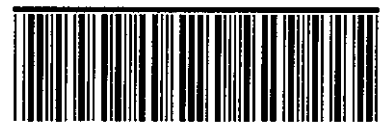


CIN: 2366623



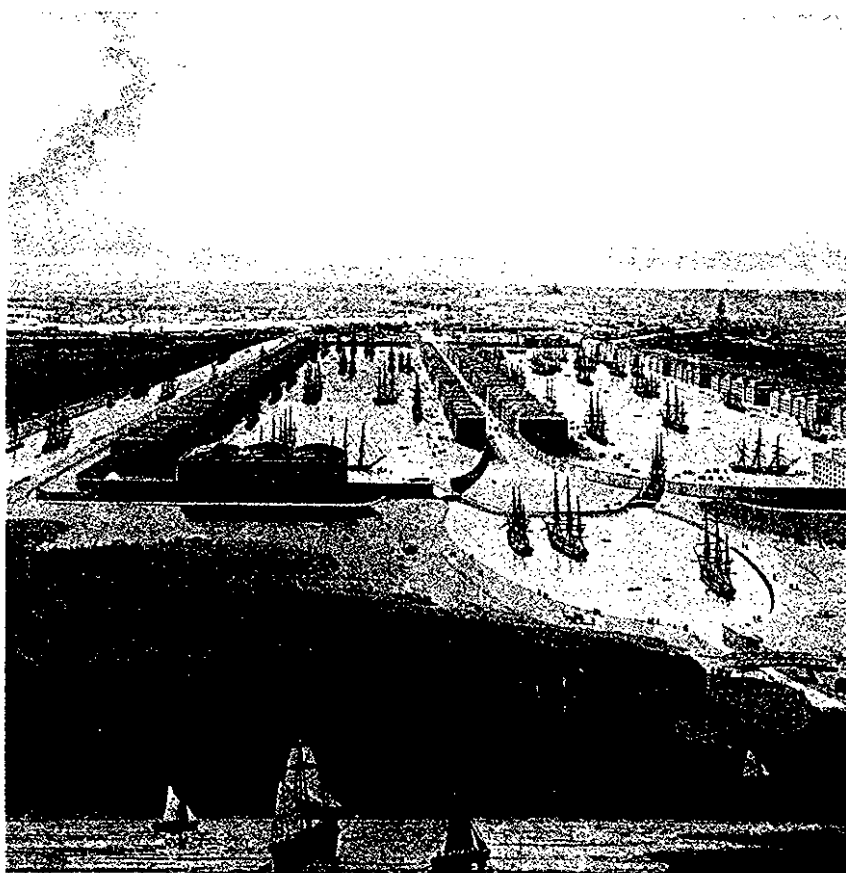
Annual Report and Accounts 1996



B10 *B4QG5NYB* 108
COMPANIES HOUSE 09/08/96

Contents

3	Chairman's statement	22	Remuneration Committee Report
4	Group Managing Director's report	25	Environmental Audit Committee Report
6	Financial review	26	Audit Committee Report
8	Thames Water people in action	26	Internal financial control
10	Group operations	27	Statement of Directors' responsibilities: Auditors' Report
11	Rainfall in England and Wales	28	Consolidated profit and loss account
12	Utility operations	28	Statement of total recognised gains
16	Products and Services	29	Consolidated and Company balance sheets
17	International Operations and Process Contracting	30	Consolidated cash flow statement
18	Board members	30	Notes to the consolidated cash flow statement
19	Directors' report	32	Notes to the accounts
21	Corporate Governance	52	Group five year summary
		53	Shareholder information

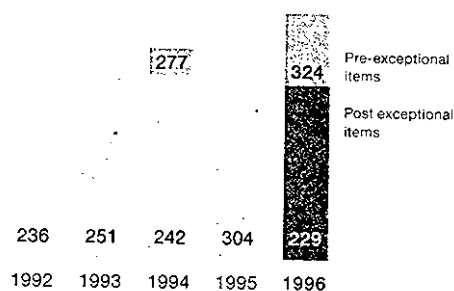


Left: West India Docks 1805 by William Daniell
Cover: View over Millwall Dock

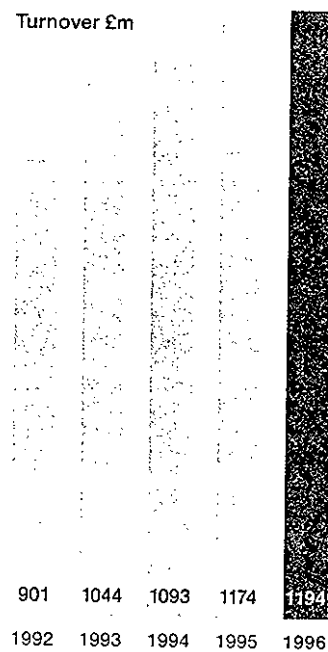
Financial highlights

Year ended 31 March	1996 Excluding non-operational exceptional items	1996 Including non-operational exceptional items	1995
Pre-tax profit	£323.7m	£228.7m	£303.7m
Post-tax profit	£298.5m	£203.5m	£282.2m
Earnings per ordinary share	74.3p	50.7p	71.3p
Dividend per ordinary share	28.3p	28.3p	25.3p

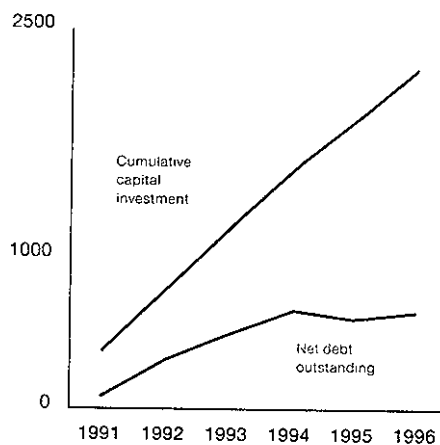
Pre-tax profit on ordinary activities £m



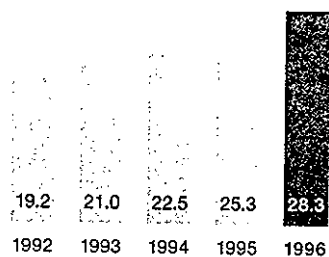
Turnover £m



Capital investment and net debt £m



Dividend per share p



Sir Robert Clarke, Chairman

*The summer of 1995 was the driest since
1976 and yet we maintained supplies
without imposing any hosepipe bans.
Standards of service to customers were
further improved.*



Chairman's statement

The year has been one of mixed fortunes. Overall profit before tax and exceptional items increased from £304m to £324m.

The Utility business had another excellent year. Further improvements were made to services, efficiency and profits. Bills to our customers remained the lowest in England and Wales.

The summer of 1995 was the driest since 1976 and yet we maintained supplies without imposing any hosepipe bans. Quality standards were further improved and our excellent environmental record was maintained.

During the year we decided to withdraw from some activities. This has entailed making provisions for exceptional cost items of some £67m plus a goodwill write back of £28m. Accordingly, after these one-off exceptional items, earnings per share fell from 71.3p in 1994/95 to 50.7p. I am sure these changes are right for the Company and will improve long-term shareholder value.

The products, property and insurance businesses also performed well, but the design and contracting businesses did not. Trading in Germany was poor and there was an adverse outturn on a contract in Hong Kong. We were however successful in securing a number of long-term operating contracts, which I am confident will produce positive unregulated earnings well into the next century.

Strategy

We carried out a strategic review of all our

businesses during the year. On 21 March 1996, I announced the following key decisions from this review:

- to concentrate resources on the further development of the utility business
- to implement successfully with our partners the portfolio of international concessions and other long-term contracts recently won
- to develop only those products and services businesses which are closely related to core utility strengths
- to implement a managed withdrawal from stand alone design and construction business.

Management

I also announced some consequential management changes. It was agreed with Mike Hoffman, Group Chief Executive, that the change in strategy required a new top management structure. Mike accordingly left the Company on 31 March 1996 with the Board's best wishes. From that date I became full time Executive Chairman. Bill Alexander, formerly Managing Director of the Utility company, has taken on responsibility for all the Group's operations and becomes Group Managing Director. Both he and David Luffrum, Group Finance and Planning Director, report directly to me and together we form the top executive team.

Shareholders and Employees

I was delighted that, on a very wet and windy September day some 5,000 shareholders visited us on our Open Day

at the superb new water treatment works at Walton in Surrey. This year's Open Day is at Farmoor in Oxfordshire. An invitation to attend is enclosed with this report.

The Open Days provide not only an opportunity to view our technology but also to meet some of our employees. They are rightly proud of their achievements and I thank them all for their effort and commitment in another year of major change.

We have redefined our strategy and from a strong financial base are confident we will continue to add value in the core Utility operation. Our non-regulated activities, refocused to build on the core Utility strengths, will support our commitment to significant real dividend growth in the years ahead. At the Annual General Meeting a 12% increase in the dividend for 1995/96 is being recommended. We are also seeking powers to buy back some of the Company's shares at an appropriate time.

We remain confident that substantial real dividend growth will be possible alongside the provision of quality customer service at highly competitive prices.



Sir Robert Clarke, Chairman

Group Managing Director's report

Operating Review

Most divisions made good progress in a year when a comprehensive review of strategy was completed. The trading performance of each of the business divisions and my view of the future are summarised below.

Utility Operations

The Utility increased operating profits by 8.5% to £387m on turnover of £975m, up 6%. Operating costs were again tightly managed and kept well below the rate of inflation, rising just 0.8% excluding depreciation and infrastructure renewals.

The year saw unprecedented demand for water during one of the driest summers on record. By careful resource management and forward planning we were able to maintain supplies to our customers without imposing restrictions such as hosepipe bans and without large-scale interruptions to supply.

The standards achieved by our sewage treatment works again improved the quality of the water in the Thames and its tributaries. London is acknowledged to have the cleanest metropolitan estuary in the world. There are significant runs of salmon in the Thames and the otter has returned to the Kennet.

Our service standards to customers as measured by the Office of Water Services (OFWAT) have again improved. The principal service standards are shown in the table on page 13.

Market research has shown that our customers wanted to know more about

the Utility's activities. In response we launched our first television advertising campaign to improve information to customers about our work.

We are committed to managing our extensive capital investment programme to deliver all of our obligations in a very efficient manner. We are currently spending on average £350m a year to improve and upgrade our capital infrastructure. Some examples of this work are:

- improving the treatment of drinking water quality at many plants including the upgrading of Ashford Common, now one of the largest water treatment works in Europe
- extensive refurbishment of 20 sewage treatment works
- a wide range of construction projects to remove the risk of flooding from sewers
- two major sludge incineration projects to comply with the requirement to cease the disposal of sludge into the North Sea by 1998.

Capital expenditure efficiencies were achieved through rigorous asset planning, innovative research and design and strong project management.

Products and Services

During the year the division made good progress towards specialisation in the niche markets of municipal water and wastewater services, and made an operating profit of £4.3m on turnover of £156m.

To increase their focus, the

management of our environmental services companies was brought closer to the core of our operations in the Utility. The Permutit operations in the UK, Australia, Egypt and South Africa were sold, as were Homē and Houseman in Holland. Flocovery in the USA has been closed.

International Operations

On turnover of £92m the division made an operating loss of £41m, which included £10m spent on marketing and pre-contract activities. The trading performance in activities to be discontinued accounted for a loss of £31m and was mainly due to the poor performance of our company in Germany (UTAG) and an adverse outturn on a contract in Hong Kong.

During the year we secured six major long-term schemes in Turkey, Australia, China, Malaysia, Thailand and Puerto Rico. Work on these is progressing well.

Following the strategic review we decided to concentrate on this portfolio of concessions and other long-term operating contracts and to initiate a managed withdrawal from design and construction operations. Consequently we intend to sell UTAG and PWT in the UK and close Waste Solutions in the USA.

Property and Insurance

Operating profit in the property companies increased to £10.6m on turnover of £21m. Our strategy to develop surplus land has been successful and is

now producing a steady income. New ventures to develop a number of opportunities jointly with property developers have been agreed and will make an important contribution to Group profit. At Barn Elms a scheme to construct a wildfowl reserve and 320 new homes is progressing well. This scheme, unique to a capital city, is the result of a collaboration with the Wildfowl and Wetlands Trust and Berkeley Homes.

Our captive insurance company (Isis) made an operating profit of £1.9m (£3.1m) and generated net investment income of £6.6m. Isis had £49m of investments at the year end, valued individually at the lower of cost or market value.

Employees

We place great emphasis on employee development and communication. In particular we take care to ensure that our staff are well trained and motivated.

Our programme of continuous development has been maintained and in the Utilities division much progress has been made in providing training that has national accreditation. As a result of this programme 600 employees now have a full National Vocational Qualification (NVQ).

During the year we commissioned a second employee opinion survey within the Utilities division. The results of the survey are being evaluated and will provide valuable information to help shape our future employee and management development activities.

This year we have welcomed to the Group 950 employees in Malaysia and Australia and are building the business relationships between our overseas operations and the UK.

Research and Development

During the year we successfully introduced advanced water treatment technologies developed by the Utility over the past five years. Thames Water's customers are now receiving higher drinking water quality than ever before. We continue to research ways into improving the quality and taste of drinking water, including new methods to renew mains and new disinfection techniques.

We are developing a novel risk and consequence computer model to predict and thereby reduce mains bursts and consequential water loss. A large-scale demonstration plant to treat biodegradable municipal wastewater is underway at Maple Lodge Sewage Treatment Works (STW). This process doubles the amount of recoverable energy and reduces the volume of waste at landfill sites. We are also developing advanced monitoring and computer modelling techniques to reduce the risk of flooding to property.

The Future

The key decisions from our strategic review of all our business activities are summarised in the Chairman's statement.

We have again demonstrated the strengths of our core business and are



Bill Alexander

confident of delivering continuing improvements in services alongside further efficiency gains.

By concentrating our resources on the further development of the Utility businesses and by rationalising the remainder of our businesses we have established a group highly focused on its core strengths.

Bill Alexander, Group Managing Director

Financial review

Financial Results

Group operating profit increased by 2% to £366m. The operating margin of 30.6% was marginally higher than the 30.5% in the previous year. The improvement in operating profit is mainly due to:

- an excellent performance in the Utility despite additional costs imposed by the exceptionally dry summer
- an increased contribution from insurance operations and property development
- improved margins from our Products and Services Division.

These improvements were partly offset by a poor trading performance in stand-alone design and contracting activities.

Group profit before tax and non-operating exceptional items increased by 6.6% to £324m. Turnover was 2% greater at £1,194m.

As a consequence of the strategic review a non-operating exceptional charge of £67m has been made relating to write down of assets and reorganisation costs. In addition, £28m of goodwill, previously written off to reserves on acquisition has been charged back to the profit and loss account.

The tax charge for the year was £25.2m. This was almost wholly advance corporation tax (ACT) on the dividend distribution. The tax charge was reduced by £4.3m as a result of some shareholders electing to take their dividend in shares rather than cash. The Group will become a payer of mainstream corporation tax next year.

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 4.2% to 74.3p. As a result the Board propose to continue its policy of real dividend growth.

Shareholder Returns

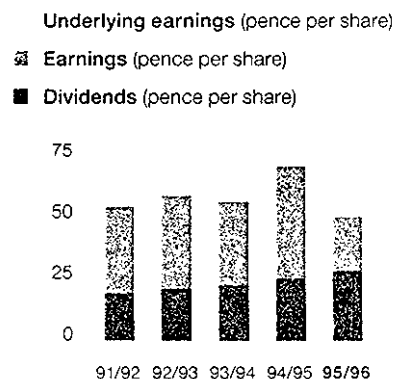
There were 401.6m shares in issue on average during the year. This was an increase of 1.4% over the previous year and largely arose from the decision of half our private shareholders to take dividends in the form of new shares. An increase of 12% in the dividend per share to 28.3p is proposed. This is covered 2.6 times by earnings before non-operating exceptional charges. After exceptional charges dividend cover is 1.8 times.

The increase in shareholders' funds of £135m is analysed in note 14 to the accounts. In addition to retained profits, there were positive movements from the issue of scrip dividends (£16m) and the exercise of share options (£3m), offset by adverse movements of £1m in respect of currency translation differences and share issue expenses.

Before exceptional items, the return on shareholders' funds was 14%, compared with 14.6% in 1994/95.

Capital Assets and Capital Structure

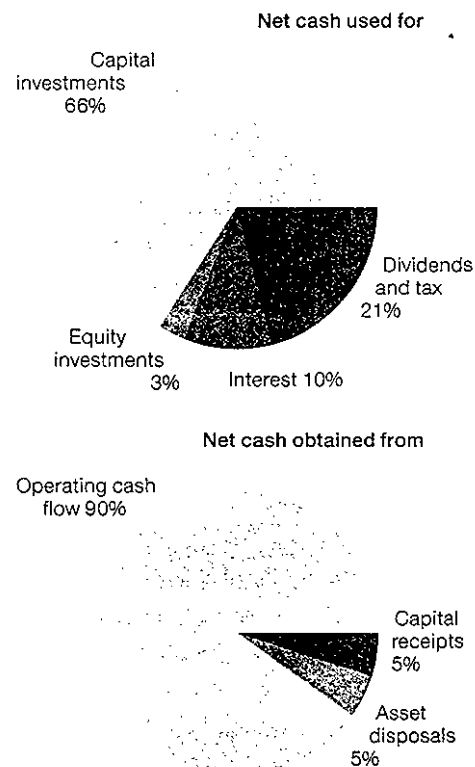
Total investment in fixed assets during the year was £349m, of which £337m was in



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. In addition £15m was invested in joint venture companies to commence our equity participation in major overseas operating concessions and build, operate and transfer (BOT) schemes.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity. The chart right, shows the current maturity profile of the gross debt of £917m outstanding at 31 March 1996.

Interest costs reflect mainly the timing



of debt raised. Falls in short-term interest rates during 1995/96 are reflected in a reduction in the weighted average interest rate to 8.3%, from the 8.5% average in the previous year. Interest of £20m was earned on short-term deposits placed during the year which at the year end amounted to £276m. Interest in the year was covered 7.6 times by underlying earnings.

Future Financing

The water industry is a capital intensive business. Investment requirements will remain high in the second half of the decade. Last year we set ourselves an internal investment target of £1.75bn up to the year 2000, to meet all service obligations. Investment of £337m during 1995/96 in the Utility company is on track with this target. Assuming no fundamental changes are made to the regulatory arrangements or tax regime, these investments can be financed with only modest changes in gearing.

At the Annual General Meeting on 30 July 1996 powers will be sought to buy back up to 10% of the Company's shares at an appropriate time.

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. Treasury is managed as a cost, not a profit centre.

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

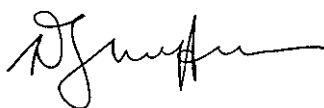
A framework of credit criteria to ensure acceptable counter-party risk across a broad range of financial transactions is now well established.

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 34%.

Going Concern

The finances of the Company are sound and the balance sheet remains strong. Gearing was 29.6% at the year end, marginally less than in 1994/95. 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.

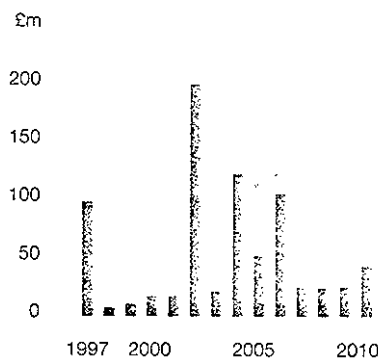


D J Luffrum, Group Finance and Planning Director

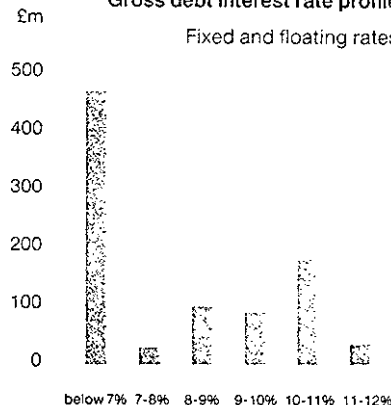


David Luffrum

Gross debt maturity profile



Gross debt interest rate profile
Fixed and floating rates



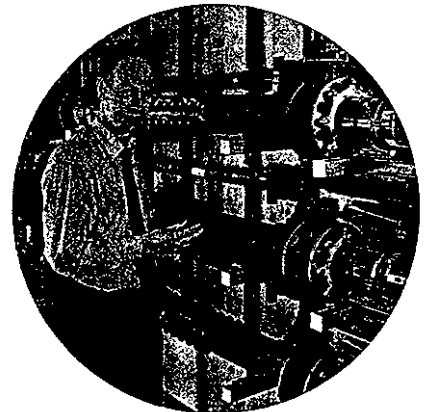
Thames Water people in action



Careers Fairs provide an opportunity for young people to discover the advantages of a career with Thames Water. Richard Hawksworth, Graduate Recruitment and Development Officer, is on hand at a Careers Fair to discuss the Graduate Business Development Programme with potential applicants. Thames Water recruits about 20 graduates each year.



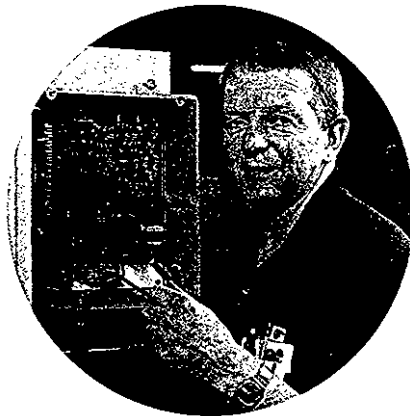
Paula Middleditch, Process Manager, at Beckton, where Thames Water's largest power station is located. This Combined Gas and Steam (CoGAS) power plant turns biogas released during sewage treatment into electricity. Last year 4.3 megawatts of electricity from this power station were exported to the national grid.



Dr David Holt, Project Manager for Water Quality Research, with Thames Water's experimental piping. This is a 1.4km system of pipes which can mimic the exact conditions found in any local pipe network. Scientists use it to study the changes that can occur in water as it travels from treatment works to customers. This research helps to ensure that the water our customers receive is of the highest quality.



Cathy Hooper, receptionist at the Customer Centre in Swindon. Cathy's contribution to high standards of Customer Service was recognised in November 1995 when she was chosen as the 'Customer Centre Employee of the Month'. All Thames Water's 6,200 employees undergo training in customer service awareness.



At the F B Leopold Company manufacturing facility in Zelienople, Pennsylvania USA, lead maintenance mechanic Sid Wawrzynski puts the final touches on the wiring of a Leopold Valve Pac Controller. The group has recently been merged with the Ashbrook operation in Houston and provides a single manufacturing facility for the enlarged Group.



Kathy Hodgson, Construction Engineer, on site at Kempton, one of Thames Water's most advanced water treatment works. In the background is a new Primary Clarifier. Water which has already been used in the actual process of purifying drinking water is treated as wastewater. The Primary Clarifier is the first stage of treatment for this wastewater before it is returned to the river system.

Group operations

The Thames Water Group, with its main operations in London and the Thames Valley, has customers all over the world as well as throughout the UK. The Group is divided into three divisions which together offer a range of services to industrial, commercial and municipal customers as well as to households. The key areas of business are the supply of water and treatment of wastewater, consultancy, operational management, and sale of related products and services.

Utility Operations

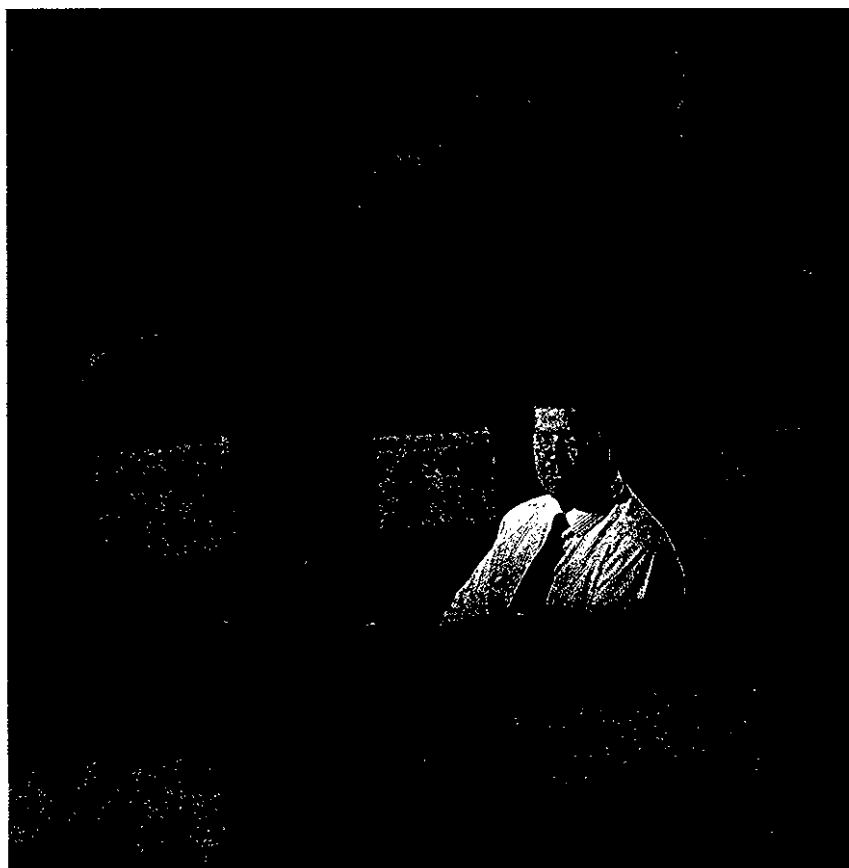
The core business of the Thames Water Group is the supply of drinking water and treatment of wastewater for customers in London and the Thames Valley. The Utilities Division is the regulated arm of the Thames Water Group which pioneers improvements in water and wastewater treatment processes, in order to deliver continually enhanced water quality.

Products and Services

Thames Water Products and Services Division provides internationally a range of water and wastewater treatment products primarily to municipal markets. Other activities include the transport and disposal of liquid and dry waste, pipeline and grounds maintenance, and other environmental services for which local authorities are major customers.

International Operations and Process Contracting

Thames Water International draws on the skills and expertise of the Utility and the Products and Services division to undertake major infrastructure projects for industrial and municipal concerns around the globe. This involves the management and operation of water and wastewater concessions, often in conjunction with a local partner overseas.



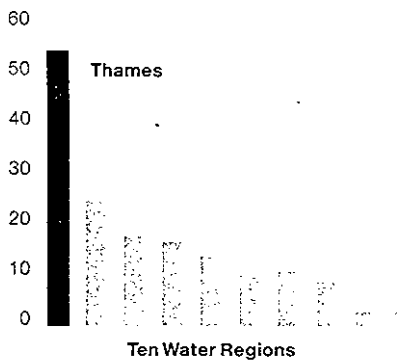
The Thames Water Ring Main Control Centre. Water resources and usage for the capital are monitored closely from here. During the exceptionally dry weather last summer, Control Centre staff worked round the clock to match available supplies with the demand for water from our customers. As a result of their forward planning and resource management, Thames Water's customers suffered no restrictions on water use.

Rainfall in England and Wales

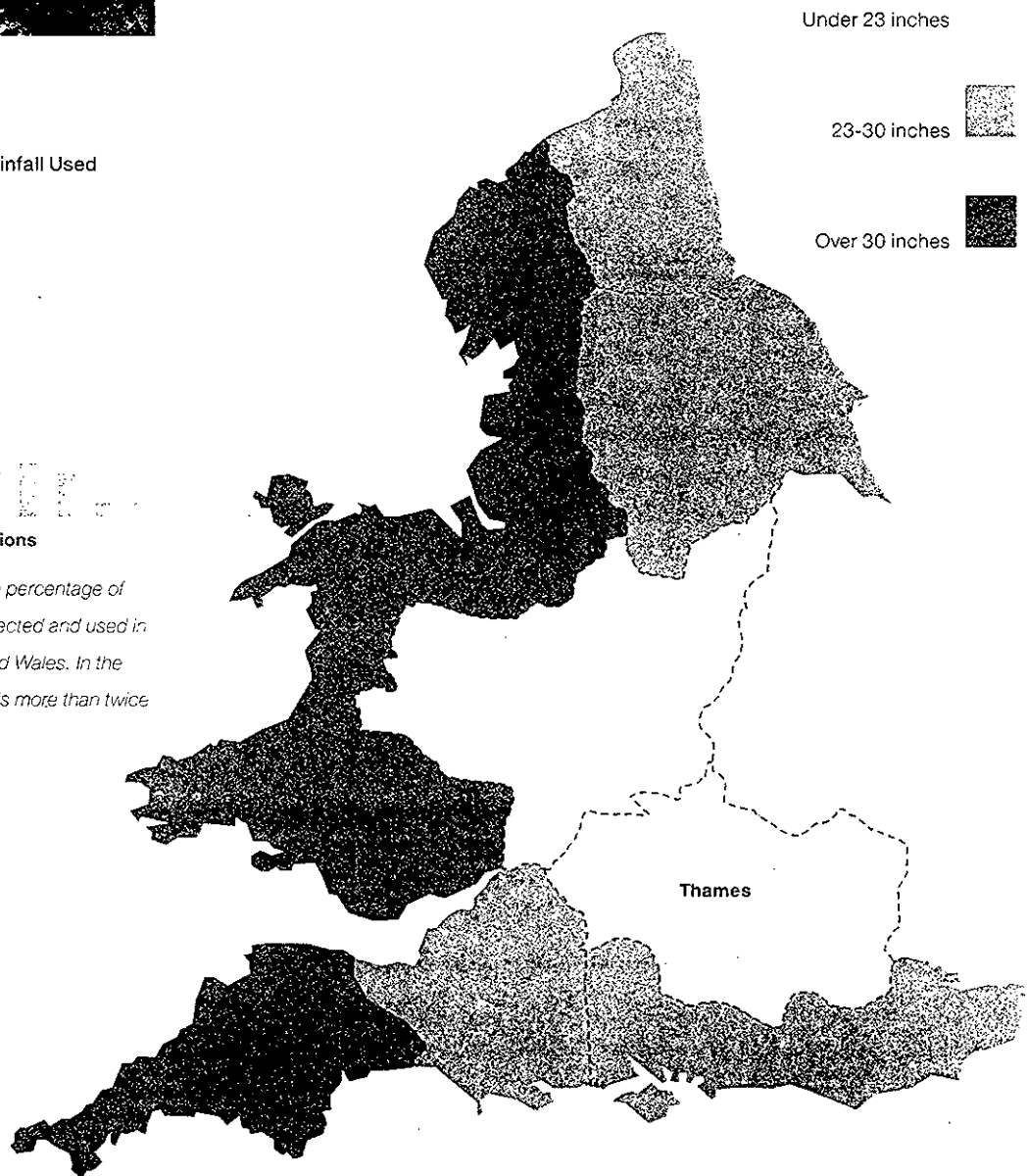


The water regions of England and Wales
 The year ended March 1996, was one of the driest on record. Rainfall in England and Wales is illustrated below. The rainfall in the Thames catchment area is the most intensively used in the UK.

Percentage of Effective Rainfall Used



The graph shows the average percentage of Effective Rainfall which is collected and used in the ten regions of England and Wales. In the Thames region, the utilisation is more than twice that in any other region.



Utility operations

Customers

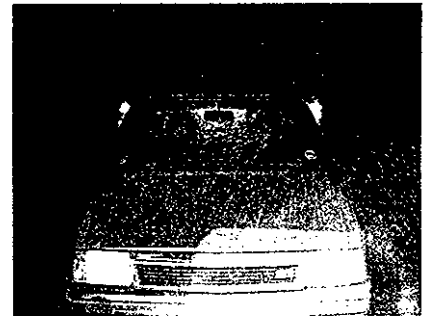
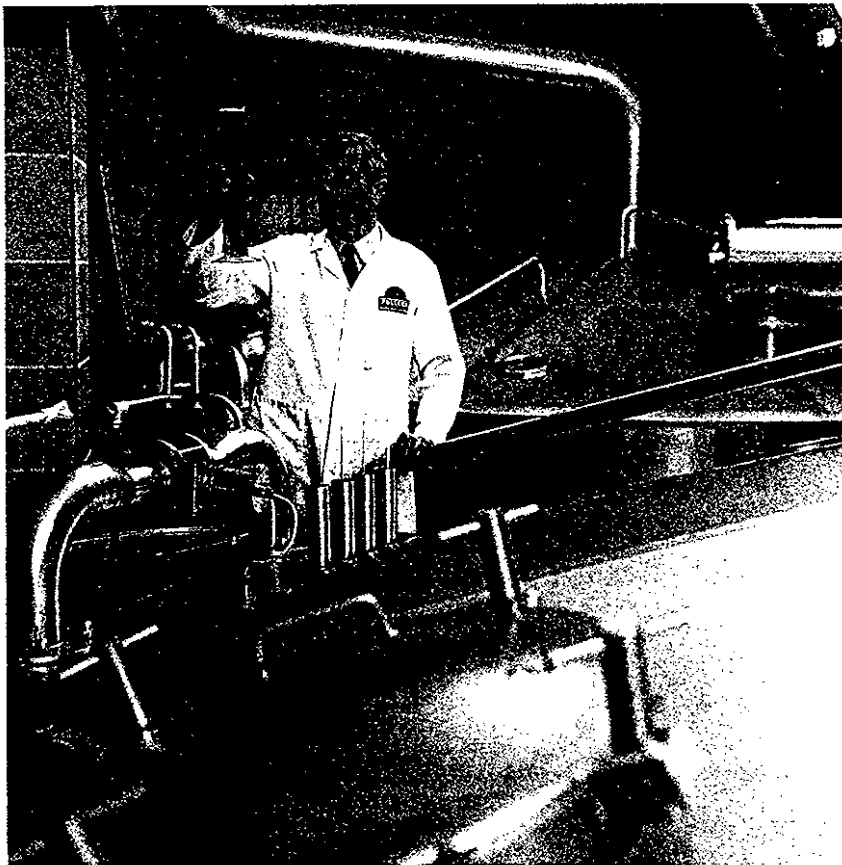
The Utilities division forms the core of the Group's activities, supplying over 7m people with drinking water, and collecting and treating wastewater from 11m people in London and the Thames Valley. We also provide services to more than 280,000 business customers.

Products

Each day on average we supply 632m gallons of water from our 360 service reservoirs and 98 water treatment works. We also clean up some 850m gallons

of wastewater at our 365 sewage works. Water is transported through some 31,000km of mains and wastewater through 81,000km of sewers. 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.

Water is an essential raw material for brewing beer. Pictured here is the Fuller, Smith and Turner Brewery at Chiswick.



Many car washes nowadays recycle the water they use, helping to minimise waste and conserve resources.

Our Service to Customers

Despite the very hot summer of 1995 we maintained supplies to customers without imposing restrictions and without large-scale interruption to supply. An all-time record amount of water was put into supply – in some places the demand for water reached a peak of 25% above normal. We were grateful to our customers for limiting the water they took at times of peak demand.

This performance reflected a year of effort to improve the Company's care for customers. During the year, 6,200 employees (98%) attended a two-day course on customer awareness. Our Customer Centre in Swindon is a one-stop shop operating 24 hours a day, 365 days a year. Its workload included 3.0m customer contacts of which some 2.3m were by telephone and each telephone enquiry was answered in under 20 seconds on average.

Our first television advertising campaign last autumn was a response to



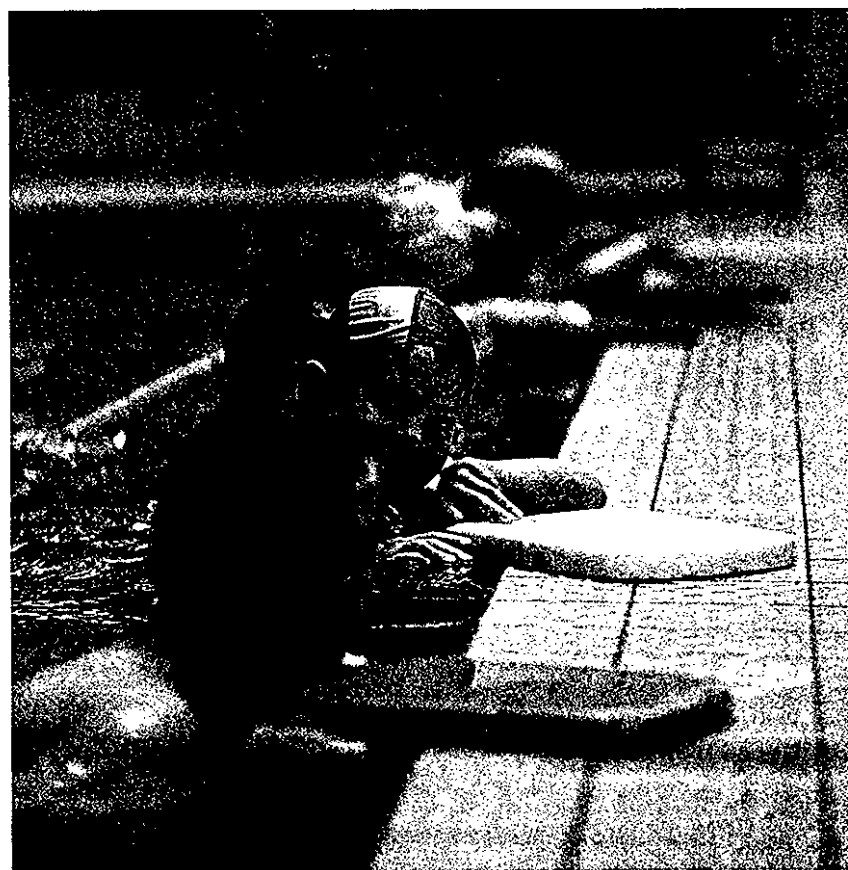
	1996	1995	1990
Drinking water quality compliance	99%	98%	95%
Wastewater quality compliance	99%	98%	84%
Water use restrictions compliance	100%	100%	22%
Response to customer billing queries	v. good	good	v. poor
Response to written complaints	v. good	good	v. poor

market research showing that 90% of customers wanted more information about Thames Water. It resulted in a significant improvement in customer perception of the Company's achievements and a higher customer satisfaction rating. Our radio advertisements giving advice during the summer were also well received.

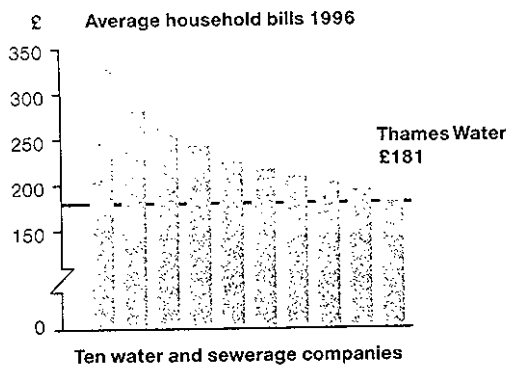
Service standards have continued to improve since 1990, the first year after privatisation, as the chart here shows.

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

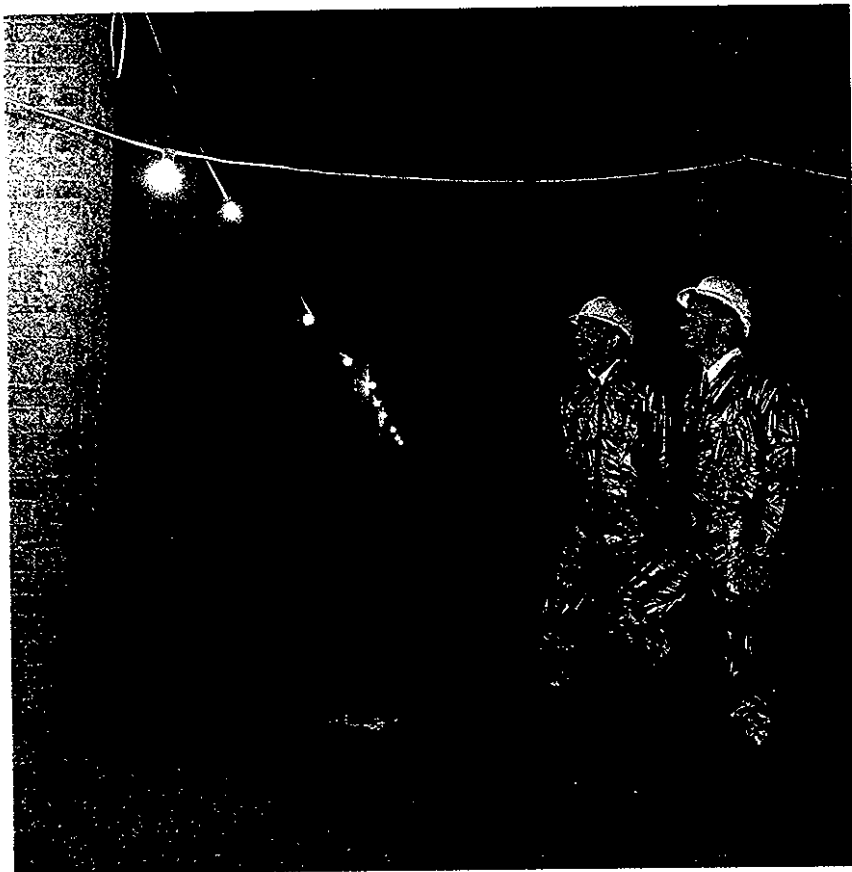
Above left: On average, nearly 14% of the water used in the home is by the washing machine. Below: pupils of the Valley Road School enjoying their swimming lessons. Thames Water's Swimming and Safety Scheme funds training for teachers to learn how to teach children to swim. Since 1993 over 2,000 teachers have taken courses linked to the scheme.



Above left: Reardon Court Nursing Home in Enfield. We give special consideration to customers whose health depends on an uninterrupted water supply, such as customers who use dialysis machines.



Below: a rare view of one of Thames Water's hidden assets. Larger than a full size football pitch, the underground reservoir at Highgate has been drained for routine inspection and maintenance this year. Originally built in 1855, it holds 68 million litres and will continue to supply customers in the Camden and Islington areas well into the next century.



Investment

Our ability to maintain supplies last summer owed much to our annual investment programme (£337m in 1995-96). Four projects in particular supported our success in maintaining supplies:

- the completion of a final link in the Thames Water Ring Main increased the flexibility of supply to Londoners
- the opening of our unique north London Artificial Recharge Scheme, which puts surplus winter water into a huge underground aquifer to help meet summer demand
- the adding of links in the water mains systems to the west of our area to provide a 'mini ring main' to improve the security of supplies to customers in Berkshire, Oxfordshire and Swindon
- the intensification of our leakage reduction programme which has already saved 33 million gallons per day since January 1996.

Quality

Our investment programme also produced:

- the completion of the £40m advanced water treatment works at Walton, Surrey
- further improvements in our water quality to reach our best ever results
- a further improvement in river water quality achieved by extensions and refurbishments to 20 sewage treatment works
- a commendation from the National Rivers Authority for the Tideway in London – the cleanest metropolitan estuary in the world

- the completion of 31 projects to reduce the risk of flooding from sewers and the startup of the north London Flood Relief Scheme will protect 1,600 properties by 1998.

A Better Environment

Care for the environment remains one of our key principles; during the year we:

- began a campaign to help customers conserve water, winning a silver medal at the 1995 Chelsea Flower Show for a water efficiency display
- launched the 'Bag It and Bin It' campaign to encourage domestic customers to avoid disposing of certain waste through the sewer system
- screened all investment projects for environmental impact.

The Environmental Audit Committee's review of environmental performance is shown on page 25.

The Future

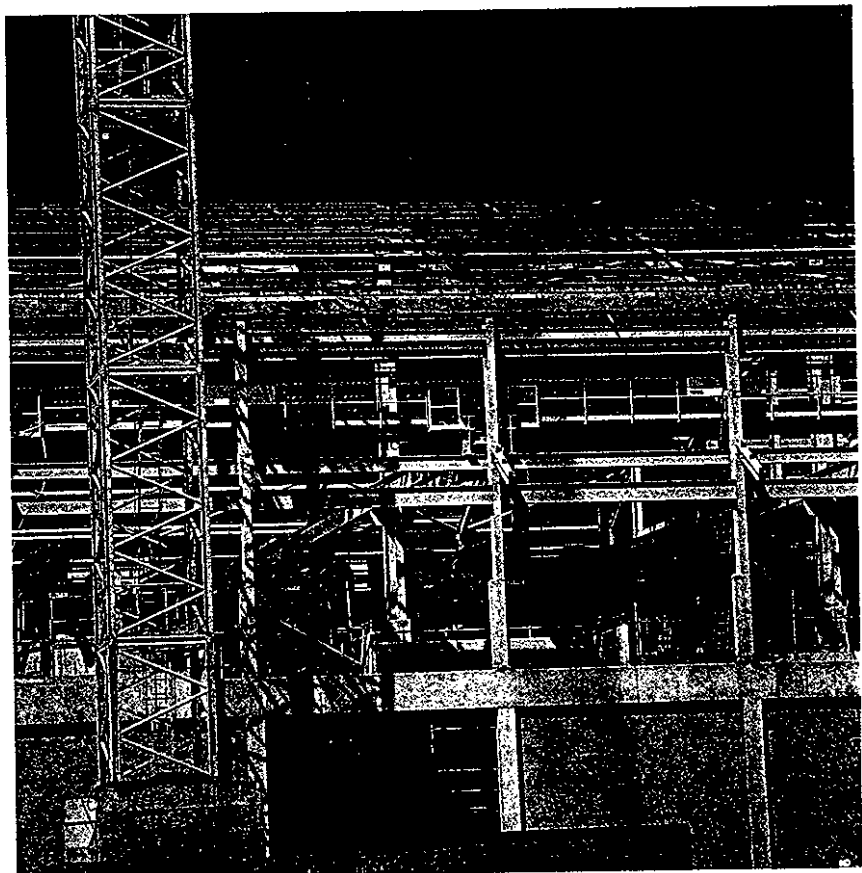
We are on target to invest £1.75bn in new assets over the five years to March 2000, to improve still further our services. We shall continue to invest in the people we rely on to deliver them.

Our programme to reduce operating costs will be maintained for the benefit of both customers and shareholders.

The average combined charges we make to our domestic customers remain the lowest in England and Wales. We shall continue to offer a very competitive water supply tariff for large users.



Above: the Mead Lake conservation area on the Thames Waste Management site at Norlands Lane, Chertsey. Below: construction of a state-of-the-art sludge incinerator at Beckton. Two new incinerators at Beckton and Crossness will enable Thames Water to comply with legislation which ends the disposal of sewage sludge at sea in 1998.



Products and Services

Operating mainly in the UK and USA, the Products and Services Division consists of 13 companies in five business groups.

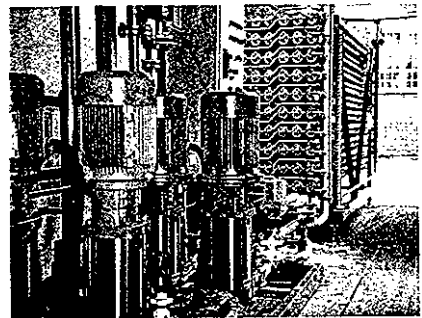
During the year continued progress was made to reorganise the products companies by selling the industrial companies and concentrating on municipal markets. Permutit (UK), Permutit (Australia), Homé/Houseman (Holland), Permutit (South Africa), Permutit (Egypt) and WTS (USA) were sold. Flocovery in the USA was closed.

The retained operations have been clearly focused to concentrate on

developing products to suit the local municipal markets which they serve.

Thames Municipal Products (TMP) is the business group which supplies emergency water treatment equipment, pipe fittings, meter reading and chlorination equipment. Trading conditions during the year were difficult except for the new Talisman metering business. All businesses were profitable.

The Municipal Treatment business group mainly produces process equipment for the municipal treatment market. Leopold (USA) supplies filtration



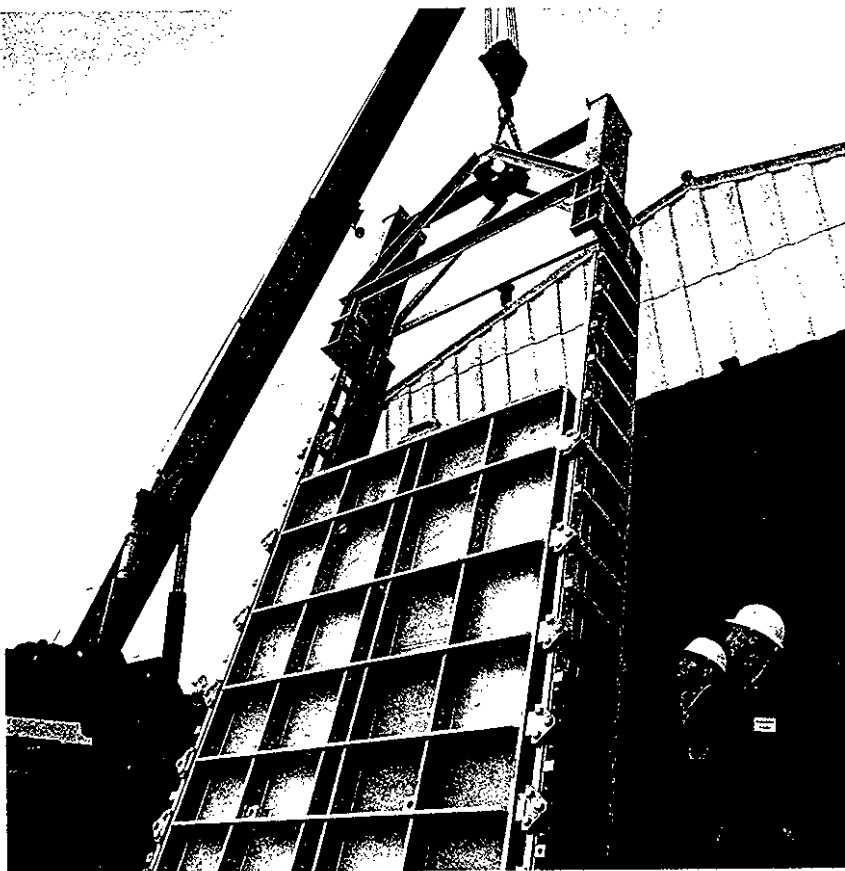
The Fyne Process plant installed at Tomnavoulin, Grampian. The Fyne Process uses PCI's membranes to remove colour from peaty waters.

equipment to municipal water utilities. Ashbrook (USA) and Simon Hartley (UK) supply presses to municipal and industrial customers. This group earned good margins.

Providing services to municipal and commercial customers, the environmental group consists of Thames Waste Management and Brophy Grounds Maintenance. Progress was made during the year in securing major contracts with a number of utilities and local authorities and they returned satisfactory trading performances.

The Underground Services companies include a division of Brophy, Morgan Collis, MetroRod and Subterra. They provide pipeline management, survey, relining and cleaning services to utilities. Trading conditions in these markets were weak, resulting in losses.

PCIMS supplies membrane separation equipment to municipal and industrial customers. The company had a highly profitable year.



A stainless steel penstock, designed and manufactured by Simon Hartley for the refurbishment of the Abbeymills Pumping Station.

International Operations and Process Contracting

The division comprises the companies within the Group that during the year supplied contracting, consultancy and operational management services to other water and wastewater utilities.

It was decided as part of the Group strategy review to concentrate on international concessions and other long-term contracts, and to implement a managed withdrawal from stand-alone design and construction businesses.

As a consequence contracting operations, mainly concentrated in Germany (UTAG) and the UK (PWT Projects) are for sale, and discussions with potential purchasers are proceeding. Waste Solutions in the USA has been closed.

Six major long-term contracts were won with operating periods of up to 25 years. The largest of these at Izmit in Turkey, a Build Operate Transfer (BOT) project, will supply water to 1.2m household and industrial customers. In Malaysia we have been operating the State of Kelantan's water supply system for 500,000 customers. The contract has been successfully underway since August 1995.

At Pathum Thani in Thailand we have established a joint venture BOT project to provide water treatment and associated mains, storage and pumping stations to serve 800,000 customers. With our partners Bovis, we have started a BOT contract to serve 500,000 customers in the Da Chang area of Shanghai in China.

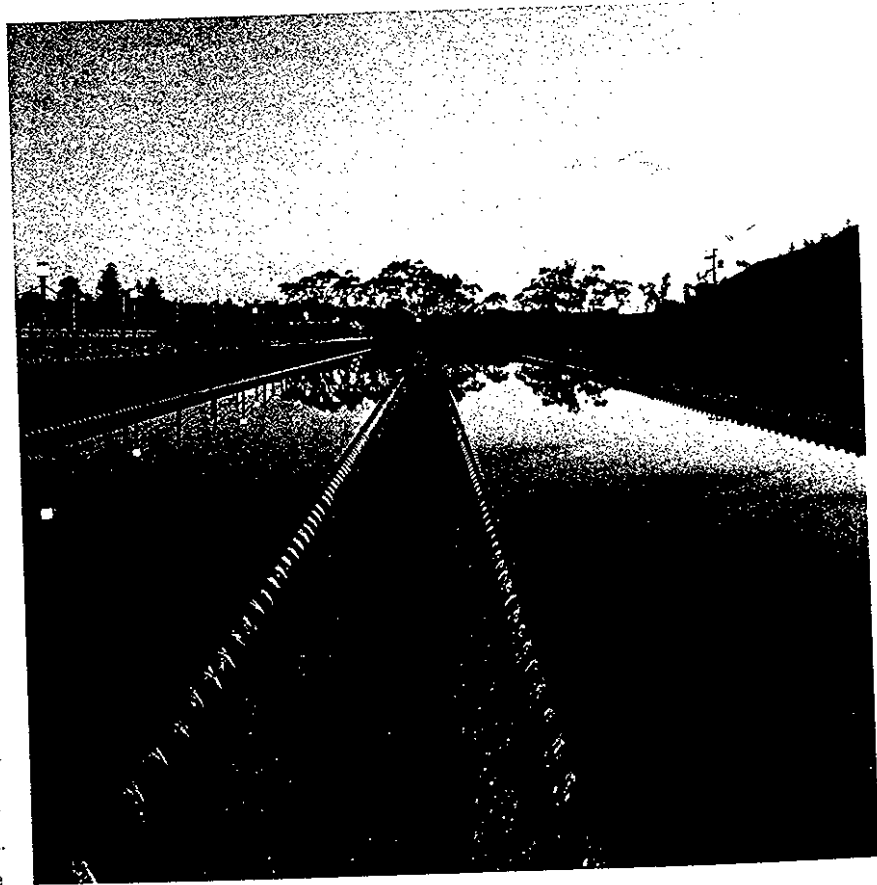
In association with Compagnie

Générale des Eaux, we have taken over the operation and management of water and wastewater systems serving 1.2m customers in Adelaide, South Australia.

In Puerto Rico the division has won a contract with the Dick Corporation of the USA to supply design, consultancy and operating services for a major water transfer scheme, initially for five years. The concession may eventually extend to 20 years.



Above: inlet to a water treatment works at Kelantan, Malaysia, where Thames Water International has a concession to operate and develop the water supply system for 0.5m customers.



Above right: water treatment installation in Adelaide, Australia, where Thames Water International and Compagnie Générale des Eaux have won a competitive concession to manage the water and wastewater systems serving 1.2m people.

Board members

Executive Directors

1 Sir Robert Clarke MA (67) Chairman
Appointed to the Board of Thames Water Authority in July 1988 and became Chairman of Thames Water Plc on 1 April 1994. Chairman of Share Dealing and Nomination Committees.

2 Bill Alexander C Eng (49)
Group Managing Director, was appointed to the Board of Thames Water Plc in April 1994. A Chartered Engineer, he joined Thames Water as Engineering Director in 1989 and was appointed Managing Director of Thames Water Utilities Limited in February 1992. Amongst his responsibilities was the construction of the Thames Water Ring Main.

3 Bill Harper IPFA (52)
Group Director, Corporate Strategy, was appointed to the Board of Thames Water Authority in March 1989. He joined Thames Water Authority in 1974 as Chief Accountant. He was Managing Director of Thames Water Authority 1985-1989, Deputy Chairman of Thames Water Utilities Limited 1989-1992, Deputy Chairman of Thames Water International 1992-1994, and Divisional Director, Products and Services 1994-1996. He is a member of the Environmental Audit Committee.

4 David Luffrum IPFA (51)
Group Director, Finance and Planning, was appointed to the Board of Thames Water Authority in March 1989. An accountant, he joined Thames Water Authority in 1974, having previously held financial posts in the Thames Conservancy. He became Finance Director of Thames Water Authority in 1987. He is a member of the Charities Committee.

Group Company Secretary

5 David Badcock MA (51)
Appointed Secretary to the Board of Thames Water Plc and all Board Committees in October 1995. Joined Thames Water Authority as Secretary in 1986, was appointed Secretary and Legal Director, Thames Water Utilities Limited in 1989, a post he continues to hold.

Non-Executive Directors

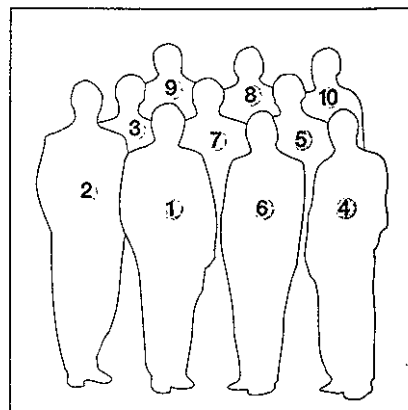
6 Sir Christopher Leaver GBE (58) Vice Chairman
Appointed to the Board of Thames Water Authority in 1983. He was Chairman of Thames Water Plc from May 1993 to March 1994. Chairman of Remuneration and Charities Committees, member of Nomination and Audit Committees. He is Director of Unionamerica Holdings Plc.

7 Roger Carr (49)
Appointed to the Board of Thames Water Plc in November 1994. Member of the Nomination, Environmental Audit and Remuneration Committees. He is Chief Executive of Williams Holdings PLC, a director of Forte City Technology College and a member of the CBI Economic Affairs Committee.

8 Tony Hobson (48)
Appointed to the Board of Thames Water Plc in November 1994. He is Group Director (Finance) of Legal & General Group Plc. Member of Audit, Remuneration and Share Dealing Committees.

9 John Thomson MA (68)
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, Wellington Underwriting plc and Vice Chairman of J Bibby & Sons plc.

10 John Worlidge MA (68)
Appointed to the Board of Thames Water Authority in 1988. Chairman of Environmental Audit Committee and member of the Remuneration Committee. Trustee Director of the Thames Water Pension Scheme.



Directors' report

The Directors present their seventh Annual Report together with the audited accounts for the year ended 31 March 1996.

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 the marketing of technical managerial services
- the development and manufacture of products for the treatment of water and wastewater
- the provision of underground, waste management and environmental 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 plans for the future are given in the Group Managing Director's report on pages 4 and 5.

Profits and Dividends

The Group profit for the year attributable to shareholders was £203.5m (1994/95 £282.2m). 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 19.1p per share, making a total for the year of 28.3p, amounting to £114.2m.

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 below Plc Board level 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 1995. It is intended that a further appropriation will be made in respect of the year ended 31 March 1996.

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

Health and Safety

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

Employment of the Disabled

The Group recognises its responsibility for the employment, training, career development and promotion of disabled persons. Every effort is made to continue to employ those who become disabled while working for the Group.

Capital

Ordinary shareholders were allotted

3,108,839 ordinary shares consequent on the offer of a scrip dividend.

During the year 676,045 ordinary shares were issued to holders on the exercise of their options under the Company's Sharesave Scheme.

Options for 316,000 ordinary shares were exercised during the year under the Company's Executive Share Option Scheme. Under the Company's Profit Sharing Scheme for employees 152,855 ordinary shares were issued.

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. All the Directors served on the Board throughout the financial year. Sir Peter Harrop retired from the Board on 25 July 1995 after serving Thames Water Plc and Thames Water Authority since 1986. Mr M R Hoffman left the Company on 31 March 1996 following the Board's announcement of the outcome of its strategic review. Details of his compensation arrangements for early termination of contract are given on page 24. On 1 April 1996 the Chairman, Sir Robert Clarke, took on a full-time Executive role; Mr W J Alexander became Group Managing Director; Mr D J Luffrum took on the role of Group Director, Finance and Planning, and Mr W R Harper that of Group Director, Corporate Strategy.

In accordance with Article 105 of the Company's Articles of Association Sir Robert Clarke, Mr J M Thomson and Mr W J Alexander will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election.

Sir Robert and Mr Alexander, as

Executive Directors, have service contracts with the Company, subject to termination by one year's notice. In common with other non-Executive Directors, Mr Thomson does not have a service contract with 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 tables on pages 24 and 37 for Executive Directors and non Executive Directors respectively. No Director had any non-beneficial interest in the shares of the Company. There were no changes in the Directors' registered interests in the shares of the Company during the period from 1 April 1996 to 21 June 1996 other than Sir Christopher Leaver who acquired an interest in a further 606 shares by means of a bequest. None of the Directors had any beneficial interest in the shares of any subsidiary company.

Executive Share Options

In accordance with the statement made in the 1995 Interim Report, no further share options have been, or will be, awarded under the Company's Executive Share Option Scheme to Executive Directors. During the year under review, 373,440 options have been granted to senior executives under the Scheme. Shareholder approval is being sought for a Long Term Restricted Share Plan to replace the Executive Share Option Scheme, initially for Executive Directors, but with the intention of extending it to other senior executives by 1999.

Significant Contracts

During the period under review there were no significant contracts between the Company and any of the Directors other

than contracts of service with the Executive Directors.

Substantial Shareholdings

At 21 June 1996 the Directors had been advised of notifiable interests of 4.2% in the issued ordinary share capital by Franklin Resources Inc. Clients of PDFM in aggregate accounted for 8%, on 24 May 1996.

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 Managing Director's report highlights the main areas where research activity is undertaken.

Environment

The Directors continue to regard care for the environment as one of the fundamental guiding principles of Thames Water. During the year excellent progress has been made in setting and achieving environmental targets, monitored by the Environmental Audit Committee, whose report is on page 25. The 1996 Environmental Review, which assesses progress and performance in key areas, will be published in July.

Policy on Payment of Suppliers

Thames Water actively supports a number of initiatives to promote a prompt payment culture, including those proposed by the Construction Round Table and the CBI. The implementation of these principles in the Company's arrangements with its suppliers is managed by its procurement subsidiary Connect 2020. All payment to suppliers is made on the basis of mutually agreed

terms and conditions which are established in advance of purchases.

Political and Charitable Donations

Charitable donations amounting to £114,000 were made during the year. No donations were made for political purposes during the year.

Auditors

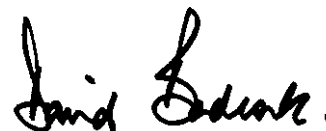
A Resolution to re-appoint Coopers and Lybrand as the Company's Auditors and to authorise the Directors to determine their remuneration will be proposed at the Annual General Meeting on 30 July 1996.

Special Business

In addition to the Ordinary Business to be transacted at the 1996 Annual General Meeting, a number of items of Special Business will be proposed. Further details of these items, together with explanatory notes, will be found in the circular accompanying this Report and Accounts. They are:

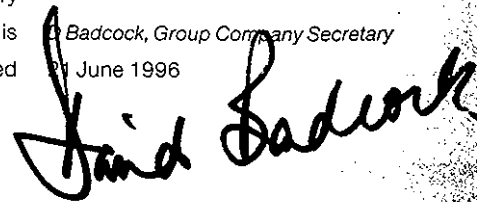
- a Resolution renewing the power granted to Directors in July 1995 to issue equity securities for cash other than pro rata to ordinary shareholders
- a Resolution approving the establishment of the Thames Water Long Term Restricted Share Plan;
- a Resolution approving the establishment of the Thames Water Cash/ Share Bonus Plan.
- a Resolution authorising the Company to make market purchases of up to 10% of the Company's issued share capital.

By Order of the Board



David Sadcock, Group Company Secretary

21 June 1996



Corporate Governance

The Directors are pleased to confirm that throughout the year the Company has complied fully with all the provisions of the Cadbury Committee's Code of Best Practice published in 1992. The Report of the Audit Committee on page 26 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. The Auditors' report on Corporate Governance matters is set out alongside.

The Board and Board Committees

For the financial year under review, the Board comprised the Chairman, Sir Robert Clarke, four Executive Directors, including Mr M R Hoffman as Group Chief Executive, and five non-Executive Directors. Mr Hoffman left the Company on 31 March 1996, and a number of organisational changes have taken place following a strategic review. From 1 April 1996, the Chairman has taken on a full time executive role. The post of Group Chief Executive has been superseded by that of Group Managing Director, to which Mr W J Alexander has been appointed. The rest of the Board comprises two further Executive, and five non-Executive Directors.

The full Board meets monthly and monitors executive management and the performance of the major business units across the Group. There is a formal schedule of matters reserved for decision by the Board, which includes overall Group strategy, business planning, major acquisitions and disposals, treasury policy and procedures, and risk management.

The work of the Board is supported by the following Committees, each of which have formal terms of reference. Membership of the Committees includes the following Directors:

Audit Committee

John Thomson (Chairman), Sir Christopher Leaver and Tony Hobson. The Audit Committee meets six times a year and assists the Board in its responsibility 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. The report of the Committee is on page 26.

Remuneration Committee

Sir Christopher Leaver (Chairman), Roger Carr, Tony Hobson, John Thomson and John Worlidge. The Remuneration Committee determines the salaries and other remuneration of the Executive Directors. The Committee's report is on page 22.

Environmental Audit Committee

John Worlidge (Chairman), Roger Carr and Bill Harper. The Environmental Audit Committee advises the Board on environmental policies and monitors the performance of the Group against agreed environmental targets. The report of the Committee is on page 25.

Share Dealing Committee

Sir Robert Clarke (Chairman) and Tony Hobson. The Share Dealing Committee considers all applications to deal in shares by Directors and senior employees so as to meet the requirements of law and of the London Stock Exchange.

Charities Committee

Sir Christopher Leaver (Chairman) and David Luffrum. The Charities Committee makes charitable donations from a budget allocated by the Board, considers community support activities and encourages charitable fundraising by employees.

Nomination Committee

Sir Robert Clarke (Chairman), Sir Christopher Leaver, Roger Carr and John Thomson. The Nomination Committee makes recommendations to the Board on Board membership and top management succession.

Report of the Auditors to Thames Water Plc on Corporate Governance matters

In addition to our audit of the financial statements, we have reviewed the Directors' statements, on Corporate Governance matters alongside and Internal Financial Control on page 26, on the Company's compliance with the paragraphs of 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 disclosed.

Basis of Opinion

We carried out our review in accordance with 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 Group to continue in operational existence.

Opinion

With respect to the Directors' statements on Internal Financial Control on page 26 and Going Concern on page 7, in our opinion the Directors have provided the disclosures required by paragraphs 4.5 and 4.6 of the Code (as supplemented by the related guidance for the Directors) and such statements 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
London 21 June 1996

Report of the Remuneration Committee by Sir Christopher Leaver

Composition and Role

The Remuneration Committee, which I chair, comprises the non-Executive Directors of the Board. The Committee members who served during the year ending 31 March 1996 were as follows: Sir Christopher Leaver (Chairman), Roger Carr, Sir Peter Harrop (until 25 July 1995), Tony Hobson, John Thomson and John Worlidge.

The Committee's primary role is to determine the salaries and other remuneration of the Executive Directors.

It does not consider the fees payable to the non-Executive Directors which are determined every two years by the Executive Chairman and the Executive Directors (see note 5 to the accounts on page 37).

Compliance

Following the undertaking given to shareholders at the 1995 Annual General Meeting, the Remuneration Committee has carried out a comprehensive review of the remuneration packages of the Executive Directors in the light of the Greenbury Report, with the assistance of internal and external advice. In the autumn of last year the Committee commissioned an independent review by Bacon & Woodrow, an outside adviser, which confirmed that your Company already complied with most of the Greenbury recommendations. Many of the Greenbury recommendations have since been incorporated in the Stock Exchange Listing Rules or annexed to them as Best Practice Provisions.

The Remuneration Committee can confirm that the Company has complied fully with Section A of the Best Practice Provisions and further confirms that the Committee has taken into account the provisions of Section B in framing its remuneration policy. Although these provisions do not fully take effect for the year under consideration, the Company has decided to adopt them early.

Pension benefits continue to be disclosed by reference to the value of employers' contributions pending a decision by the Stock Exchange on the revised basis for disclosures.

Remuneration of Executive Directors

The Remuneration Committee's objective is to ensure that the remuneration packages offered are competitive and sufficient to attract, retain and motivate top quality Executive Directors in the overall interests of shareholders and customers. The packages are reviewed every year to ensure they are supportive of the Group's business objectives and the creation of shareholder value. This year, in the light of the Greenbury Report, we have undertaken a thorough review of all aspects of Executive Directors' remuneration.

The Company uses the Hay method of job evaluation to enable comparisons to be made with jobs of similar size in other companies. The evaluation process takes into account not only the size of companies but also their diversity, complexity and international presence.

In addition, we take particular note of the comparative position of other companies in our own sector and in the Utility sector generally.

Basic Salary Basic salary for each Director is reviewed annually using data drawn from the comparator groups and the last full review was with effect from 1 July 1995. The salaries of the Chairman of the Board, the Group Chief Executive and the Managing Director of the Products and Services Division were not increased. The salaries of the Group Finance Director and the then Managing Director of the Utilities Division were increased by 7.4% and 3.5% respectively. The increases took account of performance and the prevailing market information on pay levels.

In March 1996, the Group Chief Executive left the Company and



Sir Christopher Leaver

subsequently Sir Robert Clarke became full time Executive Chairman with Mr W J Alexander becoming Group Managing Director (formerly the Managing Director of the Utilities Division).

The Committee reviewed the salary levels for these two positions and in the light of the comparative data the Chairman's salary was determined at £233,666 and the salary of the Group Managing Director determined at £185,000, both effective from 1 April 1996.

Annual Bonus The targets for the 1995/96 bonus plan were set by the Remuneration Committee. Superior performance is encouraged by providing challenging, performance goals, which must be achieved before any bonus is payable. The bonus plan includes targets linked to the real growth in earning per share (EPS) and divisional profit performance.

In 1995/96, EPS fell in relation to 1994/95 and this, taken together with the profit before tax performance of the appropriate divisions, has resulted in bonus awards ranging from nil to 6.8%. Details of bonus payments (which are non-pensionable) are shown on page 24.

The Chairman does not participate in the bonus scheme.

A revised annual bonus plan for Executive Directors has been proposed which includes demanding financial and customer service performance criteria. The plan (which will operate from 1996/97) includes an element of equity participation and is subject to shareholder

approval at the Annual General Meeting. Details have been circulated to shareholders.

Long-Term Incentives In line with the Remuneration Committee's policy decision, announced in the Interim Statement to shareholders, no further share options were granted to Executive Directors in the year ending 31 March 1996. The Chairman had previously decided not to participate in the executive share option scheme.

A new long-term incentive plan based on equity ownership has been proposed which will replace share options for Executive Directors. The new plan includes challenging performance criteria based upon a comparator group comprising the top water and sewerage companies and uses total shareholder return (TSR) over a four year period as the measure. The full award (up to 30% of basic salary) will be paid if TSR places the Company in first or second place. Third or fourth place will reduce the award to one half of the maximum entitlement and fifth place will only pay one quarter. No shares will vest if TSR places the Company below fifth place in the comparator group. Shareholder approval to the plan will be sought at the Annual General Meeting and details of the proposed plan (which will operate from 1996/97) have been circulated to shareholders.

Pensions The Company's policy is to offer Executive Directors and Senior Executives membership of the Senior Executive Pension Scheme. This scheme provides a 'top up' arrangement for benefits that accrue through membership of the contributory Thames Water Pension Scheme.

The Senior Executive Pension Scheme is a funded, Inland Revenue approved, final salary, occupational pension scheme which together with the contributory scheme provides:

(i) a normal pension age of 60;

(ii) an overall pension at normal pension age of two-thirds of final pensionable salary, subject to the completion of 20 years' pensionable service;

(iii) life cover of four times pensionable salary;

(iv) pensions payable in the event of ill health; and

(v) spouse's pension on death.

All of the pension scheme benefits are subject to Inland Revenue limits. Where benefit entitlements are restricted by Inland Revenue rules then supplementary unfunded arrangements are in place. Such arrangements exist for the Group Managing Director and were in place during the year for the former Group Chief Executive. Details are given on page 24.

The Chairman has an executive pension plan, contributions to which are through a salary sacrifice arrangement. The plan assumes a normal retirement age of 70 years.

Other Benefits Executive Directors are eligible to participate in the Group's arrangements for executive benefits which include the provision of a Company car and payment of its operating expenses including fuel, membership of private medical and insurance schemes, a financial advisory service and the reimbursement of business telephone charges.

No changes were made to the structure of other benefits but the value of car benefits was increased in line with the scales issued by the Inland Revenue.

Service Contracts

The Executive Directors, on privatisation, were appointed on contracts prepared by the Government which included three-year notice periods on the Company's side and six months' on the Directors'. In 1994/95 the three original Executive Directors voluntarily agreed, without compensation, to reduce the Company's notice period for termination from

three years to two. The subsequent appointment to the Board of Mr W J Alexander was also on the basis of a two-year notice period.


In May 1996 the Executive Directors agreed to a further reduction in notice period to one year. In the event of termination without notice, a payment of compensation would be made representing one year's remuneration and benefits.

The Chairman's service contract was originally for the two-year period commencing 1 April 1994 subject to 12 months' notice of early termination by the Company. From April 1996 the contract continues from year to year, subject to 12 months' notice by the Company.

External Appointments

Your Company recognises that its Directors are likely to be invited to become non-Executive Directors of other large companies and that exposure to such non-Executive duties can broaden experience and knowledge, which will benefit Thames Water. Executive Directors are, therefore, allowed to accept one non-Executive appointment with the Chairman's consent provided it is not with a competing company and is not likely to lead to conflicts of interest. Executive Directors are allowed to retain the fees paid.

Full details of the remuneration, shareholdings and share options of the Executive Directors in 1995/96 compared with the previous year's figures are shown immediately following this report on page 24.



Sir Christopher Leaver, Committee chairman

Report of the Remuneration Committee

Directors' Remuneration

	Salary &	Annual	Other	1996	1995	Pension	
	Fees	Bonus	Benefits	Total	Total	Contributions	
	£000	£000	£000	£000	£000	1996	1995
						£000	£000
Sir Robert Clarke	144	-	7	151	144	18	18
M R Hoffman							
(left 31.03.96)	250	-	14	264	295	76	76
D J Luffrum	142	-	9	151	164	43	41
W J Alexander	144	9	8	161	168	44	42
W R Harper	102	-	10	112	117	31	30
	782	9	48	839	888	212	207

Details of the fees paid to non-Executive Directors are shown on page 37 (note 5 to the accounts).

Pension Arrangements

Contributions to the executive pension plan for Sir Robert Clarke 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 the time.

Pension contributions for the remaining Executive Directors are in respect of pension benefits which are funded by the Thames Water Pension

Scheme and the Thames Water Senior Executive Pension Scheme. In addition, provision is made by way of an unfunded commitment to ensure a pension 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 £25,000 (1995: £21,000) making a total

provision of £94,000 at 31 March 1996.

A similar arrangement existed for Mr Hoffman in the year to 31 March 1996 and the charge to the profit and loss account was £71,000 (1995: £37,000) making a total provision of £216,000 at 31 March 1996. This provision is expected to meet all future liabilities in respect of Mr Hoffmans' unfunded pension arrangement.

Mr M R Hoffman

On 31 March 1996, Mr Hoffman left the Company. He had a service contract with the Company terminable by the Company on two years' notice. The Company paid to Mr Hoffman as compensation for loss of office an amount of £384,000 in cash and in kind. His pension benefits provided through the funded scheme were calculated in accordance with the scheme's rules and the Company's normal practice.

Directors' Interests in Shares

	Ordinary Shares		Executive Share Options						
	31.03.95	31.03.96	1995	1996	Notional		Date When Exercisable	Expiry Date	
	Number	Number	Number	Number	Value	Exercise Price			
					£000				
Sir Robert Clarke	3,660	4,955	-	-	-	-	-	-	-
W J Alexander	14,531	14,538	18,000	18,000	38.0	347p	02.07.94	July 2001	
			31,000	31,000	43.4	418p	24.06.95	June 2002	
			22,000	22,000	23.1	453p	08.12.97	Dec 2004	
W R Harper	10,803	11,300	22,000	22,000	46.4	347p	02.07.94	July 2001	
			11,000	11,000	22.2	356p	15.11.94	Nov 2001	
			9,000	9,000	9.5	453p	08.12.97	Dec 2004	
D J Luffrum	19,943	20,656	6,000	6,000	16.5	283p	18.06.93	June 2000	
			25,000	25,000	52.8	347p	02.07.94	July 2001	
			13,000	13,000	26.3	356p	15.11.94	Nov 2001	
			18,000	18,000	18.9	453p	08.12.97	Dec 2004	
M R Hoffman	68,272	69,686	10,000	10,000	29.1	283p	18.06.93	June 2000	
(see note 5)			49,000	49,000	106.8	356p	15.11.94	Nov 2001	
			25,000	25,000	30.3	453p	08.12.97	Dec 2004	

Notes

1. No executive share options were granted to or exercised by Executive Directors during the year; nor did any lapse.
2. Sir Robert Clarke has waived his right to be considered for executive share options.
3. Under the Thames Water Sharesave Scheme, which is available for all employees, Sir Robert Clarke had 4,097 options at 31 March 1996 (1995: 4,097). The exercise price of these options is 421p. Mr Hoffman had 5,498 options (1995: 5,498) under the same scheme with exercise prices ranging from 296p to 421p.
4. 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 14 June 1996 (558p) and the exercise price. The share price ranged from 470p to 581p during the year.
5. (a) On 31 March 1996 Mr Hoffman left the Company and under the rules of both the Thames Water Executive Share Option Scheme and the Thames Water Sharesave Scheme he was eligible to exercise options granted under the schemes.
(b) The notional value of his options arising from the Thames Water Executive Share Option Scheme is based on the difference between the market price of the Company's shares at the close of business on 29 March 1996 (574p) and the exercise price.

Report of the Environmental Audit Committee by John Worlidge

The Environmental Audit Committee comprising myself, Roger Carr and Bill Harper, advises the Board on environmental matters. We remain committed to continuing the excellent progress already achieved.

The Environmental Review 1996, which contains externally verified data, details our environmental performance including progress on 49 published targets. I summarise key performance areas below.

Wastewater Management

In February we received a Certificate of Endorsement from 11 organisations for river quality improvements to the River Thames. Our investment programme has contributed to the Thames being widely recognised as the cleanest metropolitan river in the world.

Wastewater performance during the year was very good. Of our 344 sewage treatment works with effluent consents, 339 met their conditions. Regrettably we were prosecuted five times for isolated incidents of sewage escape and for two other offences concerning waste management and dust nuisance. We will continue to strive to meet our objective of no prosecutions.

Water Quality

The quality of the drinking water we supply is audited annually by the Drinking Water Inspectorate. In tests, 98.9% complied with the standards, showing a 0.5% improvement on last year.

Our ongoing education campaign on pesticide use is achieving good results. We have also negotiated 'no spray' sites with Railtrack. Together these measures have reduced the amount of pesticides in our rivers.

Water Resources

Despite summer heatwave and winter freeze we met customer demands for top quality water without hosepipe bans or

drought orders. We managed our abstractions during drought conditions with no significant environmental effects. Our innovative Enfield-Haringey scheme enables treated water to be stored underground during winter until needed for peak summer demands. The Thames Water Ring Main was crucial to maintaining supplies in London and reduced the number of bursts.

Our summer campaign advising customers on how to conserve water had a very positive response. We also announced a major initiative to halve leakage during the next ten years. This will help us meet increasing demand for water without additional abstraction.

Even during this dry year we honoured our commitment to help safeguard dry weather flows in the Darent and the Pang which are of particular amenity value.

Environmental Stewardship

We successfully met our policy target to improve energy efficiency by 10% between 1992 and 1996. We were the first water company to gain the prestigious Energy Accreditation Certificate.

We won eight awards this year. In June we received the Royal Institute of Chartered Surveyors Greening the City award for the Greenway access scheme. Our sustained environmental performance was also rewarded with a Certificate of Excellence in the Mars and Berkshire Environmental Awards.

We continue to take an active role in many community initiatives such as the Global Action Plan and Croydon Schools Challenge.

Nature Conservation

We undertook 22 habitat enhancement projects with local partners over the year and carried out many important nature conservation and heritage projects.

We worked with Wiltshire Wildlife Trust to provide otter holts on three of our

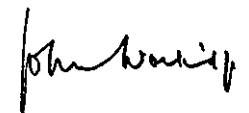


John Worlidge

sewage treatment works with the aim of encouraging otters back to the River Kennet area.

We built a bat cave in the Pang Valley and erected 100 bat boxes on Thames Water sites.

We are determined to improve further our performance and management of key operations which affect the environment and our customers' enjoyment of it. Our overriding objective is to be seen to be good citizens of the community which we serve.



John Worlidge, Committee chairman

Thames Water has assisted the Wiltshire Wildlife Trust in building holts for otters to encourage their return to the River Kennet.



Report of the Audit Committee by John Thomson

The Audit Committee's role 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 member may attend the Committee's meetings. Three non-Executive Directors, including myself as Chairman, comprise the core membership.

There were six meetings of the Committee during the year. Each meeting had an agenda linked to events in the Company's financial calendar.

In April 1995 we considered the principal accounting policies to be adopted in closing the financial accounts for 1994/95. We reviewed a report on the work of the internal audit department for that year and agreed the department's forward work programme for 1995/96. We also agreed changes to the Group's financial control manual.

In May and June the Committee met on two occasions specifically related to the release of the financial results for 1994/95.

In September 1995 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. We also discussed and agreed a programme of management self-certification relating to the internal financial control environment and subsequently reviewed the results.

A further meeting in October considered the interim results prior to their release.

At the final meeting, in January 1996, the external auditors' planned approach and fee proposal for the audit of the



John Thomson

accounts for 1995/96 was reviewed. We also satisfied ourselves that the appropriate progress was being made by management to deal with matters raised in the audit reports referred to previously.

John Thomson, Committee chairman

Internal financial control

The Board of Directors has overall responsibility for the Group's system of internal financial control and has reviewed its effectiveness. The key features of the internal financial control system that has operated throughout the year are described under the following headings.

Control Environment

The Board has 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.

Identification and Evaluation of Risks and Control Objectives

Risk areas are reviewed on a regular basis by executive management and key risks and risk management programmes are subject to consideration by the Board.

Information and Communication

The Group operates a comprehensive annual budgeting and financial reporting system which compares profits and cash performance 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.

Control Procedures

There are comprehensive policies and procedures in place which cover authorisation, segregation of duties, recording of data and physical security.

Monitoring and Corrective Action

All business units complete self-certification questionnaires to confirm compliance with specified standards of internal financial control. These are reviewed annually by the Audit Committee.

The Group has an established internal audit department which carries out reviews of business and control procedures as part of a broadly based programme of 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 the 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 recognising that any system of internal control can provide only reasonable, but not absolute, assurance against material misstatement or loss.

Statement of the Directors' responsibilities *for the preparation of financial statements*

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and the Group and of the profit for that year. In preparing the financial statements the Directors are required to:

- select suitable accounting policies and then apply them consistently
- make judgements and estimates that are reasonable and prudent
- state whether applicable accounting standards have been followed, subject to


any material departures disclosed and explained in the financial statements

- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

By Order of the Board



David Badcock, Group Company Secretary
21 June 1996

Report of the Auditors to the members of Thames Water Plc

We have audited the financial statements on pages 28 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

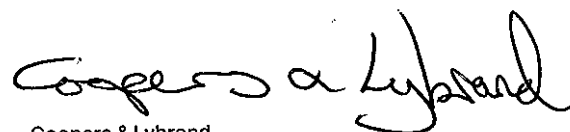
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It

also includes an assessment of the significant estimates and judgements made by the Directors in 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 1996 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
21 June 1996

Consolidated profit and loss account

Year ending 31 March	Note	Group	
		1996 £m	1995 £m
Turnover	3		1,173.6
Operating costs	4		(816.0)
Operating profit			357.6
(Loss)/profit from interests in associated undertakings			0.1
Profit on the sale of fixed assets	6		1.7
Other non-operating exceptional items:	2		
– Provision for losses on the sale/closure of operations to be discontinued		(74.3)	
– Goodwill write back on operations to be discontinued		(22.9)	–
– Surplus on the book value of operations sold or closed		7.6	
– Goodwill write back on operations sold or closed		(5.4)	–
Income from other investments	7		0.6
Profit on ordinary activities before interest and tax			360.0
Interest	8		(56.3)
Profit on ordinary activities before taxation			303.7
Taxation on profit on ordinary activities	9		(21.5)
Profit for the financial year			282.2
Dividends	12		(101.2)
Retained profit transferred to reserves			181.0
Earnings per ordinary share	13		71.3p
Adjustment for other non-operating exceptional items	13		–
Adjusted earnings per ordinary share	13		71.3p

Statement of total recognised gains

Year ending 31 March	1996 £m	1995 £m
Profit for the financial year	203.5	282.2
Currency translation differences	(1.2)	(0.3)
Total recognised gains for the financial year	202.3	281.9

Consolidated and Company balance sheets

at 31 March	Note	Group		Company	
		1996 £m	1995 £m	1996 £m	1995 £m
Fixed assets					
Tangible assets	15	3,123.4	2,898.1	0.2	0.2
Investments	16	17.5	2.8	938.1	507.8
		3,140.9	2,900.9	938.3	508.0
Current assets					
Stocks and work in progress	17	39.8	35.9	-	-
Debtors	18	284.0	255.3	146.7	76.7
Investments	19	218.0	186.7	114.2	138.1
Cash at bank and in hand		57.6	32.1	33.2	12.0
		599.4	510.0	294.1	226.8
Creditors: amounts falling due within one year	20	(590.7)	(532.8)	(205.4)	(122.4)
Net current assets/(liabilities)		8.7	(22.8)	88.7	104.4
Total assets less current liabilities		3,149.6	2,878.1	1,027.0	612.4
Creditors: amounts falling due after more than one year	21	(773.6)	(718.5)	(118.7)	(87.7)
Convertible debt	22	(81.8)	(81.4)	(81.8)	(81.4)
Provisions for liabilities and charges	24	(123.9)	(43.0)	(1.5)	(0.5)
Net assets		2,170.3	2,035.2	825.0	442.8
Capital and reserves					
Called up share capital	25	404.0	399.7	404.0	399.7
Share premium	26	8.2	6.2	8.2	6.2
Reserves and retained profits	27	1,758.1	1,629.3	412.8	36.9
Equity shareholders' funds		2,170.3	2,035.2	825.0	442.8

The notes on pages 32 to 51 form part of these accounts.

The accounts were approved by the Board on 21 June 1996.

Sir Robert Clarke Chairman

D J Luffrum Group Finance and Planning Director

Consolidated cash flow statement

Year ended 31 March	Group	
	1996 £m	1995 £m
Net cash inflow from operating activities (note b)	444.0	486.5
Returns on investments and servicing of finance		
Interest received	18.6	13.1
Interest paid	(55.8)	(56.4)
Interest element of finance lease rental payments	(12.8)	(12.7)
Dividends paid	(90.2)	(74.7)
Net cash outflow from returns on investments and servicing of finance	(140.2)	(130.7)
Taxation		
UK corporation tax paid	(21.6)	(18.7)
Overseas tax paid	(0.6)	(0.6)
Net cash outflow from taxation	(22.2)	(19.3)
Investing activities		
Purchase of tangible fixed assets	(287.0)	(281.4)
Sale of subsidiary undertakings net of cash and cash equivalents (note d)	18.7	-
Purchase of fixed asset investments	(14.8)	(0.8)
Sale of fixed asset investments	-	1.6
Sales of tangible fixed assets	3.6	4.4
Capital contributions received	24.8	41.1
Net cash outflow from investing activities	(254.7)	(235.1)
Net cash inflow before financing	26.9	101.4
Financing		
Issue of ordinary share capital	3.5	5.4
Long term loans	-	25.0
Repayment of long term loans	(10.3)	(30.8)
Expenses of issuing shares	(0.4)	(0.5)
Short term investments	(88.4)	(37.9)
Short term borrowings	(19.2)	18.8
Capital element of finance lease rental payments	(4.9)	(7.9)
Net cash outflow from financing	(119.7)	(27.9)
(Decrease)/increase in cash and cash equivalents (note a)	(92.8)	73.5

Notes to the consolidated cash flow statement

a Analysis of cash and cash equivalents	1996 £m	1995 £m
Cash at bank and in hand	57.6	32.1
Short term investments	39.1	96.2
Bank overdrafts	(40.7)	(34.8)
Loans of less than three months' maturity	(62.8)	(7.5)
	(6.8)	86.0
(Decrease)/increase in cash and cash equivalents	(92.8)	73.5

Notes to the consolidated cash flow statement

	1996 £m	1995 £m
Reconciliation of operating profit to net cash inflow from operating activities		
Operating profit	365.7	357.6
Depreciation	(6.1)	(1.8)
Increase in stocks	(37.5)	27.9
(Increase)/decrease in debtors	12.2	15.3
Increase in creditors	7.4	0.4
Increase in long term provisions	1.3	(1.9)
Other		
Net cash inflow from operating activities	444.0	486.5

The movements above exclude the non-operating exceptional provisions.

	Share capital and share premium £m	Loans and finance leases £m	Current asset investments £m
Analysis of changes in financing during the year			
Balance at 1 April 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)
Cash inflows/(outflows) from financing	3.2	(34.4)	(88.4)
Shares issued for non-cash consideration	3.1	-	-
Finance leases raised during the year	-	59.8	-
Foreign exchange and other unrealised items	-	0.4	-
Balance at 31 March 1996	412.2	813.5	(178.9)

- (i) The 3.1m 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 £59.8m were contracted for during the year to fund capital plant, equipment and vehicles.

	1996 £m
d Sale of subsidiaries	
Fixed assets	3.4
Stock	2.1
Debtors	10.3
Provisions	(4.7)
	11.1
Profit on disposal	7.6
Satisfied by cash	18.7

The businesses sold during the year had a cash outflow from operations of £1.6m and paid £0.2m in respect of overseas taxation.

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.

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

Notes to the accounts

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.

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.

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. The profit or loss on disposal of a previously acquired subsidiary or associated undertaking is determined by including, where material, the attributable amount of purchased goodwill previously eliminated against reserves.

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
- the purchase of tangible fixed assets by associated undertakings established to manage Build, Operate and Transfer schemes.

Notes to the accounts

2 Continuing operations/other non-operating exceptional items

Following a strategic review of its businesses, the Group has decided to implement a managed withdrawal from stand alone design and construction activities and develop only those products and services businesses which are closely related to core utility strengths. As a consequence, non-operating exceptional items of £95m (before and after tax) have been provided relating to the write-down of assets, reorganisation costs and the write back of goodwill previously written off to Reserves. As the implementation of this decision was not complete at the date these accounts were approved, Financial Reporting Standard number 3 requires these activities to be classified as continuing. The analysis below shows turnover and profit before interest and tax analysed between operations to be retained, those that were sold or closed during the year and those to be discontinued.

	Turnover	Profit before interest and tax
	1996 £m	1996 £m
Operations to be retained	1,107.3	401.0
Operations sold or closed during the year	15.5	(0.4)
Operations to be discontinued	70.8	(28.0)
	<u>1,193.6</u>	<u>372.6</u>
Other non-operating exceptional items	-	(95.0)
	<u>1,193.6</u>	<u>277.6</u>

3 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; **Other activities**, those carried out by the Company in managing the Group; **Insurance and property**.

Turnover	1996			1995		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
By class of business						
Utilities	-	1.7	973.9	-	4.0	915.1
International Operations and Process Contracting:						
- to be retained	1.0	0.1	7.1	-	-	1.4
- to be discontinued	3.3	9.4	70.8	0.3	10.2	115.8
Products and Services:						
- to be retained	2.9	29.5	108.5	1.5	23.7	102.5
- sold or closed	-	-	15.5	0.5	0.1	29.2
Insurance and Property	-	15.6	17.8	-	14.2	9.6
Total	<u>7.2</u>	<u>56.3</u>	<u>1,193.6</u>	<u>2.3</u>	<u>52.2</u>	<u>1,173.6</u>
			1996			1995
Geographical segment by origin	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
UK	57.0	1.7	1,096.2	52.2	1.5	1,049.5
Continental Europe	-	-	31.0	-	-	40.6
Americas	0.3	0.4	46.3	0.1	0.4	41.0
Africa	-	-	4.9	-	-	4.2
Asia Pacific	3.2	0.9	15.2	0.3	-	38.3
Total	<u>60.5</u>	<u>3.0</u>	<u>1,193.6</u>	<u>52.6</u>	<u>1.9</u>	<u>1,173.6</u>

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

Notes to the accounts

Segmental analysis (continued)

Profit before tax	1996 £m	1996 £m	1995 £m	1995 £m
Utilities		393.1		364.0
International Operations and Process Contracting:				
– to be retained	(10.0)		(5.9)	
– to be discontinued	(28.0)	(38.0)	(6.0)	(11.9)
Products and Services:				
– to be retained	4.9		3.0	
– sold or closed	(0.4)	4.5	0.6	3.6
Insurance and Property		15.6		4.7
Other activities		(2.6)		(0.4)
		372.6		360.0
Other non-operating exceptional items:				
International Operations and Process Contracting	(97.2)			
Products and Services	2.2	(95.0)		–
Profit on ordinary activities before interest and taxation		277.6		360.0
Interest		(48.9)		(56.3)
Profit on ordinary activities before taxation		228.7		303.7
Net assets	1996 £m	1996 £m	1995 £m	1995 £m
Utilities		2,934.7		2,691.9
International Operations and Process Contracting:				
– to be retained	8.2		2.1	
– to be discontinued	(49.3)	(41.1)	14.2	16.3
Products and Services:				
– to be retained	24.3		26.7	
– sold or closed	–	24.3	4.3	31.0
Insurance and Property		0.7		0.6
Other activities		(106.9)		(93.4)
		2,811.7		2,646.4
Net debt		(641.4)		(611.2)
Net assets		2,170.3		2,035.2

Notes to the accounts

3 Segmental analysis (continued)

By geographical segment	Profit (loss) before tax		Net assets (liabilities)	
	1996 £m	1995 £m	1996 £m	1995 £m
UK	399.8	359.2	2,833.6	2,617.3
Continental Europe	(17.4)	(3.0)	(37.8)	19.2
Americas	(0.6)	2.8	5.3	12.8
Africa	-	0.2	(0.9)	(0.1)
Asia Pacific	(9.2)	0.8	11.5	(2.8)
	372.6	360.0	2,811.7	2,646.4
Other non-operating exceptional items	(95.0)	-		
	277.6	360.0	2,811.7	2,646.4
Interest	(48.9)	(56.3)		
Net debt			(641.4)	(611.2)
Total	228.7	303.7	2,170.3	2,035.2

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

4 Operating costs

Analysis of operating costs by type of expense	1996	1995
	£m	£m
Manpower costs	248.6	247.9
Materials and consumables	109.3	131.2
Other operating charges	352.7	349.9
Infrastructure renewals charge	37.5	27.7
Depreciation:		
• owned assets	89.6	77.7
• assets held under finance leases	11.4	11.3
Rentals under operating leases:		
• hire of plant and machinery	4.7	3.9
• other	3.1	4.1
Research and development	8.4	7.7
Foreign currency gains (see note 1j)	0.4	(2.1)
	865.7	859.3
Own work capitalised	(37.8)	(43.3)
	827.9	816.0
(i) Included in other operating charges are:	1996	1995
	£m	£m
Auditors' remuneration in respect of:		
• audit work	0.7	0.7
• other statutory and regulatory requirements	0.1	0.1
• non-audit work: UK	0.3	0.2
: overseas	-	0.1
	1.1	1.1

(ii) Included in auditors' remuneration is £70,000 in respect of audit fees incurred by the Company in 1996 (1995: £60,000).

(iii) The foreign currency losses in 1996 are net of unrealised gains and losses of £0.2m and £0.6m respectively.

Notes to the accounts

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 pages 22 to 23 of the Annual Report together with details of the remuneration of individual Executive Directors and their shareholdings in the Company on page 24.

The remuneration for non-Executive Directors consists of fees for their services in connection with Board and Board Committee meetings. Fees are reviewed biennially by the Chairman and Executive Directors and were increased from £18,500 to £19,500 from 1 July 1995. In the case of Sir Christopher Leaver fees receivable in his role as Vice Chairman remain unchanged at £45,000. The review used external comparative data for companies of a similar size. Non-Executive Directors do not have contracts of service, are not eligible for pension scheme membership and do not participate in any of the Group's bonus, share option, incentive schemes or other benefits.

	Fees		Number of Shares at 31 March	
	1996 £000	1995 £000	1996	1995
Non-Executive Directors:				
Sir Christopher Leaver	45	45	3,931	3,931
R M Carr	19	8	3,000	3,000
Sir Peter Harrop	8	19	-	2,368
A J Hobson	19	8	1,000	1,000
J M Thomson	19	19	2,000	2,000
E J Worldidge	19	19	2,389	2,268

The 1995 non-Executive fees for R M Carr and A J Hobson are for a part year since they were appointed with effect from 1 November 1994. Sir Peter Harrop retired on 25 July 1995.

	1996 £000	1995 £000
Directors' remuneration in total		
Fees for non-Executive Directors	130	118
Remuneration of Executive Directors (see page 24)	1,051	1,095
Compensation for loss of office	384	-
Total	1,565	1,213

Scale of Executive and non-Executive Directors' remuneration (excluding pension contributions)	1996 number	1995 number
£ 5,001 – £ 10,000	1	2
£ 15,001 – £ 20,000	4	3
£ 40,001 – £ 45,000	1	1
£110,001 – £115,000	1	-
£115,001 – £120,000	-	1
£140,001 – £145,000	-	1
£150,001 – £155,000	2	-
£155,001 – £160,000	-	-
£160,001 – £165,000	1	1
£165,001 – £170,000	-	1
£260,001 – £265,000	1	-
£290,001 – £295,000	-	1

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)

Employee information	1996 £m	1995 £m
Group employment costs including Executive Directors' remuneration were:		
• Salaries and wages	212.1	211.3
• Social security costs	21.2	20.2
• Pension contributions (note 30)	19.2	18.1
Total	252.5	249.6

Total employment costs contain £2.3m (1995: £1.7m) and £1.6m (1995: nil) which are included in the infrastructure renewals charge and Research and Development costs respectively in note 4.

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

	1996 number	1995 number
Utilities	6,338	6,673
International Operations and Process Contracting	1,519	1,135
Products and Services	2,438	2,603
Other activities	65	62
Total	10,360	10,473

6 Profit on the sale of fixed assets

Profits from the sale of fixed assets of £0.2m (1995: £1.7m) are in respect of asset sales made by Group companies to third parties. Income from land disposals made via the Group's property development undertakings have been included in turnover.

7 Income from other investments	1996 £m	1995 £m
Realised/unrealised gains and losses on fixed interest short term investments	3.1	(2.6)
Net rents receivable	1.6	3.2
Miscellaneous	2.1	-
	6.8	0.6

Unrealised gains, up to the lower of cost or net realisable value, amounting to £0.7m have been written back during the year.

Notes to the accounts

	1996 £m	1995 £m
8 Interest		
Bank loans, overdrafts and other loans:		
• Repayable within five years otherwise than by instalments	(2.1)	(3.3)
• Repayable within five years by instalments	(2.6)	(1.5)
• Not wholly repayable within five years	(51.1)	(52.1)
Finance charges in respect of finance leases	(12.8)	(12.7)
Other finance charges	(0.7)	(0.8)
Interest payable and similar charges	(69.3)	(70.4)
Interest receivable	20.4	14.1
Total	(48.9)	(56.3)

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 £24.6m (1995: £20.8m) together with overseas taxes of £0.6m (1995: £0.7m). 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.

An analysis of amounts unprovided is as follows:

	1996 £m	1995 £m
Accelerated capital allowances:		
• Infrastructure assets	272.2	245.2
• Other assets	314.9	283.3
Other timing differences	(12.5)	(18.5)
Losses	(2.1)	(45.2)
Advance corporation tax	(141.6)	(117.3)
	430.9	347.5

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.

11 Profit for the financial year

Of the consolidated profit attributable to the shareholders, £477.7m (1995: £64.0m) 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.

Notes to the accounts

12 Dividends	1996		1995	
	pence per share	£m	pence per share	£m
Interim	9.2	37.0	8.2	32.8
Final proposed	19.1	77.2	17.1	68.4
	28.3	114.2	25.3	101.2

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 1996 are shown in note 25.

13 Earnings per ordinary share	1996		1995	
	Net	Nil	Net	Nil
Profit for the financial year	£203.5m	£228.1m	£282.2m	£303.0m
Earnings per ordinary share	50.7p	56.8p	71.3p	76.5p
Other non-operating exceptional items	23.6p	23.6p		
Adjusted earnings per ordinary share	74.3p	80.4p		

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 (401.6m).

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	1996	1995
	£m	£m
Profit for the financial year	203.5	282.2
Dividends	(114.2)	(101.2)
	89.3	181.0
Exercise of share options	3.5	5.4
Value of shares issued in lieu of dividends	15.5	17.0
Share issue expenses	(0.3)	(0.5)
Foreign exchange movements	(1.2)	(0.3)
Goodwill written back/(off)	28.3	(0.2)
	135.1	202.4
Shareholders' funds at 1 April 1995	2,035.2	1,832.8
Shareholders' funds at 31 March 1996	2,170.3	2,035.2

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 1995	1,233.7	1,079.3	1,104.3	0.5
Foreign exchange adjustments	-	-	0.7	-
Additions at cost	90.5	70.0	188.5	0.1
Disposal of subsidiaries	(2.9)	-	(5.0)	-
Disposals	(1.1)	(0.2)	(12.8)	-
Reclassifications	(10.6)	-	10.6	-
Capital contributions	-	(16.2)	-	-
Net cost at 31 March 1996	1,309.6	1,132.9	1,286.3	0.6
Depreciation at 1 April 1995	226.6	-	292.6	0.3
Foreign exchange adjustments	-	-	0.4	-
Provided during the year	20.9	-	80.1	0.1
Disposal of subsidiaries	(0.8)	-	(3.7)	-
Disposals	(0.4)	-	(10.3)	-
Reclassifications	(1.1)	-	1.1	-
Depreciation at 31 March 1996	245.2	-	360.2	0.4
Net book value				
At 31 March 1996	1,064.4	1,132.9	926.1	0.2
At 31 March 1995	1,007.1	1,079.3	811.7	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 £121.3m (1995: £105.1m).

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

	Group	
	1996 £m	1995 £m
Freehold land and buildings	1,032.9	993.1
Leaseholds: over 50 years	26.3	9.1
under 50 years	5.2	4.9
	1,064.4	1,007.1

(iii) No depreciation has been charged on freehold land included at a cost of £11.6m (1995: £11.2m).

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

	Cost		Net book value	
	1996 £m	1995 £m	1996 £m	1995 £m
Plant and equipment	259.6	198.0	212.2	161.4

(v) Tangible fixed assets at 31 March 1996 include £322.2m (1995: £346.9m) of assets in the course of construction.

Notes to the accounts

16 Fixed asset investments	Group	Company	
	Interests in associated undertakings £m	Investment in undertakings subsidiary £m	associated £m
Value at 1 April 1995	2.8	507.8	—
Foreign exchange adjustments	—	2.2	—
Additions	15.1	549.3	7.5
Amounts written off	(0.3)	(128.7)	—
Share of profits for the year	(0.1)	—	—
Value at 31 March 1996	17.5	930.6	7.5

Group

The cost of the Group's interests in associated undertakings at 31 March 1996 amounted to £21.7m (1995: £6.6m). The Group's share of post-acquisition accumulated losses at 31 March 1996 was £0.6m (1995: £0.5m). The associated undertakings are unlisted.

Company

Investments amounting to £56.8m were made by the Company during the year through subsidiary and associated undertakings to assist in the development of the Group's non-regulated trading activities. In addition, the Company invested a further £500m in cash in its wholly owned subsidiary, Thames Water Utilities Limited.

The Company's investments were written down by £128.7m. The write down follows a strategic review by the Board which has resulted in a decision to sell or close some Group companies. This has no effect on the consolidated results of the Group.

17 Stocks and work in progress	Group	
	1996 £m	1995 £m
Raw materials and consumables	17.8	18.9
Work in progress	16.0	6.5
Finished goods and goods for resale	5.8	5.6
Payment on account of raw materials	0.2	4.9
Total	39.8	35.9
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	167.2	115.3
Applicable payments on account	(170.1)	(114.8)
Total	(2.9)	0.5

Applicable payments on account in excess of, or below, net costs less foreseeable losses are included in creditors: amounts falling due within one year or debtors: amounts recoverable on contracts respectively.

The Company has no stocks and work in progress.

Notes to the accounts

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
20 Creditors: amounts falling due within one year				
Bank loans	64.4	27.5	32.7	–
Bank overdrafts	40.7	34.8	13.9	–
Other loans	0.6	0.8	–	–
Obligations under finance leases	2.5	7.2	–	–
Progress claims and advance payments	94.8	87.8	–	–
Trade creditors:				
• operating	58.9	62.0	–	–
• capital	87.5	85.1	–	–
Bills of exchange payable	–	0.1	–	–
Amounts owed to subsidiary undertakings	–	–	29.1	25.6
Advance corporation tax	27.9	24.8	27.9	24.8
Taxation and social security	6.3	7.1	–	–
Accruals and deferred income	120.8	118.9	0.3	–
Other creditors	8.8	7.7	24.0	3.0
Proposed dividend	77.5	69.0	77.5	69.0
Total	590.7	532.8	205.4	122.4

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
21 Creditors: amounts falling due after more than one year				
Bank loans	221.3	225.9	–	–
Other loans	289.0	295.2	–	–
Obligations under finance leases	216.7	157.1	–	–
Amounts owed to subsidiary undertakings	–	–	118.7	87.7
Deferred income	36.9	29.9	–	–
Other creditors	9.7	10.4	–	–
Total	773.6	718.5	118.7	87.7

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. At 31 March 1996, Bonds to the value of £35,000 had been converted into 8,177 ordinary shares. Between 1 April 1996 and the close of business on 19 June 1996:

- the Company has purchased for cancellation, Bonds to the nominal value of £31.7m; and
- bondholders have converted bonds to the value of £40.2m into 9.4m ordinary shares.

If the remaining options on Bonds are fully exercised, a further 2.4m ordinary shares will be issued.

Notes to the accounts

23 Borrowings

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Bank loans and overdrafts				
• Within one year	105.1	62.3	46.6	-
• Between one and two years	6.6	4.2	-	-
• Between two and five years	48.4	39.8	-	-
• After more than five years	166.3	181.9	-	-
	326.4	288.2	46.6	-
Other loans and finance leases				
• Within one year	3.1	8.1	-	-
• Between one and two years	3.2	3.5	-	-
• Between two and five years	4.4	3.8	-	-
• After more than five years: other loans	498.1	445.0	-	-
convertible debt	81.8	81.4	81.8	81.4
	590.6	541.8	81.8	81.4
Total borrowings	917.0	830.0	128.4	81.4

(i) Loans are repayable between 1996 and 2030.

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

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
• Bank Loans	50.0	50.0	-	-
• Other loans	362.2	361.8	81.8	81.4
	412.2	411.8	81.8	81.4

(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 (1995: £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	
	1996 £m	1995 £m
• Bank Loans	173.5	175.0
• Other loans	4.3	14.9
• Finance leases	213.2	154.0
	391.0	343.9

(v) The Group is committed to further outstanding lease obligations of £43.7m to fund future capital investment.

(vi) The range of interest rates on outstanding bank loans are 3.5% to 11.5% (1995: 5% to 11.5%) and on other loans 3% to 11% (1995: 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 12 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 four years.

Notes to the accounts

24 Provisions for liabilities and charges	Group				Company	
	Closure and contract provisions £m	Insurance liabilities £m	Other £m	Pensions (note 30) £m	Other provisions £m	
Balance at 1 April 1995	4.8	29.4	4.1	4.7	43.0	0.5
Foreign exchange adjustments	0.1	–	0.1	–	0.2	–
Provided during the year	79.0	4.1	2.2	0.5	85.8	1.0
Utilised during the year	(0.6)	–	(0.2)	(0.1)	(0.9)	–
Released during the year	(1.6)	–	(1.0)	–	(2.6)	–
Disposal of subsidiaries	(0.1)	–	(1.2)	(0.3)	(1.6)	–
Balance at 31 March 1996	81.6	33.5	4.0	4.8	123.9	1.5

25 Share capital

	Group and Company			
	1996 £m	1995 £m		
Authorised				
525,000,001 ordinary shares of £1 each	525.0	525.0		
Allotted, called up and fully paid				
403,981,137 ordinary shares of £1 each (1995: 399,719,221)	404.0	399.7		
	Number of shares allotted		Consideration	
	1996 000	1995 000	1996 £m	1995 £m
Details of ordinary shares allotted during the year are as follows:				
Scrip dividends	3,109	3,732		
Employee share schemes				
• Sharesave Scheme	676	2,275	1.5	4.1
• Executive Share Option Scheme	316	128	1.2	0.4
• Profit Sharing Scheme	153	165	0.8	0.9
	4,254	6,300	3.5	5.4

Scrip dividends

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

- 1995 final dividend 2,103,201 shares – 21 August 1995
- 1996 interim dividend 1,005,638 shares – 19 January 1996.

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 1995, 373,440 executive share options were issued at a price of 560p. These options can only be exercised if in respect of any three consecutive financial years commencing 1 April 1995, the increase in earnings per share compared with the earnings per share in the year ended 31 March 1995 has exceeded inflation by an average of at least 2% per annum. The terms on which these options were granted are in line with institutional guidelines
- 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 1996

Date of grant	Number of ordinary shares	Option price per share	Normal date of exercise
Thames Water Sharesave Scheme			
Five-year scheme			
• 13 July 1990	317	227p	Oct 1995 – Mar 1996
• 12 July 1991	434,680	288p	Oct 1996 – Mar 1997
• 29 November 1991	471,154	296p	Feb 1997 – July 1997
• 10 July 1992	316,276	349p	Oct 1997 – Mar 1998
• 9 July 1993	523,044	372p	Oct 1998 – Mar 1999
• 1 December 1994	1,298,481	421p	Feb 2000 – July 2000
• 30 November 1995	1,103,772	420p	Feb 2001 – July 2001
Seven-year scheme			
• 12 December 1989	939,640	176p	Feb 1997 – July 1997
• 13 July 1990	142,968	227p	Oct 1997 – Mar 1998
• 12 July 1991	252,296	288p	Oct 1998 – Mar 1999
• 29 November 1991	263,477	296p	Feb 1999 – July 1999
• 10 July 1992	198,752	349p	Oct 1999 – Mar 2000
• 9 July 1993	135,149	372p	Oct 2000 – Mar 2001
• 1 December 1994	362,720	421p	Feb 2002 – July 2002
• 30 November 1995	287,200	420p	Feb 2003 – July 2003
Thames Water Executive Share Option Scheme			
• 17 January 1990	8,000	278p	1993-2000
• 18 June 1990	6,000	283p	1993-2000
• 2 July 1991	355,000	347p	1994-2001
• 15 November 1991	73,000	356p	1994-2001
• 24 June 1992	193,000	418p	1995-2002
• 1 December 1992	7,000	480p	1995-2002
• 18 June 1993	10,000	466p	1996-2003
• 19 November 1993	25,000	521p	1996-2003
• 8 December 1994	408,900	453p	1997-2004
• 8 December 1995	373,440	560p	1998-2005

Notes to the accounts

26 Share premium of the Group and Company

	£m
Balance at 1 April 1995	6.2
Premium on issue of 1.2m ordinary shares	2.3
Expenses of issuing shares	(0.3)
Balance at 31 March 1996	8.2

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 1995	36.9	1,696.0	(3.8)	(99.8)	1,629.3
Foreign exchange adjustments	-	(1.2)	-	-	(1.2)
Profit for the financial year	477.7	(274.1)	(0.1)	-	203.5
Dividends	(114.2)	-	-	-	(114.2)
Adjustment for the issue of scrip shares	12.4	-	-	-	12.4
Goodwill written back on sale/closure	-	-	-	28.3	28.3
Balance at 31 March 1996	412.8	1,420.7	(3.9)	(71.5)	1,758.1

Profit for the financial year for subsidiary undertakings is stated after the payment of dividends of £654.5m to the Company.

28 Operating leases

At 31 March 1996 the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group		Company	
	1996 £m	1995 £m	1996 £m	1995 £m
Land and buildings				
Leases which expire:				
• Within one year	0.3	0.1	-	-
• Between two and five years	0.6	2.1	-	-
• After more than five years	2.1	2.7	0.4	0.4
Total	3.0	4.9	0.4	0.4
Other				
Leases which expire:				
• Within one year	0.7	1.1	-	-
• Between two and five years	4.1	2.4	-	-
• After more than five years	-	0.1	-	-
Total	4.8	3.6	-	-

Notes to the accounts

29 Capital commitments

	Group	
	1996	1995
	£m	£m
Contracted for but not provided in the financial statements	154	233

- (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.

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 1996 was £19.2m (1995: £18.1m) of which £1.3m (1995: £0.9m) 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 are pre-funded in line with inflation for three of the four UK pension schemes and are granted in line with the rules of each scheme and any statutory requirements. For the remaining UK scheme, pension increases are at the rate of 5% per annum or the annual movement in the Retail Price Index if less. 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 last 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. The next valuation becomes effective from 6 April 1996.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £378.8m (1995: £384.2m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £166.6m at 31 March 1996 (1995: £97.5m). 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 1996 should apply to: The Company Secretary, Thames Water Plc, 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 1996 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
Thames Water Asia Pacific Pty Limited	Australia	Ordinary		100%	Design 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
Kelantan Water (Malaysia) Sdn.Bhd.	Malaysia	Ordinary		70%	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
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
Connect 2020 Limited	England & Wales	Ordinary		100%	Procurement Logistics
Simon Hartley Limited	England & Wales	Ordinary		100%	Sewage treatment
PCI Membrane Systems Limited	England & Wales	Ordinary		100%	Process and effluent treatment
T M Products Limited	England & Wales	Ordinary		100%	Pipeline products, mobile water treatment and disinfection
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
Thames Water Holdings Inc	USA	Common Convertible		100%	Management company
Ashbrook Corporation Inc	USA	Ordinary		100%	Sewage treatment products
Hydro-Aerobics Inc	USA	Ordinary		100%	Packaged sewage treatment
F B Leopold Company Inc	USA	Ordinary		100%	Water products
Property and Insurance					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Kennet Properties Limited	England & Wales	Ordinary	100%		Property
Thames Water Investments Limited	England & Wales	Ordinary	100%		Property
Thames Water Property 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
Izmit Su As	Turkey	Ordinary	35%		Water operations & maintenance
Pathum Thani Water Company Limited	Thailand	Ordinary		30%	Water operations & maintenance
Thames Water Japan Limited	Japan	Ordinary		50%	Finance company
United Water Services Pty (Limited)	Australia	Ordinary		50%	Water operations & maintenance
United Water International Pty Limited	Australia	Ordinary		47.5%	Water operations & maintenance
Bovis Thames (Shanghai) Limited	British Virgin Islands	Ordinary		50%	Water operations & maintenance

Group five year summary

Profit and Loss Account

Year ended 31 March	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Turnover: continuing operations	1,193.6	1,173.6	1,104.8	1,044.4	900.5
Operating costs	(827.9)	(816.0)	(785.8)	(769.2)	(665.3)
Operating exceptional items	-	-	(35.0)	-	-
Operating profit	365.7	357.6	284.0	275.2	235.2
Profit/(loss) from interests					
in associated undertakings	(0.1)	0.1	(1.8)	(2.1)	(0.2)
Profit on sale of fixed assets	0.2	1.7	4.0	8.1	9.9
Other non-operating exceptional items	(95.0)	-	-	-	-
Income from other investments	6.8	0.6	3.4	0.9	0.3
Interest	(48.9)	(56.3)	(47.9)	(30.8)	(8.9)
Profit on ordinary activities before taxation	228.7	303.7	241.7	251.3	236.3
Taxation on profit on ordinary activities	(25.2)	(21.5)	(19.4)	(21.7)	(25.2)
Profit for the financial year	203.5	282.2	222.3	229.6	211.1
Earnings per share					
• pre-exceptional items	74.3p	71.3p	65.8p	59.3p	54.8p
• post-exceptional items	50.7p	71.3p	56.8p	59.3p	54.8p
Dividend per share	28.3p	25.3p	22.5p	21.0p	19.2p

Balance sheet

As at 31 March	1996 £m	1995 £m	1994 £m	1993 £m	1992 £m
Fixed assets	3,140.9	2,900.9	2,703.4	2,425.6	2,106.4
Net current assets/(liabilities)	8.7	(22.8)	(73.3)	(114.9)	(21.9)
Creditors: amounts falling due					
after more than one year	(773.6)	(718.5)	(673.8)	(502.9)	(425.6)
Convertible debt	(81.8)	(81.4)	(80.9)	(80.5)	(80.0)
Provisions for liabilities and charges	(123.9)	(43.0)	(42.6)	(36.8)	(26.2)
Net assets	2,170.3	2,035.2	1,832.8	1,690.5	1,552.7
Share capital	404.0	399.7	393.4	389.7	386.1
Share premium	8.2	6.2	3.9	1.5	-
Reserves and retained profits	1,758.1	1,629.3	1,435.5	1,299.3	1,166.6
Equity shareholders' funds	2,170.3	2,035.2	1,832.8	1,690.5	1,552.7

Operating exceptional items in 1994 includes turnover of £11.6m and operating costs of £23.4m.

Shareholder information

Category	Number of Holders	%	Holding	%
Private Persons	237,103	95.48	73,549,753	18.21
Banks and nominees	9,684	3.90	290,502,019	71.91
Insurance, investment and other limited companies	1,230	0.50	16,370,976	4.05
Pension funds	56	0.02	10,229,507	2.53
Other corporate bodies	260	0.10	13,328,882	3.30
	248,333	100	403,981,137	100

Size of Holding	Number of Holders	%	Holding	%
1-500	216,874	87.33	52,825,499	13.08
501-1,000	21,839	8.79	14,615,975	3.62
1,001-5,000	7,915	3.19	14,212,941	3.52
5,001-50,000	1,049	0.42	17,751,011	4.39
50,001-100,000	216	0.09	16,279,832	4.03
100,001-1,000,000	377	0.15	119,856,842	29.67
Greater than 1,000,000	63	0.03	168,439,037	41.69
	248,333	100	403,981,137	100

Financial calendar

Financial year ended 31 March 1996

10 June 1996 Ex-dividend date for final dividend

18 June 1996 Record (or qualifying) date for 1996 final dividend

30 July 1996 Barbican Centre, London 1996 Annual General Meeting

2 September 1996 Final dividend payable.

Financial year ended 31 March 1997

29 October 1996 Announcement of half-yearly results for six months to 30 September 1996

February 1997 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 1 August 1996: 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.



Thames Water Plc 14 Cavendish Place London W1M 0NU England