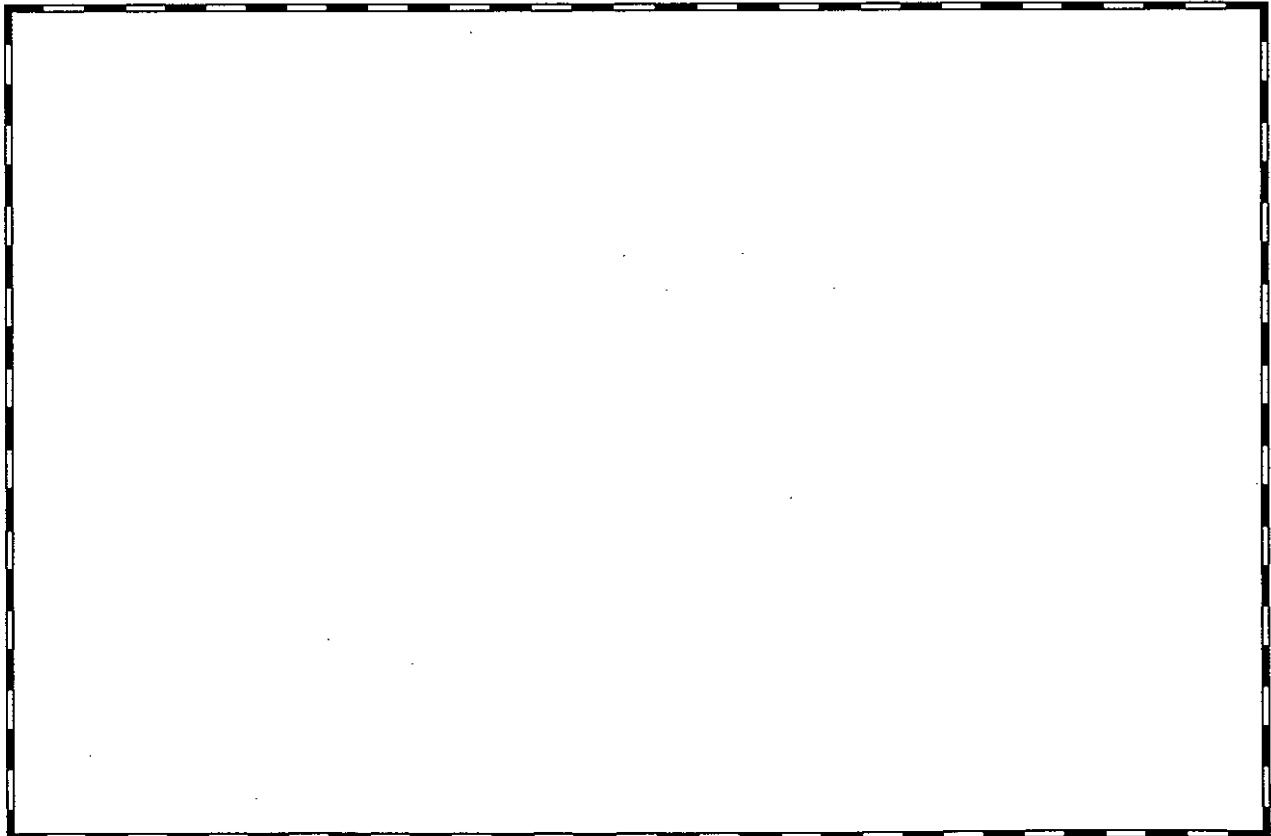
Houston, Texas
Zelienople, Pennsylvania
Cincinnati, Ohio
Birmingham, Alabama
San Francisco, California
Minneapolis, Minnesota
Los Angeles, California
Mexico City

Far East and Australasia

Sydney, Australia
Melbourne, Australia
Auckland, New Zealand
Bangkok, Thailand
Kuala Lumpur, Malaysia
Jakarta, Indonesia
Beijing, China
Singapore
Hong Kong
Tokyo, Japan

Other

Johannesburg, South Africa
Cape Town, South Africa
Cairo, Egypt



Thames Water Utilities

Customers

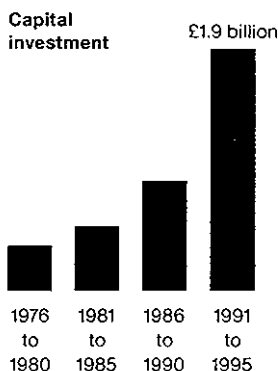
The Utilities Division forms the core of the Group's activities, supplying over seven million people with drinking water, and collecting and treating wastewater from 11m people in London and the Thames Valley. We also provide services to more than 300,000 business customers.

Products

Each day on average we supply 560 million gallons of water from our 356 service reservoirs and 99 water treatment works, and we clean up some 870 million gallons of wastewater at our 371 sewage works. Water and wastewater is transported through some 70,000

miles of pipework. Our aim is to provide all customers with continuous supplies of water which meet the prescribed quality standards. We also manage the collection of wastewater, its treatment and ultimate disposal to exacting environmental standards.





Continued investment in new and innovative processes and solutions has enabled Thames Water to deliver improved services to customers.

	1995	1990
Drinking water quality compliance	98%	95%
Wastewater quality compliance	98%	84%
Supply interruptions compliance	99%	94%
Water use restrictions compliance	100%	22%
Response to customer billing queries	good	v. poor
Response to written complaints	good	v. poor

Service standards

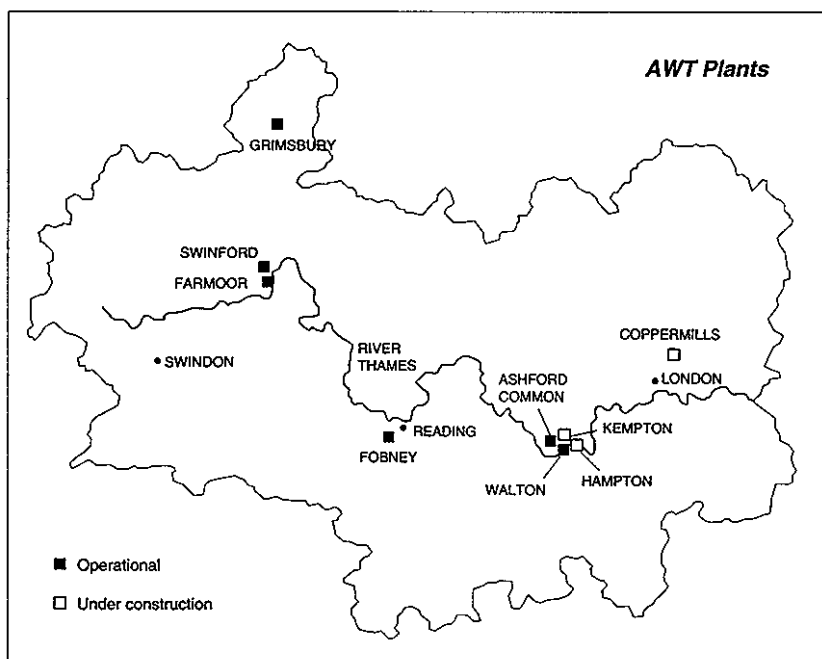
Service standards have improved dramatically since privatisation, as the chart alongside shows.

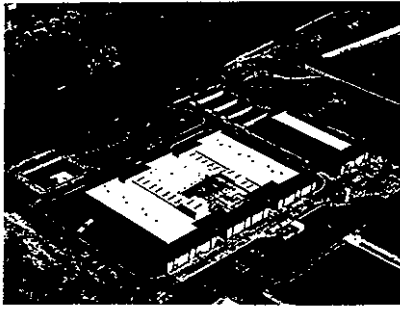
Each service measure is monitored by at least one of three regulators. They are the Office of Water Services (OFWAT), the National Rivers Authority and the Government's Drinking Water Inspectorate.

Investment

Many factors have contributed to these service improvements. Better management and more productive and flexible work practices are good examples, but a large contribution has come from investment in new capital assets. Some £1,900m has been invested to modernise the system over the past five years. This is more than was invested in the previous 15 years when Thames Water Authority was in the public sector.

11,000 capital projects have been completed successfully or are under construction throughout the 5,000 square miles served by the company's operations. They range in size from projects costing more than £100m to schemes costing just a few thousand pounds.



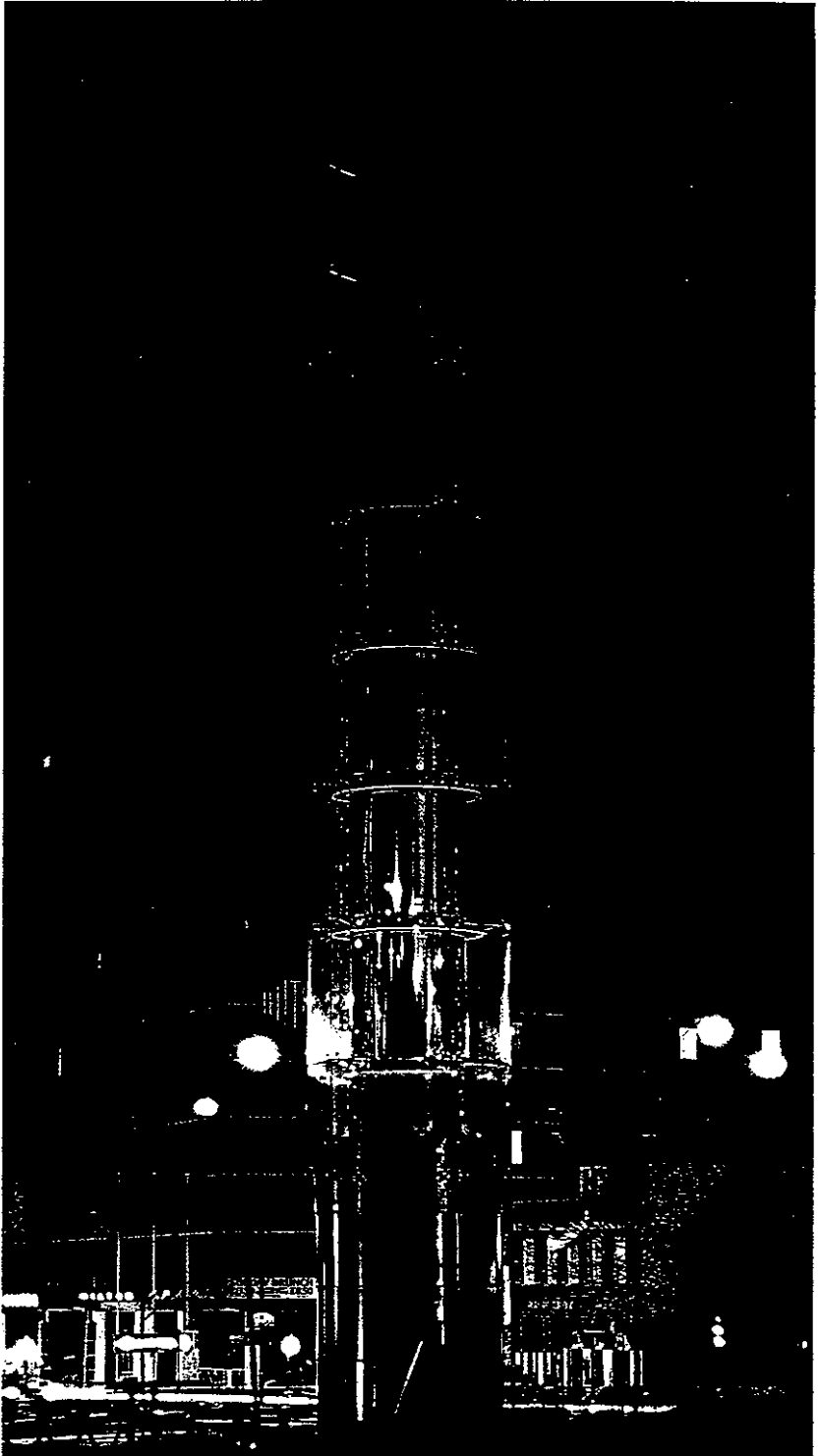


Far left: Walton Advanced Water Treatment works was completed in spring of 1995, using the latest water treatment technology, making it the most advanced in the world.

Left: The Lamella Separator and Submerged Aerated Filter at Reading Research and Development Centre. This 'SAFe' process has been developed for compact, high quality sewage treatment.

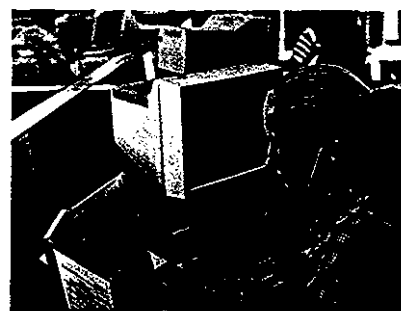
Opened by Her Majesty The Queen in November 1994, the £250m Thames Water Ring Main is our largest and most prestigious project, attracting attention from around the world. The only main visible sign of the project is the 70ft high surge tower on the roundabout at Holland Park. Built to resemble a huge barometer, the design, by students of the Royal College of Art, was the winning entry in a Thames Water competition.

Another important group of projects covers the introduction of advanced treatment processes at each of our major water treatment plants. Good progress has been made at all locations. We are confident of completing the programme much earlier than originally planned, enabling us to deliver purer and better tasting water to customers.



The Thames Water Tower on the Shepherd's Bush/Holland Park roundabout won the Jeux d'Esprit Award from the Royal Fine Art Commission and the Sunday Times. The 70-foot steel glass barometer is one of the few visible signs of the Thames Water Ring Main.

The Customer Centre in Swindon is open 24 hours a day, and last year handled 3.5m customer enquiries, two-thirds of which were over the telephone.



All capital projects are screened for environmental impact. Some schemes are carried out primarily to enhance the environment. During the year we announced schemes to protect vulnerable rivers such as the Misbourne in Buckinghamshire and the Darent in Kent. The Environmental Audit Committee's summary of environmental performance is shown on page 23.



Above: Jessica Rea, Conservation and Environmental Scientist, at Rye House Marsh, an RSPB nature reserve we doubled in size this year with lagoons from our neighbouring sites.



Above: Investment in the management of water resources, has meant that we have not had to impose any restrictions on water use since 1991.

Customer Centre

The new Customer Centre is now in full operation. Highly trained staff help with problems or questions on all aspects of service from anywhere within the region. On average 8,500 calls per day are dealt with. Our target is to answer calls within 20 seconds and we have achieved an 85% success rate. The new technology and information systems available in the £40m centre have already allowed us to achieve a 'good' rating on OFWAT's scale of customer response measures.

Periodic price review

A review of the price factor 'K' in the price control formula RPI + 'K' was carried out by OFWAT during the year. The outcome was announced in July 1994 and provides for a reduction in the 'K' factor from 4.5% to 0.5%. As a result, customer's bills will be rising more slowly in the future.

Average household bills in Thames Water are lower than elsewhere in England and Wales, as the chart alongside shows, using data provided by OFWAT.

We are continuing the policy of rebalancing tariffs agreed with OFWAT in 1994, which means some customers see higher increases than others.

Full details of prices and tariffs can be obtained by telephoning the customer centre on 0645 200800 for the cost of a local call.

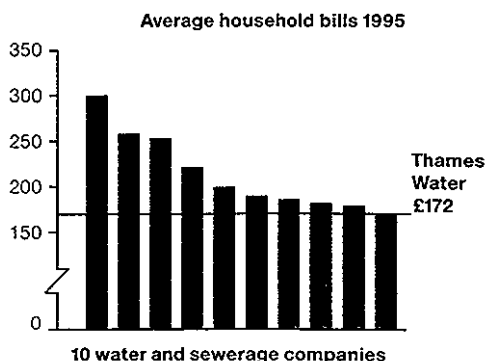
The future

Capital investment will continue at a high level. We plan to meet all our service

obligations within an internal investment target of £1,750m up to the year 2000.

Our bills are the lowest in England and Wales. We intend to keep them that way into the next century.

We intend to continue with our operating cost containment programme whilst giving proper attention to customer service, to the benefit of both customers and shareholders.



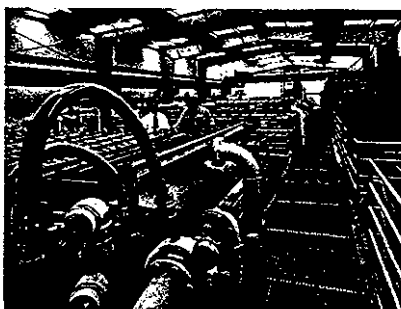
Thames Water Products and Services

Thames Water Products and Services Division consists of 21 companies in five business groups, with principal offices in the UK, USA, mainland Europe, Australia and South Africa.

The four companies in the Municipal Treatment Group, are primarily involved in manufacturing process equipment for the municipal water treatment market. Leopold (USA), is a leading supplier of filter equipment and processes to the municipal water utilities, whilst Ashbrook (USA) and Simon Hartley (UK) manufacture sludge dewatering equipment for both municipal and industrial customers. Hydro-Aerobics (USA) supplies a range of packaged wastewater treatment equipment. During the year Ashbrook, Leopold and Hydro-Aerobics were brought under a unified management structure to enhance the Group's ability to offer a range of products to a similar client base. The group's trading performance improved in the year particularly Ashbrook and Leopold.

The Municipal Products Group was formed during the year by the integration of SMF (UK) who supply emergency water

Bob Bierhorst, left, a Project Engineer with Ashbrook Corporation, reviews the operation of a Winklpress with a contractor in Houston, Texas.



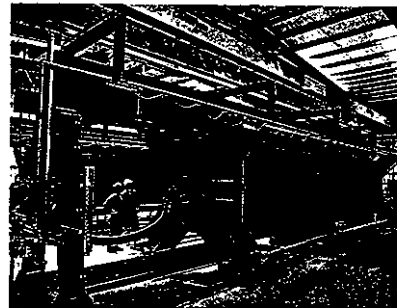
treatment products for Governmental and International Aid Agencies, Portacel (UK) who produce a range of chlorinators for municipal clients and Talbot (UK) who manufacture a range of pipe fittings for the municipal market. During the year a new business unit was established within Talbot, to exploit the Talisman meter reading system developed jointly with Thames Water R&D. In a competitive market the Group continued to return satisfactory results.

Various products and processes are provided by the Industrial Group, mainly to industrial and commercial markets. Homé (Holland) is a specialist supplier of water treatment systems and Houseman (Belgium) supplies a range of water treatment chemicals and chemical cleaning services. PCI Membrane Services (UK) is a leading supplier in membrane separation process equipment to the industrial and environmental sector. Typical applications include fruit juice extraction and landfill leachate systems. WTS (USA) is a specialist supplier of package waste treatment equipment, particularly to the electronics and food industries. After the year end the businesses of Permutit (UK) and Permutit (Australia) were sold to US Filter Corp. Results from industrial companies were mixed, with PCI the most successful.

The Underground Services Group provides services related to underground infrastructure for municipal, utility and commercial customers. Brophy (UK) provides underground asset management to utility and industrial customers. Morgan Collis (UK) provides surveying, mapping and monitoring services

Below: A Simon Hartley Manor Filter Press incorporates the latest technology, making it one of the largest installations of its type.

Bottom of page: Talbot water saving valve is in use throughout the world with relief agencies such as Oxfam, UNHCR, Médecine Sans Frontières.



to utilities. Metro Rod's activities include drain cleaning services for commercial, industrial and domestic customers. Continued low levels of market activity depressed the year's results in this Group.

The Environmental Group provides contracting and services to municipal and commercial markets. The investment in Thames Waste Management (UK) is now making a positive return and Brophy Grounds Maintenance (UK) has been awarded another prestigious Royal Parks contract during the year, retaining its position as UK market leader. Improving margins underpinned a solid performance from this Group.

The division is reviewing its portfolio to concentrate on core strengths, and to identify and optimise areas where Thames Water ownership can add value. The strategy is then to increase sales, particularly in export markets, and to improve profit margins through value engineering and organisational efficiency.

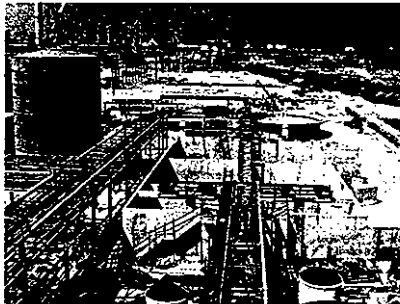


International Operations and Process Contracting

Customers of this division either provide water supply and wastewater services to public communities or they are large industrial users with specialist clean water and wastewater needs. The division was formed in 1993 to bring together the consulting, design, contracting and international operating activities acquired and developed since privatisation.

There are three regional centres covering Asia Pacific, the Americas and Europe. Attached to these centres are the local engineering and project management companies. The division employs approximately 1,100 people based in key locations within the targeted regions.

The main marketing activity has focused away from traditional design and contracting work towards participating in overseas concessions, build, operate, transfer schemes (BOTs)



The effluent treatment plant for the new Rayong refinery project in Thailand has been constructed by Thames Water Asia/Pacific. The plant uses physical, chemical and biological processes to produce an effluent which will meet the highest international standards.

and in operations and maintenance activities.

The design and construction of water and wastewater plants in many countries were progressed during the year. Markets for new work remained very competitive with volumes low in the UK and margins tight generally.

The substantial consulting activity continued in Germany and through the Binnie/Thames joint venture, on a world-wide basis. Assignments are currently progressing in 30 countries.

Extended pre-contract negotiations have delayed the start of a number of key 'concession' prospects, particularly in Turkey and Mexico. However, a concession to provide water services to 500,000 people in Kelantan, Malaysia is now starting up and negotiations on our first build, operate, transfer scheme for water services in China are close to finalisation. The commencement date for the \$800m BOT project in Izmit, Turkey is targeted for September 1995.

We have established a partnership with Compagnie Générale des Eaux of France to bid jointly for concessions in certain territories in South America and in Australia. This allows us to pool our resources and share pre-contract costs during the often protracted preparatory period.



The Thames Water International Group, working in joint venture with the Kelantan State Authority, have signed a 25-year concession for the development of water supply and distribution services throughout the state. The State of Kelantan has a population of over 1.2m people with just under 50% currently being connected to mains water. This number will progressively increase throughout the term of the concession.

Simly Water Treatment Works (Pakistan), including PWT designed Flat Bottom Clarifiers and K-Floor Filters will provide the population of Islamabad with 82 megalitres per day of potable water.



Board members

Sir Robert Clarke MA (66)

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.

Michael Hoffman FEng (55)

Deputy Chairman and Group Chief Executive, joined Thames Water Authority in January 1989 as Group Chief Executive. He is Chairman of Thames Water Utilities and other operating subsidiaries. He is currently a non-executive Director of Cray Electronics Holdings Plc and PowerGen plc.

David Luffrum IPFA (50)

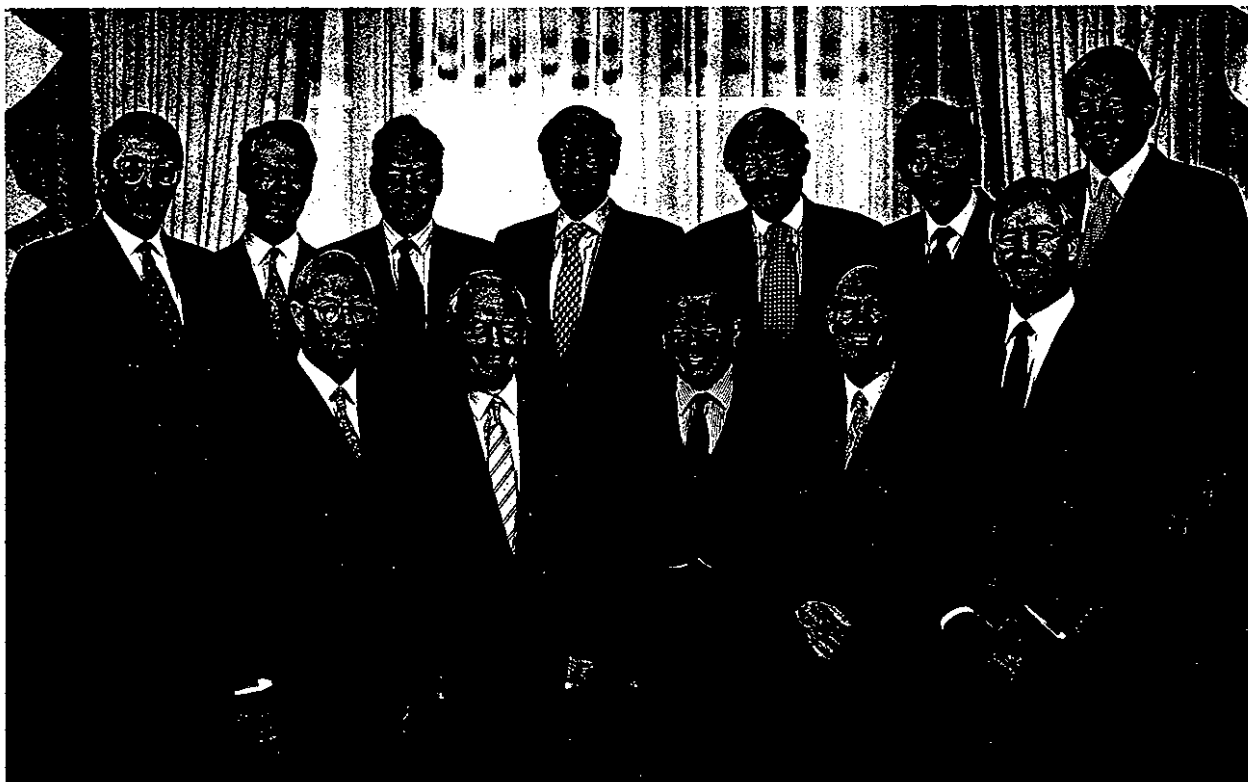
Group Finance Director, was appointed to the Board of Thames Water Authority in March 1989. Member of Charities Committee.

Sir Christopher Leaver GBE (57)

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, member of Nomination and Audit Committees. He is Chairman of Mayor Swords & Co Ltd and Director of Unionamerica Holdings Plc.

Sir Peter Harrop KCB MA (69)

Non-Executive Director, was appointed to the Board of Thames Water Authority in October 1986. Chairman of Environmental Audit Committee, member of Remuneration Committee. He is a Director of Municipal Mutual Insurance Ltd.



Bill Harper IPFA (51)

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 (UK) Pension Scheme.

John Thomson MA (67)

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, Borthwicks plc and Wellington Underwriting plc and Vice Chairman of J Bibby & Sons plc.

John Worlidge MA (67)

Non-Executive Director, was appointed to the Board of Thames Water Authority in 1988. Member of Environmental Audit and Remuneration Committees. Trustee Director of the Thames Water Pension Schemes. He will become Chairman of the Environmental Audit Committee on 1 August 1995.

Bill Alexander CEng (48)

Managing Director Thames Water Utilities, joined Thames Water in 1989, and was appointed to the Board in April 1994.

Tony Hobson (47)

Non-Executive Director, was appointed to the Board of Thames Water Plc on 1 November 1994. He is Group Director (Finance) of Legal & General Group Plc. Member of Audit, Remuneration and Share Dealing Committees.

Roger Carr (48)

Non-Executive Director, was appointed to the Board of Thames Water Plc on 1 November 1994. He is Chief Executive of Williams Holdings Plc. Member of the Environmental Audit and Remuneration Committees.

Group Company Secretary Clive Carsley MA (50)

Joined Thames Water in May 1989. He is Secretary to all Board Committees.

Directors' report

The Directors present their sixth Annual Report together with the audited accounts for the year ended 31 March 1995.

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 for the treatment of water, wastewater and industrial process fluids;
- underground, waste management and urban management services;
- other trading activities including insurance and property development.

A list of the principal subsidiary undertakings appears on pages 50 and 51. 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 to 5.

Profits and dividends

The Group profit for the year attributable to shareholders was £282.2m (1993/94 £222.3m). 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 17.1p per share, making a total for the year of 25.3p, leaving a retained profit of £181m for the year.

Fixed assets

Note 15 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 land 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 1994 and it is intended that a further appropriation will be made in respect of the year ended 31 March 1995.

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 health and safety manager.

Employment of the disabled

The Group recognises its responsibility towards the disabled and employs them where suitable opportunities arise. Every effort is made to find appropriate alternative jobs for those who become disabled whilst working for the Group.

Capital

3,732,233 ordinary shares were allotted to ordinary shareholders consequent on the offer of a scrip dividend.

2,275,378 ordinary shares were issued during the year to holders on the exercise of their options under the company's Sharesave Scheme.

Options for 128,000 ordinary shares were exercised during the year under the company's Executive Share Option Scheme.

165,167 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 46 and 47.

Directors

The names of the present Directors of the company are shown on page 18. Mr R M Carr and Mr A J Hobson were appointed as Directors on 21 October 1994 with effect from 1 November 1994. In accordance with Article 89 of the Company's Articles of Association, Mr R M Carr and Mr A J Hobson will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

In accordance with Article 106 of the Company's Articles of Association, Sir Christopher Leaver and Mr E J Worlidge will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

in common with other non-

Executive Directors, Sir Christopher Leaver, Mr R M Carr, Mr A J Hobson and Mr E J Worlidge do not have service contracts with the company.

At the conclusion of the forthcoming AGM Sir Peter Harrop will retire as a Director of the company.

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 37. No Directors 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 1995 to 16 June 1995. 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 Options Scheme have been granted to Executive Directors at the discretion of the Remuneration Committee which comprises all the non-Executive Directors, Sir Christopher Leaver is Chairman of the Committee. Options have also been granted to senior executives under the scheme. During the year to 31 March 1995 74,000 Executive Share Options at 453p 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 Executive Directors.

Substantial shareholdings

At 16 June 1995 the Directors had not been advised of any notifiable interests in the issued ordinary share capital. Clients of PDFM and Mercury Asset Management in aggregate accounted for 5.7%, and 3.5% respectively on 26 May 1995.

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 of the environment as one of the fundamental guiding principles of Thames Water. During the year additional environmental policies and detailed procedures were monitored by the Environmental Audit Committee whose report is included on page 23.

The 1995 Environmental Review, which assesses progress and performance in key areas, will be published in July.

Political and charitable donations

Charitable donations amounting to £112,000 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 25 July 1995.

Special business

In addition to the Ordinary Business to be transacted at the 1995 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 1994 to issue equity securities for cash other than pro rata to ordinary shareholders;
- a Resolution adopting new Articles of Association;
- 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 1995 and in respect of interim dividends for the year ending 31 March 1996.

By Order of the Board


R. C. Carsley

Group Company Secretary
16 June 1995

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 applicable. The provisions relating to internal financial control are not yet applicable. The report of the Audit Committee on page 24 outlines the Group's system of internal control, for which the Board of Directors has overall responsibility. The Directors' statement on going concern appears on page 7.

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. At the date of this report the Board of Thames Water Plc comprises six non-Executive Directors 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 policy and procedures, 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. They include:

- the Audit Committee, chaired by Mr J M Thomson, which seeks to ensure that appropriate accounting and financial policies and procedures are implemented, that 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. A report of the Audit Committee is on page 24;

- the Remuneration Committee, chaired by Sir Christopher Leaver, which determines the level of remuneration of Executive Directors, including salary, performance bonus, executive share options, and pension arrangements. A report of the Remuneration Committee is on page 22;
 - the Environmental Audit Committee, chaired by Sir Peter Harrop, 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. Mr E J Worlidge will become Chairman of the Committee on 1 August 1995. A report of the Environmental Audit Committee is on page 23;
 - the Share Dealing Committee, chaired by Sir Robert Clarke, 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, chaired by Sir Christopher Leaver, which makes charitable donations from a budget allocated by the Board, and considers community support activities and encourages employee charitable fundraising; and
 - the Nomination Committee, chaired by Sir Robert Clarke, 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 Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the

directors' statement alongside on the Company's compliance with the Code of Best Practice specified for our review by the London Stock Exchange. The objective of our review is to draw attention to non-compliance with those paragraphs of the Code which is not properly disclosed.

Basis of opinion

We carried out our review having regard to the Bulletin 1995/1 'Disclosures relating to corporate governance' issued by the Auditing Practices Board. That Bulletin does not require us to perform the additional work necessary to, and we do not, express any opinion on the effectiveness of either the Group's system of internal financial control or its corporate governance procedures, nor on the ability of the Company or Group to continue in operational existence.

Opinion

With respect to the directors' statements on internal financial control alongside and on page 24 and on going concern on page 7, in our opinion the directors have provided the going concern disclosures required by paragraph 4.6 of the Code and have explained the extent of their compliance with the disclosures on internal financial control required by paragraph 4.5 of the Code (both as supplemented by the related guidance for directors). Their statements in respect of both are not inconsistent with the information of which we are aware from our audit work on the financial statements.

Based on enquiry of certain directors and officers of the Company, and examination of relevant documents, in our opinion the directors' statement alongside appropriately reflects the company's compliance with the other paragraphs of the Code specified for our review.


Coopers & Lybrand

Chartered Accountants and
Registered Auditors

London

16 June 1995

Report of the Remuneration Committee by Sir Christopher Leaver

The Remuneration Committee, which I chair, comprises the non-Executive Directors of the Board. Its primary role is to determine the salaries and other remuneration of the Executive Directors. The Committee does not consider the fees payable to non-Executive Directors which are determined by the Executive Directors. The non-Executive Directors do not participate in bonuses, pensions and share option schemes.

Objective

The aim of the Committee is to ensure that the company has competitive remuneration packages in place in order to recruit, retain and motivate top quality people in the overall interests of shareholders and customers. In addition to base salary and other executive's benefits, current packages include short term incentives by way of annual bonuses, and longer term incentives by way of share options. Both share options and annual bonuses are linked to real growth in earnings per share. Neither bonuses nor share options are triggered unless shareholders benefit from a real increase in earnings per share. The Committee takes professional and market data into account when reviewing salaries.

Salaries

The terms of Sir Robert Clarke's appointment as Chairman of the Board with effect from 1 April 1994 had been agreed in 1993. No changes were made during 1994/95. Salaries of the other Executive Directors were reviewed with effect from 1 July 1994. The salaries of the Group Chief Executive (Mr M R Hoffman) and Group Finance Director (Mr D J Luffrum) were not increased. The salary of Mr W R Harper was uplifted in recognition of his new role as Managing Director of the Products and Services Division. The salary of Mr W J Alexander, Managing Director of the Utilities Division

who had been appointed to the Board on 1 April 1994 was increased in July to take account of his wider Group role.

Pensions and other benefits

No changes were made to the structure of pensions and other benefits. However, the value of the latter, covering car provision and health insurance reflect increases in scales issued by the Inland Revenue.

Annual bonuses

Annual bonuses are payable on a sliding scale if earnings per share show a real increase above the rate of inflation. This year's increase in earnings per share was 8% before allowing for last year's exceptional items and 26% after allowing for last year's exceptional items. The lower percentage was used as the base to trigger bonus payments of 14.8% for Mr Hoffman and Mr Luffrum. Bonus payments to Mr Harper of 7.3% and to Mr Alexander of 17.8% partly reflect Group earnings per share and partly reflect the profit performances of their respective divisions. The Chairman does not participate in the bonus scheme.

Share options

Consistent with the Committee's aim to link an element of Executive Directors' rewards to long term share price performance, some further limited share options were granted in December 1994. Details are shown in note 5 on page 38 of the Annual Accounts. These options, which cannot be exercised before 1997 were issued at a price of 453p. The Remuneration Committee decided against issuing any replacement options for previous share options that had been exercised and introduced performance criteria that have to be met before options can be exercised in line with guidelines issued by the Association of British Insurers. They can only be exercised if in respect of any three consecutive financial years, commencing



Sir Christopher Leaver

after 1993/94, the increase in earnings per share, compared with the earnings per share for 1993/94 has exceeded inflation by an average of at least 2% per annum. Sir Robert Clarke has decided not to participate in the executive share option scheme.

Service contracts

The Executive Directors, on privatisation, were appointed on contracts drafted by the Government which included three-year notice periods by the employer and six months' notice periods by the Directors. During the year, the three original Directors voluntarily reduced the notice period required from the company to two years. The subsequent appointment to the Board of Mr Alexander was also on the basis of a two-year notice period. The service contract of the Chairman is initially for the two-year period commencing 1 April 1994, subject to 12 months' notice of early termination by the company. After 1996 the contract shall continue from year to year, subject to 12 months' notice by the company.

Annual accounts

Full details of the remuneration, share holdings and share options of the Directors in 1994/95 compared with the previous year's figures are shown on pages 34 to 38 of the Annual Accounts.

Sir Christopher Leaver

Report of the Environmental Audit Committee by Sir Peter Harrop

The Environmental Audit Committee was set up by the Board in 1991 under my Chairmanship. It comprises an Executive Director and two non-Executive Directors. Our role is to advise the Board on environmental policy and to monitor its implementation.

We are publishing our third environmental report in July, entitled *Environmental Review 1995*. It will set out the facts about our environmental performance over the last twelve months. The data in this year's report has been the subject of independent verification by outside consultants. Some key aspects of the company's performance are detailed below.

Water management

The drinking water we supply has always been good and safe to drink. Our performance this year against the regulatory standards, as assessed by the Drinking Water Inspectorate, reached its highest ever with 98.4% of tests meeting the standards. Further improvements are expected as our Advanced Water Treatment programme progresses to completion over the next few years.

Some rivers in our region are naturally vulnerable during periods of low rainfall or drought. We are taking action voluntarily to help safeguard the Darent, Misbourne and Pang rivers against low flows in dry periods.

Wastewater management

The large sums we have been investing to refurbish and improve our sewage treatment works are paying off. The National Rivers Authority has reported a marked improvement in river quality throughout the Thames region, largely resulting from our investment.

Over 350 of our works last year fully complied with their NRA effluent discharge consents, with 13 works (six of them serving populations of less than 5,000) exceeding their consent limits. We were prosecuted three times for

causing pollution. Our aim is that all works should be fully compliant with their consents and we will continue investing to enhance river quality still further.

Much of the sewage sludge produced at our works is suitable for use as a soil conditioner for agricultural land and continues to be used for that purpose. In east London, work is progressing well on two sewage sludge incinerators that will enable the company to meet our policy of ending sludge disposal at sea by 1998.

Energy and the environment

We have increased our generation of 'renewable' electricity from methane-rich sewage gas. By displacing the use of fossil fuels for power generation, we help to reduce global warming and pollution. In 1994/95 we generated 206GWh of electricity, enough to meet the needs of a sizeable town.

Environmental stewardship

Capital projects are scrutinised in their early stages by our environmental team to assess environmental impact. Last year more than a quarter of our schemes were amended to lessen this impact or to bring positive benefit to the environment.

We received a major Commendation from Business Commitment to the Environment for our New River Path project. This is a riverside walk and heritage trail we are creating with our partners along the historic New River in Hertfordshire. This is just one of more than 30 habitat enhancement and landscaping schemes we undertook last year.

We are active supporters of the ThamesClean project managed by the Tidy Britain Group. It aims to reduce litter and rubbish in and on the banks of the River Thames. This complements our 'Bag it and Bin it' initiative designed to reduce sewer transported litter in the environment and our effort to minimise and recycle our own waste.



Sir Peter Harrop

As a major water company our business is part of the environment. Proper care of the environment is therefore of prime importance to the success of ThamesWater.

Sir Peter Harrop

Below: The New River path, our conservation access project in Hertfordshire, received a Business Commitment to the Environment Major Commendation.

Bottom: Initiatives such as Barn Owl boxes and office recycling schemes won us the Mars and Berkshire Premier Award for Environmental Achievement 1994.



Report of the Audit Committee by John Thomson

The Audit Committee was established in 1987. I have been its Chairman since 1989. The role of the Committee is to assist the Board in carrying out its responsibilities relating to internal control, external and internal audit, accounting and external reporting. Any non-Executive Board Director may attend the Committee's meetings. Three non-Executive Directors, including myself, comprise the core membership.

The Committee met three times during the year. Each meeting had an agenda linked to events in the company's financial calendar.

In April 1994 we considered the principal accounting policies to be adopted in closing the financial accounts for 1993/94. We also reviewed a report on the work of the internal audit

department for that year and agreed the department's forward work programme for 1994/95.

In July 1994 we reviewed the report by the company's external auditors, Coopers & Lybrand, on matters arising from their year-end audit of the accounts. Our review included consideration of the adequacy of management responses to the external auditors' recommendations and consequent actions planned.

At the third meeting, in January 1995, we reviewed the external auditors' planned approach and fee proposal for the audit of the accounts for 1994/95. We satisfied ourselves that appropriate progress was being made by management to deal with matters raised in audit reports referred to previously and we reviewed



John Thomson

the latest recommendations emanating from the Cadbury Committee's Code of Best Practice on Corporate Governance.



John Thomson

Internal financial control

A description of the internal control framework applying across the Group is summarised below. Any system of internal control, however, can provide only reasonable, but not absolute, assurance against material misstatement or loss.

The Board of Directors has overall responsibility for the Group's system of internal control. The Board meets monthly and there is a formal schedule of matters reserved for decision by the Board. This includes the review of strategy, business planning, acquisitions and disposals, treasury policies and procedures and risk management.

The Group operates a comprehensive annual budgeting and financial reporting system which compares

results with budget on a monthly basis. Revised forecasts for the year are prepared quarterly. At each monthly meeting the Board reviews the performance of the major business units across the Group.

The Board has put in place an organisational structure with clearly defined lines of authority and accountability. This is supported by a Financial Control Policies and Procedures manual which is reviewed and updated annually. The manual contains, *inter alia*, sections setting out policies and procedures to be followed in business planning, capital expenditure approval, sales tenders, treasury management, insurance and risk management.

It is executive management's responsibility to ensure that the procedures are followed. An internal audit department monitors compliance as part of a broadly based programme of review work. This internal audit programme is constructed using risk assessment techniques to develop an appropriate cycle of activity reviews having regard to the key aspects of the business.

The plans and results of internal audit activities are reviewed by the Audit Committee on a regular basis. The Committee also reviews reports concerning the overall system of internal financial control.

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 1995. 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. Carlsley

Group Company Secretary

16 June 1995

Report of the Auditors to the members of Thames Water Plc

We have audited the financial statements on pages 26 to 51.

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

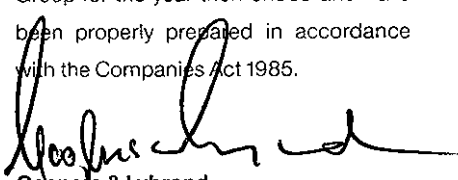
also includes an assessment of the significant estimates and judgements made by the Directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

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 1995 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

16 June 1995

Consolidated profit and loss account

Year ended 31 March	Note	Group	
		1995 Continuing operations £m	1994 Total £m
Turnover	2	1,173.6	1,104.8
Exceptional turnover	3	–	(11.6)
		1,173.6	1,093.2
Operating costs	4	(816.0)	(785.8)
Exceptional operating costs	3	–	(23.4)
Operating profit		357.6	284.0
Profit on sale of fixed assets	6	1.7	4.0
Profit/loss from interests in associated undertakings		0.1	(1.8)
Other income	7	0.6	3.4
Interest	8	(56.3)	(47.9)
Profit on ordinary activities before taxation		303.7	241.7
Taxation on profit on ordinary activities	9	(21.5)	(19.4)
Profit for the financial year	11	282.2	222.3
Dividends	12	(101.2)	(88.5)
Retained profit transferred to reserves	27	181.0	133.8
Earnings per ordinary share	13	71.3p	56.8p
Earnings per ordinary share before exceptional items	13	71.3p	65.8p

Statement of total recognised gains

Year ended 31 March		1995 £m	1994 £m
Profit for the financial year		282.2	222.3
Currency translation differences	27	(0.3)	(0.7)
Total recognised gains for the financial year		281.9	221.6

The notes on pages 30 to 51 form part of these accounts.

Consolidated and Company balance sheets

At 31 March	Note	Group		Company	
		1995 £m	1994 £m	1995 £m	1994 £m
Fixed assets					
Tangible assets	15	2,898.1	2,700.1	0.2	0.2
Investments	16	2.8	3.3	507.8	547.3
		<u>2,900.9</u>	<u>2,703.4</u>	<u>508.0</u>	<u>547.5</u>
Current assets					
Stocks and work in progress	17	35.9	34.1	-	-
Debtors	18	255.3	282.1	76.7	92.5
Investments	19	186.7	125.1	138.1	80.4
Cash at bank and in hand		32.1	17.0	12.0	2.9
		<u>510.0</u>	<u>458.3</u>	<u>226.8</u>	<u>175.8</u>
Creditors: amounts falling due within one year	20	(532.8)	(531.6)	(122.4)	(89.6)
Net current (liabilities)/assets		<u>(22.8)</u>	<u>(73.3)</u>	<u>104.4</u>	<u>86.2</u>
Total assets less current liabilities		<u>2,878.1</u>	<u>2,630.1</u>	<u>612.4</u>	<u>633.7</u>
Creditors: amounts falling due after more than one year	21	(718.5)	(673.8)	(87.7)	(93.9)
Convertible debt	22	(81.4)	(80.9)	(81.4)	(80.9)
Provisions for liabilities and charges	24	(43.0)	(42.6)	(0.5)	(0.8)
Net assets		<u>2,035.2</u>	<u>1,832.8</u>	<u>442.8</u>	<u>458.1</u>
Capital and reserves					
Called up share capital	25	399.7	393.4	399.7	393.4
Share premium	26	6.2	3.9	6.2	3.9
Reserves and retained profits	27	1,629.3	1,435.5	36.9	60.8
Equity shareholders' funds		<u>2,035.2</u>	<u>1,832.8</u>	<u>442.8</u>	<u>458.1</u>

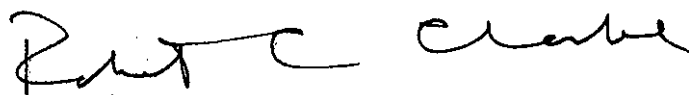
The notes on pages 30 to 51 form part of these accounts.


The accounts were approved by the Board on 16 June 1995.

Sir Robert Clarke Chairman

MR Hoffman Deputy Chairman/Group Chief Executive

DJ Luffrum Group Finance Director





Consolidated cash flow statement

Year ended 31 March	Group	
	1995 £m	1994 £m
Net cash inflow from operating activities (note a)	486.5	358.8
Returns on investments and servicing of finance		
Interest received	13.1	15.4
Interest paid	(56.4)	(55.0)
Interest element of finance lease rental payments	(12.7)	(9.7)
Dividends paid	(74.7)	(70.6)
Net cash outflow from returns on investments and servicing of finance	(130.7)	(119.9)
Taxation		
UK corporation tax paid	(18.7)	(21.4)
Overseas tax paid	(0.6)	(0.5)
Net cash outflow from taxation	(19.3)	(21.9)
Investing activities		
Purchase of tangible fixed assets	(281.4)	(358.7)
Purchase of subsidiary undertakings net of cash and cash equivalents acquired	-	(10.1)
Purchase of fixed asset investments	(0.8)	-
Sale of fixed asset investments	1.6	-
Sales of tangible fixed assets	4.4	6.0
Capital contributions	41.1	25.4
Net cash outflow from investing activities	(235.1)	(337.4)
Net cash inflow/(outflow) before financing	101.4	(120.4)
Financing		
Issue of ordinary share capital	5.4	3.1
Long term loans	25.0	145.9
Repayment of long term loans	(30.8)	(6.9)
Expenses of issuing shares	(0.5)	(0.4)
Bond issue expenses	-	(1.0)
Short term investments	(37.9)	47.0
Short term borrowings	18.8	(26.6)
Capital element of finance lease rental payments	(7.9)	(10.3)
Net cash (outflow)/inflow from financing	(27.9)	150.8
Increase in cash and cash equivalents (note b)	73.5	30.4

Notes to the consolidated cash flow statement

a Reconciliation of operating profit to net cash inflow from operating activities	1995 £m	1994 £m
Operating profit	357.6	284.0
Depreciation	89.0	81.9
(Increase)/decrease in stocks	(1.8)	1.3
Decrease in debtors	27.9	9.6
Increase/(decrease) in creditors	15.3	(26.5)
Increase in long term provisions	0.4	5.8
Other	(1.9)	2.7
Net cash inflow from operating activities	486.5	358.8

b Analysis of cash and cash equivalents	1995 £m	1994 £m
Cash at bank and in hand	32.1	17.0
Short term investments	96.2	69.9
Bank overdrafts	(34.8)	(39.5)
Loans of less than three months maturity	(7.5)	(34.9)
	86.0	12.5
Increase in cash and cash equivalents	73.5	30.4

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 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)
Cash inflows from financing	4.9	5.1	(37.9)
Shares issued for non-cash consideration	3.7	-	-
Finance leases raised during the year	-	46.9	-
Foreign exchange and other unrealised items	-	(3.5)	2.6
Balance at 31 March 1995	405.9	787.7	(90.5)

- (i) The £3.7m 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.
- (ii) Finance leases amounting to £46.9m were contracted for during the year to fund capital plant, equipment and vehicles.

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 and retranslation of long term foreign currency liabilities, with the Companies Act 1985. An explanation of these departures from the requirements of the Act is given in note 1(e) and (j) below.
- 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 15(i).
- 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.

Notes to the accounts

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, including long term 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. This treatment is required by Statement of Standard Accounting Practice (SSAP) number 20 in order to give a true and fair view of the Group's results. Compliance with SSAP 20 overrides Schedule 19 Paragraph 12 of the Companies Act 1985 which states that only profits realised at the balance sheet date should be included in the profit and loss account. The effect of currency retranslation is disclosed in note 4. The results of overseas subsidiary undertakings are translated at average rates of exchange for the year. 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 are:

Utilities: the regulated water and wastewater business.

International Operations and Process Contracting: 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, and the provision of underground, waste management and urban environmental services.

Insurance and property.

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

The provision of underground waste management and urban environmental services have previously been segmentally reported as Environmental Services. With effect from 1 April 1994, these activities were combined with those of the 'Products and Services' segment. In the opinion of the Directors it is appropriate to report them as a single segment. Comparative figures have been restated accordingly.

Turnover	1995			1994		
	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	–	4.0	915.1	–	1.2	871.0
International Operations and Process Contracting	0.3	10.2	117.2	0.8	23.2	96.1*
Products and Services	2.0	23.8	131.7	1.1	10.4	117.2
Insurance and Property	–	14.2	9.6	–	13.6	8.9
Total	2.3	52.2	1,173.6	1.9	48.4	1,093.2

Geographical segment by origin	1995			1994		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
UK	52.2	1.5	1,049.5	47.4	1.7	980.5
Continental Europe	–	–	40.6	–	–	35.5
Americas	0.1	0.4	41.0	–	0.6	48.3*
Africa	–	–	4.2	–	–	4.1
Asia Pacific	0.3	–	38.3	0.5	–	24.8
Total	52.6	1.9	1,173.6	47.9	2.3	1,093.2

* after charging exceptional items of £11.6m (see note 3).

- (i) 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.
- (ii) Turnover by destination does not materially differ from turnover by origin.

Notes to the accounts

2 Segmental analysis (continued)

Profit before tax/net assets	Profit (loss) before tax		Net assets (liabilities)	
	1995 £m	1994 £m restated	1995 £m	1994 £m restated
By class of business				
Utilities	364.0	326.2	2,691.9	2,535.3
International Operations and Process Contracting	(11.9)	(41.3)*	16.3	14.9*
Products and Services	3.6	0.9*	31.0	38.0*
Insurance and Property	4.7	4.0	0.6	(3.2)
Other activities	(0.4)	(0.2)	(93.4)	(80.7)
	360.0	289.6	2,646.4	2,504.3
Interest	(56.3)	(47.9)		
Net debt			(611.2)	(671.5)
Total	303.7	241.7	2,035.2	1,832.8

* after charging exceptional items (see note 3)

By geographical segment	Profit (loss) before tax		Net assets (liabilities)	
	1995 £m	1994 £m	1995 £m	1994 £m
UK	359.2	323.7	2,617.3	2,460.5
Continental Europe	(3.0)	(9.6)	19.2	20.4
Americas	2.8	(24.5)	12.8	25.3
Africa	0.2	0.2	(0.1)	–
Asia Pacific	0.8	(0.2)	(2.8)	(1.9)
	360.0	289.6	2,646.4	2,504.3
Interest	(56.3)	(47.9)		
Net debt			(611.2)	(671.5)
Total	303.7	241.7	2,035.2	1,832.8

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

3 Exceptional items

There are no exceptional items in 1995.

The reported figures for the year ended 31 March 1994 include exceptional items of £35m in respect of:

- Losses resulting from disputes on contracts awarded to Group companies prior to their acquisition by Thames Water (£23.5m)
- costs of rationalisation and restructuring non-regulated businesses (£11.5m).

Analysed by segment, the exceptional items are

- International Operations and Process Contracting £33.2m
- Products and Services £1.8m.

Notes to the accounts

4 Operating costs

	1995	1994
	Continuing operations	
	£m	£m
Analysis of operating costs by type of expense		
Manpower costs	247.9	251.5
Materials and consumables	131.2	118.8
Other operating charges	349.9	358.9
Infrastructure renewals charge	27.7	27.0
Depreciation:		
• owned assets	77.7	74.0
• assets held under finance leases	11.3	7.9
Rentals under operating leases:		
• hire of plant and machinery	3.9	3.2
• other	4.1	3.6
Research and development	7.7	7.4
Foreign currency gains (see note 1j)	(2.1)	–
	859.3	852.3
Own work capitalised	(43.3)	(43.1)
	816.0	809.2

(i) Included in other operating charges are

	1995	1994
	£m	£m
Exceptional items (note 3)	–	23.4
Auditors' remuneration in respect of:		
• audit work	0.7	0.8
• other statutory and regulatory requirements	0.1	0.1
• non audit work: UK	0.2	0.3
: overseas	0.1	–
	1.1	1.2

(ii) Included in auditors' remuneration is £60,000 in respect of audit fees incurred by the Company in 1995 (1994: £62,450).

(iii) The foreign currency gains are net of unrealised gains and losses of £3.6m and £0.9m respectively.

Notes to the accounts

5 Information regarding Directors and employees

The Company's policy regarding the remuneration of the Chairman and Executive Directors is set out in the report of the Remuneration Committee on page 22 of the Annual Report. Details of the remuneration of Directors individually and in total, are shown on pages 35 to 38.

Chairman: Sir Robert Clarke

Appointed as Chairman with effect from 1 April 1994. Sir Robert was a non-executive Director in previous years.

	1995 £000	1994 £000
Salary	144	—
Bonus	—	—
Other benefits	—	—
	144	—

An executive pension plan was set up for Sir Robert Clarke on 14 June 1994 with a normal retirement age of 70. Contributions to the plan of £18,000 (1994: nil) are through a salary sacrifice arrangement and the benefits to be provided at age 70 will be those that can be provided from the value of the fund at that time.

Sir Robert received fees of £18,500 as a non-executive Director in 1994.

Group Chief Executive/Deputy Chairman: M R Hoffman

Mr Hoffman, who was recruited in 1989, was the highest paid Director and was in post for the whole year.

	1995 £000	1994 £000
Salary	250	240
Bonus	37	—
Other benefits	8	7
	295	247

The increase of £10,000 in Mr Hoffman's salary between 1994 and 1995 is due to the part year effect in 1994 of his salary review which became effective on 1 July 1993. Following review in July 1994, Mr Hoffman's salary was not increased.

Pension benefits for Mr Hoffman are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. Contributions to the schemes in 1995 were £76,260 (1994: £70,000). In addition, provision is made by way of an unfunded commitment to ensure a pension of 63% of Mr Hoffman's final pensionable salary on retirement at age 60. The charge to the profit and loss account in respect of this was £37,000 (1994: £76,000). The total provision to date is £145,000.

Group Finance Director: D J Luffrum

Mr Luffrum was in post for the whole year. A long term executive of Thames Water Authority he was appointed to the Board of Thames Water Plc in 1989.

	1995 £000	1994 £000
Salary	135	126
Bonus	20	—
Other benefits	9	8
	164	134

Pension benefits for Mr Luffrum are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. On retirement at age 60 Mr Luffrum will be entitled to a pension of two-thirds of his final pensionable salary. Contributions to the schemes in 1995 were £40,956 (1994: £37,000).

Notes to the accounts

5 Information regarding Directors and employees (continued)

Managing Director Utilities: W J Alexander

Recruited as Engineering Director for Utilities in 1989, Mr Alexander was promoted to Managing Director of Utilities in 1992 and joined the main Board on 1 April 1994.

	1995 £000	1994 £000
Salary	137	–
Bonus	24	–
Other benefits	7	–
	168	–

Pension benefits for Mr Alexander are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. Contributions to the schemes in 1995 were £41,723. In addition, provision is made by way of an unfunded commitment to ensure a pension entitlement on retirement at age 60 of 58% of Mr Alexander's basic salary in the last fiscal year prior to retirement less benefits in his previous employer's pension schemes. The charge to the profit and loss account in respect of this was £21,000 in 1995. The total provision to date is £69,000.

Managing Director Products and Services: W R Harper

Mr Harper is a former Managing Director of Utilities and was appointed to the main Board in 1989. He took on a new role from 1 April 1994 with responsibilities for integrating and developing the Products and Services companies of the Group.

	1995 £000	1994 £000
Salary	100	92
Bonus	7	–
Other benefits	10	11
	117	103

Pension benefits for Mr Harper are funded under the Thames Water Pension Scheme and the Thames Water Senior Executive Pension Scheme. On retirement at age 60 Mr Harper will be entitled to a pension of two-thirds of his final pensionable salary. Contributions to the scheme in 1995 were £30,210 (1994: £26,000).

	1995 £000	1994 £000
Non-executive Director fees		
Sir Christopher Leaver: Vice Chairman	45	–
R M Carr: appointed 1 November 1994	8	–
Sir Peter Harrop: retiring 31 July 1995	19	19
A J Hobson: appointed 1 November 1994	8	–
J M Thomson	19	19
E J Worlidge	19	19

Sir Christopher Leaver served temporarily as Chairman of the Company from May 1993 to March 1994. Sir Christopher's salary of £71k and other benefits of £9k are included in Executive Directors' remuneration in 1994.

Notes to the accounts

5 Information regarding Directors and employees (continued)

	1995 £000	1994 £000
Directors' remuneration in total		
Fees for non-Executive Directors	118	76
Executive Directors:		
Salary	766	554
Bonus	88	–
Other benefits	34	37
Pension contributions	207	141
	1,095	732
Total	1,213	808

The increase in Executive Directors salaries and non-Executive Directors fees are mainly due to

- the appointment of new Directors during the year
- the transitional arrangements in respect of the appointment of the chairman in 1994

Comprehensive details are shown earlier in this note.

The 1994 figures for Executive Directors include salary of £25k, other benefits of £1k, and pension contributions of £8k for Sir Roy Watts in respect of his period as Chairman in April 1993.

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	31 March 1995 number	1 April 1994 number
Sir Robert Clarke	3,660	3,540
Sir Christopher Leaver	3,931	3,931
M R Hoffman	68,272	62,045
W J Alexander	14,531	14,055*
R M Carr	3,000	–*
W R Harper	10,803	10,403
A J Hobson	1,000	1,000*
Sir Peter Harrop	2,368	2,149
D J Luffrum	19,943	19,937
J M Thomson	2,000	2,000
E J Worlidge	2,268	2,158

* at date of appointment

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.

Notes to the accounts

5 Information regarding Directors and employees (continued)

Executive Share Options

	1994 number	Granted number	1995 number	Notional value £'000	Exercise price	Date when exercisable	Expiry date
M R Hoffman	10,000	–	10,000	19.7	283p	18.6.93	June 2000
	49,000	–	49,000	60.8	356p	15.11.94	Nov 2001
	–	25,000	25,000	6.8	453p	8.12.97	Dec 2004
W J Alexander	18,000	–	18,000	23.9	347p	2.7.94	July 2001
	31,000	–	31,000	19.2	418p	24.6.95	June 2002
	–	22,000	22,000	5.9	453p	8.12.97	Dec 2004
W R Harper	22,000	–	22,000	29.3	347p	2.7.94	July 2001
	11,000	–	11,000	13.6	356p	15.11.94	Nov 2001
	–	9,000	9,000	2.4	453p	8.12.97	Dec 2004
D J Luffrum	6,000	–	6,000	11.8	283p	18.6.93	June 2000
	25,000	–	25,000	33.2	347p	2.7.94	July 2001
	13,000	–	13,000	16.1	356p	15.11.94	Nov 2001
	–	18,000	18,000	4.9	453p	8.12.97	Dec 2004

No executive share options were 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.

The following Directors have options under the Thames Water Sharesave Scheme which is available for all eligible employees

- M R Hoffman 5,498 options (1994: 9,176); exercise prices range from 296p to 421p.
- Sir Robert Clarke 4,097 options (1994: Nil); exercise price 421p.

The notional value of the executive share options is based on the difference between the market price of the Company's shares at the close of business on 15 June 1995 (480p) and the exercise price. The share price ranged from 434p to 555p during the year.

Employee information

Group employment costs including Executive Directors' remuneration were:

	1995 £m	1994 £m
• Salaries and wages	211.3	213.0
• Social security costs	20.2	20.9
• Pension contributions (note 30)	18.1	19.0
Total	249.6	252.9

- (i) Total employment costs contain £1.7m (1994: £1.4m) which is included in the infrastructure renewals charge in note 4.
- (ii) Group employment costs for 1994 include £10.4m in respect of a 14 month accounting period for the Simon companies which were acquired on 31 January 1993.

Average weekly number of persons employed by the Group, including Executive Directors, analysed by class of business

	1995 number	1994 number restated
Utilities	6,673	6,893
International Operations and Process Contracting	1,135	1,482
Products and Services	2,603	1,709
Other activities	62	57
Total	10,473	10,141

The increase in employee numbers in the Products and Services segment is mainly due to the change in status of the Brophy Group from an associate to a wholly owned undertaking with effect from 28 January 1994.

Notes to the accounts

6 Profit on the sale of fixed assets

Profits from the sale of fixed assets of £1.7m (1994: £4m) are in respect of asset sales made by Thames Water Utilities Limited to third parties. Income from land disposals made via the Group's property development undertakings have been included in turnover.

7 Other income

	1995 £m	1994 £m
Realised/unrealised losses on fixed interest short term investments	(2.6)	–
Net rents receivable	3.2	3.4
	<u>0.6</u>	<u>3.4</u>

8 Interest

	1995 £m	1994 £m
Bank loans, overdrafts and other loans:		
• Repayable within five years otherwise than by instalments	(3.3)	(8.7)
• Repayable within five years by instalments	(1.5)	(2.9)
• Not wholly repayable within five years	(52.1)	(41.6)
Finance charges in respect of finance leases	(12.7)	(9.7)
Other finance charges	(0.8)	(0.6)
Interest payable and similar charges	(70.4)	(63.5)
Interest receivable	14.1	15.6
Total	<u>(56.3)</u>	<u>(47.9)</u>

9 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 £20.8m (1994: £18.9m) together with overseas taxes of £0.7m (1994: £0.5m). The ACT remains available to reduce future UK corporation tax liabilities.

10 Deferred taxation

The Group's medium and long-term plans for capital investment together with the capital allowances available in respect of 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.

	Group	
	1995 £m	1994 £m
An analysis of amounts unprovided is as follows:		
Accelerated capital allowances		
• Infrastructure assets	245.2	214.6
• Other assets	283.3	240.9
Other timing differences	(18.5)	(16.6)
Losses	(45.2)	(73.5)
Advance corporation tax	(117.3)	(96.8)
	<u>347.5</u>	<u>268.6</u>

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

Notes to the accounts

11 Profit for the financial year

Of the consolidated profit attributable to the shareholders, £64.0m (1994: £104.7m) 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.

12 Dividends	1995		1994	
	pence per share	£m	pence per share	£m
Interim	8.2	32.8	7.4	29.0
Final proposed	17.1	68.4	15.1	59.5
	25.3	101.2	22.5	88.5

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 1995 are shown in note 25.

13 Earnings per ordinary share	1995		1994	
	Net	Nil	Net	Nil
Profit for the financial year	£282.2m	£303.0m	£222.3m	£241.2m
Earnings per ordinary share	71.3p	76.5p	56.8p	61.6p
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 (395.9m).

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.

14 Reconciliation of movements in shareholders' funds	1995	1994
	£m	£m
Profit for the financial year	282.2	222.3
Dividends	(101.2)	(88.5)
	181.0	133.8
Exercise of share options	5.4	3.1
Value of shares issued in lieu of dividends	17.0	13.4
Share issue expenses	(0.5)	0.2
Foreign exchange movements	(0.3)	(0.7)
Goodwill written off	(0.2)	(7.5)
	202.4	142.3
Shareholders' funds at the beginning of the year	1,832.8	1,690.5
Shareholders' funds at the end of the year	2,035.2	1,832.8

Notes to the accounts

15 Tangible fixed assets	Group			Company
	Land & buildings £m	Infrastructure assets £m	Plant & equipment £m	Plant & equipment £m
Net cost at 1 April 1994	1,145.3	1,032.5	973.5	0.4
Foreign exchange adjustments	2.6	–	(0.3)	–
Additions at cost	86.5	73.2	154.4	0.1
Disposals	(0.7)	–	(23.3)	–
Capital contributions	–	(26.4)	–	–
Net cost at 31 March 1995	1,233.7	1,079.3	1,104.3	0.5
Depreciation at 1 April 1994	207.3	–	243.9	0.2
Foreign exchange adjustments	0.5	–	(0.2)	–
Provided during the year	19.0	–	70.0	0.1
Disposals	(0.2)	–	(21.1)	–
Depreciation at 31 March 1995	226.6	–	292.6	0.3
Net book value				
At 31 March 1995	1,007.1	1,079.3	811.7	0.2
At 31 March 1994	938.0	1,032.5	729.6	0.2

(i) 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 £105.1m (1994: £78.7m).

(ii) The net book value of land and buildings is analysed as follows:

	Group	
	1995 £m	1994 £m
Freehold land and buildings	993.1	927.8
Leaseholds: over 50 years	9.1	9.0
under 50 years	4.9	1.2
	1,007.1	938.0

(iii) No depreciation has been charged on freehold land included at a cost of £11.2m (1994: £4.9m).

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

	Cost		Net book value	
	1995 £m	1994 £m	1995 £m	1994 £m
Plant and equipment	198.0	158.0	161.4	127.8

(v) Tangible fixed assets at 31 March 1995 include £346.9m (1994: £382m) of assets in the course of construction.

Notes to the accounts

16 Fixed asset investments	Group	Company
	Interests in associated undertakings £m	Investment in subsidiary undertakings £m
Value at 1 April 1994	3.3	547.3
Foreign exchange adjustments	0.2	(5.3)
Additions	0.8	15.7
Disposals	(1.6)	–
Amounts written off	–	(49.9)
Share of profits for the year	0.1	–
Value at 31 March 1995	2.8	507.8

Group

The cost of the Group's interests in associated undertakings at 31 March 1995 amounted to £6.6m (1994: £8.1m). The Group's share of post-acquisition accumulated losses at 31 March 1995 was £0.5m (1994: £3.9m). The associated undertakings are unlisted.

Company

Investments amounting to £15.7m 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.

The Company's investments were written down by £49.9m. The write down follows a review by the Board of trading performance of Group companies some of which have been closed or restructured. This has no effect on the consolidated results of the Group.

17 Stocks and work in progress	Group	
	1995 £m	1994 £m
Raw materials and consumables	18.9	20.8
Work in progress	6.5	8.3
Finished goods and goods for resale	5.6	3.9
Payment on account of raw materials	4.9	1.1
Total	35.9	34.1
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	115.3	100.6
Applicable payments on account	(114.8)	(98.4)
Total	0.5	2.2

The company has no stocks and work in progress.

Notes to the accounts

18 Debtors	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Due within one year:				
Trade debtors	161.3	189.6	-	-
Amounts recoverable on contracts	7.9	8.4	-	-
Amounts owed by subsidiary undertakings	-	-	48.4	89.2
Other debtors	10.8	9.3	-	-
Prepayments and accrued income	61.7	65.1	1.5	1.3
Infrastructure renewals expenditure	1.4	3.6	-	-
	243.1	276.0	49.9	90.5
Due after more than one year:				
Trade debtors	10.6	4.2	-	-
Amounts recoverable on contracts	-	0.7	-	-
Amounts owed by subsidiary undertakings	-	-	26.8	2.0
Prepayments and accrued income	0.5	-	-	-
Other debtors	1.1	1.2	-	-
Total	255.3	282.1	76.7	92.5

19 Current asset investments	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Fixed term deposits and certificates of deposit	139.1	80.2	126.1	67.7
Fixed and floating interest rate securities	47.6	44.9	12.0	12.7
Total	186.7	125.1	138.1	80.4

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

Notes to the accounts

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
20 Creditors: amounts falling due within one year				
Bank loans	27.5	14.9	-	2.8
Bank overdrafts	34.8	39.5	-	-
Other loans	0.8	0.8	-	-
Obligations under finance leases	7.2	7.2	-	-
Progress claims and advance payments	87.8	83.0	-	-
Trade creditors:				
• operating	62.0	66.8	-	-
• capital	85.1	98.8	-	-
Bills of exchange payable	0.1	21.0	-	-
Amounts owed to subsidiary undertakings	-	-	25.6	0.7
Advance corporation tax	24.8	22.7	24.8	22.7
Taxation and social security	7.1	8.4	-	-
Accruals and deferred income	118.9	96.4	-	2.3
Other creditors	7.7	12.6	3.0	1.6
Proposed dividend	69.0	59.5	69.0	59.5
Total	532.8	531.6	122.4	89.6

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
21 Creditors: amounts falling due after more than one year				
Bank loans	225.9	230.1	-	-
Other loans	295.2	301.2	-	-
Obligations under finance leases	157.1	118.0	-	-
Amounts owed to subsidiary undertakings	-	-	87.7	93.9
Deferred income	29.9	14.9	-	-
Other creditors	10.4	9.6	-	-
Total	718.5	673.8	87.7	93.9

22 Convertible debt

£82m 9½% Convertible Subordinated Bonds due 2006. At the option of either the holder, at any time, or the issuer, with effect from September 1996, 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. If the options are fully exercised, 19.2m ordinary shares will be issued.

Notes to the accounts

23 Borrowings	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Bank loans and overdrafts				
• Within one year	62.3	54.4	–	2.8
• Between one and two years	4.2	1.4	–	–
• Between two and five years	39.8	37.6	–	–
• After more than five years	181.9	191.1	–	–
	288.2	284.5	–	2.8
Other loans and finance leases				
• Within one year	8.1	29.0	–	–
• Between one and two years	3.5	2.9	–	–
• Between two and five years	3.8	7.2	–	–
• After more than five years: other loans	445.0	409.1	–	–
convertible debt	81.4	80.9	81.4	80.9
	541.8	529.1	81.4	80.9
Total borrowings	830.0	813.6	81.4	83.7

(i) Loans are repayable between 1995 and 2030.

(ii) Loans wholly repayable after more than five years hence are:

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
• Bank Loans	50.0	25.0	–	–
• Other loans	361.8	365.7	81.4	80.9
	411.8	390.7	81.4	80.9

(iii) Other loans include:

- £150m 10½% Guaranteed Bonds due 2001;
- \$150m 6¾% Notes due 2004 of which \$40m has been swapped into floating rate Deutschmarks to protect against adverse exchange rate fluctuations;
- loans totalling £32.4m (1994: £32.4m) are secured on the revenues of Thames Water Utilities.

(iv) The aggregate amount of loans repayable by instalments any part of which falls due for repayment more than five years hence are:

	Group	
	1995 £m	1994 £m
• Bank Loans	175.0	200.0
• Other loans	14.9	15.6
• Finance leases	154.0	113.3
	343.9	328.9

(v) The Group is committed to further outstanding lease obligations of £118.8m to fund future capital investment.

(vi) The range of interest rates on outstanding bank loans are 5% to 11.5% (1994: 4.6% to 11.5%) and on other loans 3% to 10.5% (1994: 3% to 10.5%); These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection. Interest rates on finance leases are linked to LIBOR.

(vii) The Group has arranged long dated interest rate swaps which have the effect of fixing the rate of interest at an average of 9.3% on sterling borrowings of £15m for a remaining term of 13 years. In addition the Group has arranged interest rate swaps which convert £35m of sterling borrowings from an average fixed rate of 10.4% to floating rates for a weighted average remaining term of five years.

Notes to the accounts

24 Provisions for liabilities and charges					Group	Company
	Contract provisions £m	Insurance liabilities £m	Other £m	Pensions (note 30) £m	Total £m	Deferred Taxation £m
Balance at 1 April 1994	8.4	28.1	1.6	4.5	42.6	0.8
Foreign exchange adjustments	(0.1)	–	0.1	0.3	0.3	–
Provided during the year	2.7	1.3	2.4	–	6.4	–
Utilised during the year	(3.8)	–	–	(0.1)	(3.9)	–
Released during the year	(2.4)	–	–	–	(2.4)	(0.3)
Balance at 31 March 1995	4.8	29.4	4.1	4.7	43.0	0.5

25 Share capital

Share capital of the Group and Company

	1995 £m	1994 £m
Authorised		
525,000,000 ordinary shares of £1 each	525.0	525.0
One Special Rights redeemable preference share of £1		
Allotted, called up and fully paid		
399,719,221 ordinary shares of £1 each (1994: 393,418,443)	399.7	393.4
One Special Rights redeemable preference share of £1		

The Special Rights redeemable preference share was redeemed at par by the Secretary of State on 31 December 1994 following consultation with the Company. This share entitled the holder, the Secretary of State on behalf of HM Government, to prevent alteration of specific sections of the Articles of Association of the Company, including the Article relating to limitations on a person owning or having an interest in 15% or more of the ordinary shares in Thames Water Plc.

Details of ordinary shares allotted during the year are as follows:	Number of shares allotted		Consideration	
	1995 000	1994 000	1995 £m	1994 £m
Scrip dividends	3,732	2,769		
Employee share schemes				
• Sharesave Scheme	2,275	187	4.1	0.4
• Executive Share Option Scheme	128	580	0.4	1.8
• Profit Sharing Scheme	165	212	0.9	0.9
	6,300	3,748	5.4	3.1

Scrip dividends

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

- 1994 final dividend 3,005,260 shares – 17 August 1994
- 1995 interim dividend 726,973 shares – 20 January 1995

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 open to all eligible employees with options exercisable, in normal circumstances, after completion of a five or seven year contract.

Notes to the accounts

25 Share capital (continued)

- 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. In December 1994, 432,700 executive share options were issued at a price of 453p. These options can only be exercised if in respect of any three consecutive financial years commencing 1 April 1994, the increase in earnings per share compared with the earnings per share in the year ended 31 March 1994 has exceeded inflation by an average of at least 2% per annum. The terms on which these options were granted are in accordance with the guidelines issued by the Association of British Insurers and the National Association of Pension Funds.

- the Thames Water Profit Sharing Scheme is a scheme open to all eligible employees 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 1995

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	142,581	176p	Feb 1995 – July 1995
• 13 July 1990	343,171	227p	Oct 1995 – Mar 1996
• 12 July 1991	466,776	288p	Oct 1996 – Mar 1997
• 29 November 1991	517,324	296p	Feb 1997 – July 1997
• 10 July 1992	347,415	349p	Oct 1997 – Mar 1998
• 9 July 1993	582,606	372p	Oct 1998 – Mar 1999
• 1 December 1994	1,427,548	421p	Feb 2000 – July 2000
Seven-year scheme			
• 12 December 1989	1,013,129	176p	Feb 1997 – July 1997
• 13 July 1990	164,428	227p	Oct 1997 – Mar 1998
• 12 July 1991	291,448	288p	Oct 1998 – Mar 1999
• 29 November 1991	286,733	296p	Feb 1999 – July 1999
• 10 July 1992	205,321	349p	Oct 1999 – Mar 2000
• 9 July 1993	144,057	372p	Oct 2000 – Mar 2001
• 1 December 1994	390,221	421p	Feb 2002 – July 2002
Thames Water Executive Share Option Scheme			
• 17 January 1990	8,000	278p	1993-2000
• 18 June 1990	16,000	283p	1993-2000
• 2 July 1991	561,000	347p	1994-2001
• 15 November 1991	73,000	356p	1994-2001
• 23 June 1992	265,000	418p	1995-2002
• 1 December 1992	33,000	480p	1995-2002
• 18 June 1993	10,000	466p	1996-2003
• 19 November 1993	31,000	521p	1996-2003
• 8 December 1994	426,700	453p	1997-2004

26 Share premium of the Group and Company

	£m
Balance at 1 April 1994	3.9
Premium on issue of 2.6m ordinary shares	2.8
Expenses of issuing shares	(0.5)
Balance at 31 March 1995	6.2

Notes to the accounts

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 1994	60.8	1,478.2	(3.9)	(99.6)	1,435.5
Foreign exchange adjustments	–	(0.3)	–	–	(0.3)
Profit for the financial year	64.0	218.1	0.1	–	282.2
Dividends	(101.2)	–	–	–	(101.2)
Value of shares issued in lieu of dividends	17.0	–	–	–	17.0
Capitalisation of shares issued in lieu of dividends	(3.7)	–	–	–	(3.7)
Goodwill	–	–	–	(0.2)	(0.2)
Balance at 31 March 1995	36.9	1,696.0	(3.8)	(99.8)	1,629.3

28 Operating leases

At 31 March 1995 the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group		Company	
	1995 £m	1994 £m	1995 £m	1994 £m
Land and buildings				
Leases which expire:				
• Between one and five years	2.2	0.8	–	–
• After more than five years	2.7	2.1	0.4	0.4
Total	4.9	2.9	0.4	0.4
Other				
Leases which expire:				
• Between one and five years	3.5	5.2	–	–
• After more than five years	0.1	–	–	–
Total	3.6	5.2	–	–

29 Capital commitments

Contracted for but not provided in the financial statements

Authorised but not yet contracted for

Group	
1995 £m	1994 £m
233	245
451	924

- (i) 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.
- (ii) The Company has no capital commitments.

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 1995 was £18.1m (1994: £19m) of which £0.9m (1994: £1.4m) 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, with liabilities provided 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.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £384.2m (1994: £394.6m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £97.5m at 31 March 1995 (1994: £121.6m). 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. No loss is expected to arise under these arrangements.

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 1995 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).

Notes to the accounts

33 Group undertakings

At 31 March 1995 the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

Subsidiary undertakings	Country of incorporation registration & operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Utilities					
Thames Water Utilities Limited	England & Wales	Ordinary	100%		Water & sewerage services
International Operations and Process Contracting					
Thames Water International Services Holdings Limited	England & Wales	Ordinary	100%		Management company
Thames Water International Services Limited	England & Wales	Ordinary		100%	Marketing of technical managerial services
PWT Projects Limited	England & 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
Thames Water Malaysia Sdn.Bhd.	Malaysia	Ordinary		100%	Water operations & maintenance
Thames Water International Thailand Limited	Thailand	Ordinary		100%	Water operations & maintenance
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
Thames Water Deutschland GmbH	Germany	Ordinary		100%	Management company
Mitteldeutsche Wasser-und Umwelttechnik AG (UTAG)	Germany	Ordinary		100%	Water contracting & consultancy
Products and Services					
Thames Water Products & Services Limited	England & Wales	Ordinary	100%		Management company
The Permutit Company Limited	England & Wales	Ordinary		100%	Industrial water treatment plant
Simon Hartley Limited	England & Wales	Ordinary		100%	Sewage treatment
Stella-Meta Filters Limited	England & Wales	Ordinary		100%	Mobile water treatment & disinfection
PCI Membrane Systems Limited	England & Wales	Ordinary		100%	Process and effluent treatment
FWTalbot & Company Limited	England & Wales	Ordinary		100%	Pipeline products
Thames Water Environmental Services Limited	England & Wales	Ordinary	100%		Management company

Notes to the accounts

33 Group undertakings (continued)

Subsidiary undertakings	Country of incorporation registration & operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Brophy Group Plc	England & Wales	Ordinary		100%	Utilities & grounds maintenance
Metro Rod Plc	England & Wales	Ordinary		100%	Drain & pipe cleaning services
Morgan Collis Group Limited	England & Wales	Ordinary		100%	Sewerage services
Thames Waste Management Limited	England & Wales	Ordinary		100%	Waste management & treatment
The Permutit Company Pty Limited	Australia	Ordinary		100%	Industrial water treatment plant
PWT South Africa (Pty) Limited	South Africa	Ordinary		100%	Contracting & products
Thames Water Benelux BV	Netherlands	Ordinary		100%	Industrial water treatment plant & 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		100%	Packaged sewage treatment
WTS Inc	United States	Ordinary		100%	Industrial effluent treatment
FB Leopold Company Inc	United States	Ordinary		100%	Water products
FloCovery Systems Inc	United States	Ordinary		90%	Industrial water products
Other trading activities					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Kennet Properties Limited	England & Wales	Ordinary	100%		Property
Thames Water Properties Limited	England & Wales	Ordinary	100%		Property
Thames Water Developments Limited	England & Wales	Ordinary	100%		Property
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 & Wales	Ordinary		50%	International consultancy
Subterra Holdings Limited	England & Wales	Ordinary		60%	Pipeline rehabilitation services
PWT Japan Limited	Japan	Ordinary		50%	Finance company
ATW Medioambiente SA	Spain	Ordinary		40%	Water & waste treatment

Group five year summary

Profit and Loss Account

Year ended 31 March	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Turnover: continuing operations	1,173.6	1,093.2	1,044.4	900.5	838.0
Operating costs	(816.0)	(809.2)	(769.2)	(665.3)	(646.0)
Operating profit	357.6	284.0	275.2	235.2	192.0
Costs of privatisation	–	–	–	–	0.7
Profit on sale of fixed assets	1.7	4.0	8.1	9.9	8.1
Profit/(loss) from interests					
in associated undertakings	0.1	(1.8)	(2.1)	(0.2)	0.1
Other income	0.6	3.4	0.9	0.3	0.4
Interest	(56.3)	(47.9)	(30.8)	(8.9)	11.7
Profit on ordinary activities before taxation	303.7	241.7	251.3	236.3	213.0
Taxation on profit on ordinary activities	(21.5)	(19.4)	(21.7)	(25.2)	(19.8)
Profit for the financial year	282.2	222.3	229.6	211.1	193.2
Earnings per share					
• pre-exceptional items	71.3p	65.8p	59.3p	54.8p	50.1p
• post-exceptional items	71.3p	56.8p	59.3p	54.8p	50.1p
Dividend per share	25.3p	22.5p	21.0p	19.2p	17.5p

Balance sheet

As at 31 March	1995 £m	1994 £m	1993 £m	1992 £m	1991 £m
Fixed assets	2,900.9	2,703.4	2,425.6	2,106.4	1,750.6
Net current (liabilities)	(22.8)	(73.3)	(114.9)	(21.9)	(125.1)
Creditors: amounts falling due					
after more than one year	(718.5)	(673.8)	(502.9)	(425.6)	(140.8)
Convertible debt	(81.4)	(80.9)	(80.5)	(80.0)	–
Provisions for liabilities and charges	(43.0)	(42.6)	(36.8)	(26.2)	(26.4)
Net assets	2,035.2	1,832.8	1,690.5	1,552.7	1,458.3
Share capital	399.7	393.4	389.7	386.1	384.2
Share premium	6.2	3.9	1.5	–	–
Reserves and retained profits	1,629.3	1,435.5	1,299.3	1,166.6	1,074.1
Equity shareholders' funds	2,035.2	1,832.8	1,690.5	1,552.7	1,458.3

Turnover and operating costs for the year ended 31 March 1994 are stated after charging exceptional items of £11.6m and £23.4m respectively (see note 3 to the accounts).

Shareholder Information

Category	Number of Holders	%	Holding	%
Private Persons	250,378	95.05	77,269,132	19.33
Banks and nominees	11,450	4.35	273,388,239	68.40
Insurance, investment and other limited companies	1,273	0.48	23,974,667	6.00
Pension funds	59	0.02	15,514,019	3.88
Other corporate bodies	269	0.10	9,573,164	2.39
	263,429	100.00	399,719,221	100.00
Size of Holding				
1-500	231,081	87.72	56,388,323	14.11
501-1,000	21,784	8.27	14,761,697	3.69
1,001-5,000	8,743	3.32	15,975,714	4.00
5,001-50,000	1,173	0.45	19,674,773	4.92
50,001-100,000	216	0.08	16,102,072	4.03
100,001-1,000,000	374	0.14	119,538,385	29.91
Greater than 1,000,000	58	0.02	157,278,257	39.35
	263,429	100.00	399,719,221	100.00

Financial calendar

Financial year ended 31 March 1995

12 June 1995 Ex-dividend date for final dividend

29 June 1995 Record (or qualifying) date for 1995 final dividend

25 July 1995 Barbican Centre, London 1995 Annual General Meeting

1 September 1995 Final dividend payable

Financial year ended 31 March 1996

31 October 1995 Announcement of half-yearly results for six months to 30 September 1995

February 1996 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 8 August 1995: 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 0131-523 6230 or 0131-523 6231.

Share price information line (CityCall)

Callers can obtain a current share price on 0891 222302. The charge is 39p per minute cheap rate and 49p per minute peak rate 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.