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COMPANIES HOUSE 25/07/97

Thames Water is the largest water and wastewater services company in the UK, supplying domestic and commercial customers in London and the Thames Valley. The Utility business serves 11.7 million customers. In addition to the UK operations, the International, Products and Services divisions provide a range of services to a growing number of customers in many parts of the world.

Thames Water has four principles which guide all aspects of management. They are to:

- seek to excel
- put the customer first
- respect the employee as an individual
- care for the environment

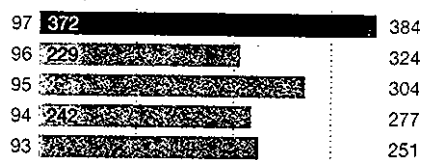
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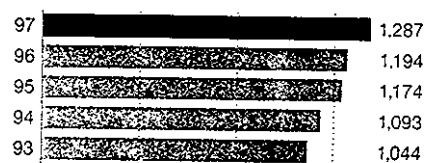
Financial highlights

Year ended 31 March	1997 Excluding bond premium	1997 Including bond premium	1996 Excluding exceptional items	1996 Including exceptional items
Pre-tax profit	£384.0m	£371.8m	£323.7m	£228.7m
Post-tax profit	£330.9m	£320.4m	£298.5m	£203.5m
Earnings per ordinary share	85.5p	82.8p	74.3p	50.7p
Dividend per ordinary share	34.4p	34.4p	28.3p	28.3p

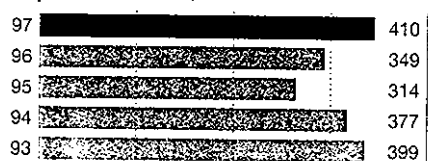
Pre-tax profit £m



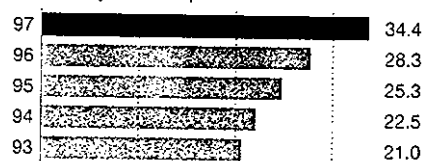
Turnover £m



Capital investment £m



Dividend per share p



Chairman's statement Thames Water has had an excellent year. Our core business continues to make good progress. Following the successful implementation of our strategic review last year, the non-regulated activities we retained are earning good profits, confirming our confidence in them. Total commitment to meeting the needs of customers lies at the heart of our strategy.



- 1 Sir Robert Clarke. Chairman, at the Customer Centre, Swindon
- 2 Thames Water Utilities provides water services to 7.4 million domestic customers, and wastewater services to 11.7 million

The financial results are good. Overall profit before tax and exceptional items increased from £324m to £384m. In July last year, we restructured our balance sheet, repurchasing 10% of our shares. As a result of this buy-back and our performance, earnings per share have risen substantially from 74.3p to 85.5p, before exceptional items. Your Board is, therefore, recommending a final dividend of 23.2p, giving a 22% increase in the total dividend for 1996/97 to 34.4p.

The Utility business had a first-class year. We have continued to improve both our drinking water quality and the performance of our wastewater treatment works. Caring for the environment continues to be a top priority for Thames Water. Service levels to our customers have also risen, with new services on offer to meet their needs for the future. We are particularly proud that average bills to our customers remain the lowest in England and Wales.

The last two years have been the driest in the UK for more than two centuries. At the time of writing, rainfall levels, particularly in London, remain well below average. We are working closely with the Environment Agency, and are grateful to all our customers who have responded to our calls to use water wisely. We have now kept supplies going without any hosepipe bans for six years, but as the extraordinary long-term drought continues, it becomes ever more difficult to maintain this record.

The new year brought its own set of challenges with a bitterly cold spell which saw the River Thames freeze in places west of London for the first time in more than 30 years. Leakage is now declining as a result of our £200m reduction programme.

These difficult operating conditions have demanded great commitment from our staff, and I am delighted with the way in which they have risen to meet the challenges. On your behalf, I do want to thank every one of them.

Our investment in the Utility business reached the record level this year of £401m, bringing the total since privatisation to

£2.7bn – some £500m more than profits earned over the same period. Substantial investment is central to our commitment to offer customers a top quality service into the future.

In line with the strategy we announced last year, we have started to implement our portfolio of long-term operating contracts around the world.

We have now added a new concession, to supply water to half of Jakarta, the rapidly developing capital city of Indonesia. Together, these contracts will supply a growing stream of unregulated earnings well beyond the year 2000.

We successfully sold the majority of our design and contracting businesses within the provisions we announced in March 1996. The remaining activities are being managed out by other Group companies.

Our Products, Services, Property and Insurance businesses all achieved good results for the year.

At the time of writing, the precise details of the Government's proposed 'windfall' tax remain unclear. However, we hope to look beyond this imposition and to establish a productive relationship with those key Government ministries which sponsor and support our activities in the UK and overseas. The Company has responded positively to the Government's new proposals for the water industry.

Two long serving non-Executive Directors, John Thomson and John Worlidge, are retiring from the Board at the Annual General Meeting. We shall miss their wise counsel as Chairmen of our Audit and our Environmental Review Committees, respectively.

However, David Clementi's appointment in January 1997 means that Thames Water retains a strong team of non-Executive Directors on our main Board.

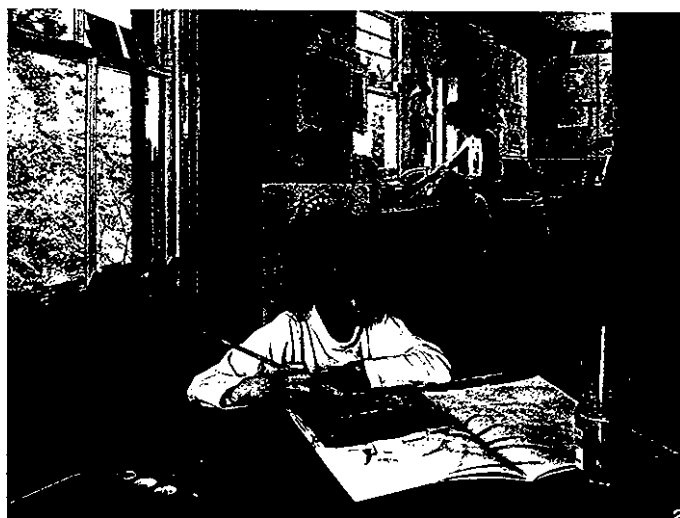
Our Shareholder Open Day has become an enjoyable fixture in

the Thames Water calendar. This year, we hope shareholders will join us at the Maple Lodge sewage treatment works in Hertfordshire in September. An invitation is enclosed with this report.

As we move forward, the growing success of our strategy provides the foundation to maintain real dividend growth, as well as an ever better service for our customers in London and the Thames Valley, and around the world. We can look to the future with confidence.



Sir Robert Clarke, Chairman

Operating review All divisions of Thames Water have shown an improved performance this year. In the Utility business, we have continued to enhance our service quality and operational efficiency and have met our investment targets. Our non-regulated businesses, which have been refocused to build on our core strengths, are under new management and have each improved their trading performance.



- 1 Bill Alexander, Managing Director
- 2 Thames Water uses a range of methods to locate leaks, from the latest technology to the more traditional

Utility operations

The regulated Utility division is the major part of our business and is responsible for the supply of drinking water and the collection, treatment and disposal of wastewater for our domestic and business customers in London and the Thames Valley.

Turnover of the division showed an increase of 2.4% to £998m. Operating profits were increased by 5% to £414m. We have continued to improve our efficiency. Operating costs reduced by 1%, excluding infrastructure renewals and depreciation.

Low Rainfall

Rainfall in the Thames Water region has been exceptional low. Over the last year, we received only 70% of the long-term average.

Despite this, we have so far maintained supplies to our customers, without imposing any restrictions and without large-scale interruptions to supply. This is due not only to prudent resource management and heavy capital investment since privatisation, but also the co-operation of our customers in being careful with their water usage.

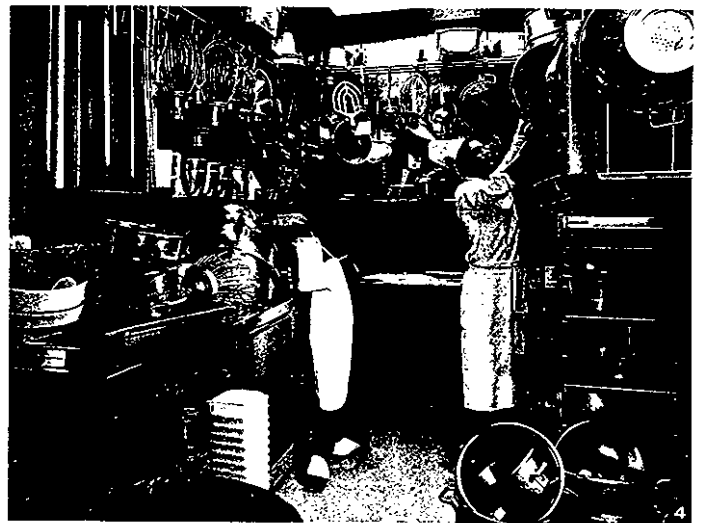
In preparation for summer 1997, we have introduced a number of new conservation measures and we are investing £9m to develop new groundwater sites. These will provide an extra 4.5 million gallons per day in London.

Leakage

We have more than 800 people involved in an ambitious project to halve leakage by the year 2000 from our external water system. We have committed over £200m to deliver this target. High water pressure, difficult ground conditions and heavy traffic congestion cause particular leakage problems in London. However, as a result of our efforts and despite a severe cold spell in January this year which caused pipe freeze and burst, we are making considerable progress towards achieving our aim.



- 3 The Fire Service use our water for training purposes, as well as for fighting fires
- 4 Thames Water has over 300,000 commercial customers



Improvements in Customer Service

We have continued to achieve higher standards and to develop new services to meet our customers' needs. In December 1996, Thames Water was presented with three Utility Industry Awards, including an accolade for Customer Care. During the year:

- we have improved our drinking water quality again, with 99.5% of tests meeting regulatory standards
- 99% of our customers were served by sewage treatment works complying with the 'look-up' tables in the Environment Agency's consents
- we have continued to reduce the number of properties affected by low water pressure, and have further improved our response to customer queries and complaints
- we are offering free meter installations to our domestic customers, as part of our water efficiency programme
- Thames Water Home Assist is a new service we are offering, in partnership with Green Flag. This provides a helpline to assist customers to contact reputable plumbers and a comprehensive insurance-based protection package for the home
- the autumn of 1996 saw the appointment of community partners to work with customers and local groups, bringing the Company closer to the communities we serve.

We will continue to consult our customers to ensure our plans meet their needs for the future.

Investing in Quality

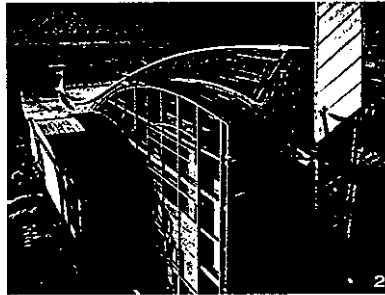
Rigorous asset planning procedures, effective project management and successful partnerships with our contractors have enabled us to deliver our capital programme for 1996/97. We spent £401m in the year. We delivered these results while achieving material efficiency savings against the target set at the last price review.

Particular achievements during the year include:

- improving drinking water quality through the installation of the 'superfilter' at two more of our major water treatment works in north and west London, and the completion of advanced water treatment projects in Guildford and south London
- further improvements in water quality have been achieved through our mains rehabilitation programme; more than 500 miles of mains were refurbished during the year
- the completion of five wastewater treatment projects and the start of 35 new projects to meet environmental standards, improve reliability and increase capacity



- 1 The Company owns over 100 listed buildings. We have been working with English Heritage on a £1.2m conservation project at Abbey Mills
- 2 We have made good progress on the construction of the sewage sludge incineration plants at Beckton and Crossness in east London to meet tough EU requirements
- 3 Our new management support centre at Maple Lodge sewage treatment works enables us to monitor and control our sewerage network system more effectively



- we made good progress on two major tunnelling projects in the Cray Valley, Kent and in north London to alleviate the risk of flooding to some 1,800 properties.

During the year, we announced discretionary investment of £150m in addition to our base investment programme.

Water Efficiency

Our new water conservation plan was described by Ofwat as a 'clear and comprehensive strategy'.

A Water Efficiency booklet has been made freely available to all our customers, and Thames Water was the first water company in the country to offer the 'Hippo' – a new water saving device designed to fit inside toilet cisterns, saving up to five pints of water per flush.

Environment

The Environmental Review Committee's report of environmental performance is shown on page 21.

We were pleased to receive a Queen Mother's Birthday Award in recognition of our waste reduction activities and our work on the ThamesClean project. We also won a Berkshire Environment Award for the third year in succession for our environmental performance.

During the autumn, we were involved in a public inquiry, widely seen as a test case, at which we contested the Environment Agency's decision to restrict future abstractions from our Axford site by the River Kennet. We based our case on extensive studies showing that our abstraction of groundwater had minimal effect on the ecology of the river. The Secretary of State's decision is expected in late 1997.

Research and Development

This year, we increased research on infrastructure significantly, particularly in support of our leakage reduction programme. Computer models, based on studies in London, have been developed to improve the targeting of our investment programme.



Our internationally acclaimed research on managing the balance between the use of chlorine and meeting regulatory standards has enabled us to deliver higher quality drinking water to our customers.

We have also developed two new waste processing technologies which are not only environmentally friendly, but also efficient to operate. These processes convert municipal waste and sewage sludge to useful energy, thereby reducing the amounts which go to landfill.

The Future

Our performance this year has again demonstrated the strength of our core business and the expertise and commitment of our Utility employees. We are confident we will continue to improve our performance in customer services and in the standards we meet in water and wastewater quality. An example of a new service we are now offering is to repair significant leaks in customers' pipes free of charge.

The protracted dry spell has continued into the first six months of 1997. Without significant amounts of rain in the next few weeks, it will become more difficult to avoid restrictions.

Preparations are already underway for the next price review in 1999. This will involve extensive studies of our future investment needs to meet new and existing standards, to maintain our assets, to improve our service levels and to make provision for growth in demand. We hope that future investment levels are not put at risk by an excessive 'windfall' tax levy.

Property

Our strategy – to seek profitable development of our surplus land while taking into account the needs of the environment – has made a good contribution to the Company's income. Operating profit for the year was £11.3m on turnover of £23m.

- 4 We are in partnership with The Wildfowl & Wetlands Trust at Barn Ems, where construction of a new centre is well underway, alongside the 30 acres of high quality housing being developed by Berkeley Homes



We have recently secured the future of a redundant Grade II listed pumping station at Surbiton by gaining planning consent to convert it to a leisure centre and crèche. This is an excellent use for such an historic building which the Company no longer requires for operational purposes.

Our joint venture company with Berkeley Homes has built its first houses and is returning a profit in its first year of operation. This joint venture will focus on sites owned by Thames Water and adjoining land where added value can be achieved by a joint development.

Insurance

Our captive insurance company (Isis) made an operating profit of £7.6m which includes net investment income of £7m. Isis had £60m of investments at the year end, valued individually at the lower of cost or market value.



International operations

During the year, the International division has shown an improved financial performance, with an operating profit of £2.8m on turnover of £172m. This follows the successful implementation of last year's strategic review where we set out our intention to withdraw from design and construction activities and to focus on concession contracts in countries where we already have a presence or can employ our core expertise. We were pleased to confirm at the Interim results last November that we had completed successfully the sale of the UK contracting and German consulting businesses to Black and Veatch of Kansas, USA. The remaining activities are being managed out by other Group companies.

The progress made on our international operations and on new developments over the year is summarised below:

Turkey

Thames Water is working with Turkish partners to build and then operate for 15 years the domestic and industrial water supply system for the city of Izmit and its surrounding areas, which, taken together, have a population of 1.2 million. The project has a total value of US\$800m and the design and construction work remains ahead of programme and within budget.

Australia

Our concession in Adelaide, in partnership with Compagnie Générale des Eaux (CGE), is for the operation of the existing water and wastewater networks and associated treatment works which serve a population of 1.2 million. Performance to date has been good and during the year, United Water, the joint operating company with CGE, successfully bid for two additional contracts in New Zealand and Indonesia.

Malaysia

Thames Water has a joint venture to operate a 25-year concession for the management of the drinking water system throughout the state of Kelantan, serving a population of 600,000.



- 1 Construction of a water treatment plant in Shanghai. China is making good progress
- 2 In Adelaide, Australia, we have a 15-year concession, in partnership with CGE
- 3 Thames Water is involved in the largest ever international investment project in Turkey
- 4 Water quality sampling in Pathum Thani, Thailand



Key achievements last year included the commissioning of a new water laboratory and a 20% increase in the volume of water supplied.

Thailand

Pathum Thani province has a population of 800,000 people and lies directly north of Bangkok in Thailand. Thames Water are in partnership with a local construction company on a £95m contract to design, construct and operate a new water treatment plant serving the province.

The contract period is 30 months and the plant will commence operation in May 1998. The project is on schedule for the completion date.

China

In China, we have a partnership with Bovis which involves the construction and operation of a water treatment plant to supply two million people in Shanghai. The client for this US\$68m contract is the Shanghai Municipal Water Company.

The first water production is scheduled for October this year and work is on programme.



Puerto Rico

We have a joint venture with the Dick Corporation of Pittsburgh, USA to provide water services to San Juan, which has a population of 1.6 million.

Thames Water is providing process design expertise and will subsequently operate the service for an initial five-year period, with an option to extend this to 20 years. The contract has been delayed recently but our involvement is such that there will be no material financial impact on Thames Water.

Jakarta - A New Project

On 6 June, we announced we had signed an agreement with the existing public sector water supply authority, Pam Jaya, for a concession to operate the eastern half of the water supply system in Jakarta, for a rapidly growing population which is now more than five million.

Thames Water will lead a consortium as the majority shareholder, and the term of the concession is 25 years.

The Future

Over the next year, we will build on the progress we have made on our existing concessions and develop new opportunities overseas. Jakarta will make a significant contribution to our overseas business in future years.

- 1 PCI Membranes has successfully launched their membrane treatment process which removes colour from upland water, whilst minimising the use of chemicals. The Scottish Water Authorities are now operating six of these plants
- 2 Metro Rod offers a pipeline cleaning service to municipal and commercial customers
- 3 Thames Waste Management has had a good year. The second landfill site at Beddington, south London, will commence shortly



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Thames Water Products

During the year, we have continued our strategy of developing water and wastewater products for municipal markets around the world. On turnover of £72m, this division made an operating profit of £4.5m.

Thames Municipal Products (TMP) supplies water treatment and distribution equipment and fittings. FB Leopold and Ashbrook, USA based, and Simon Hartley in the UK supply equipment to municipal and industrial customers worldwide. Leopold have recently won a major contract to install a 75 million gallons per day filtration plant at a water treatment works in South Carolina, USA. PCI Membranes had another good year.

Thames Water Services

This division has been reorganised in the year, including the establishment of a new streetwork service following the transfer of activities and over 400 employees from the Utilities business. The Morgan Collis group has also been rationalised.

We were pleased to acquire the 40% share of Subterra held by Northumbrian Water, which brings this pipeline refurbishment company into Thames Water's full ownership.

Our grounds maintenance group has continued its strong performance, winning major contracts around the UK, including services to the City of Birmingham.

The Services division has had a good year and made an operating profit of £6.5m on turnover of £110m. The reorganisations that have taken place have positioned this division to further improve performance over the coming year.

Bill Alexander

Bill Alexander, Managing Director

Bill Alexander

Thames Water people in action We continue to invest in the development of our employees at all levels. We place great emphasis on encouraging open and direct communication with staff and are developing new approaches to achieve higher standards. The Group employs some 11,000 people.

- 1 Stuart Windsor and his 'Free Meters' team at the Customer Centre, Swindon. Team working is an important part of working life at Thames Water
- 2 Neil Vickers, London Water Operations, is working in a development role as the Kempton Park water treatment plant manager, to gain experience of running a major works



- 3 Jane Harnes has worked for our grounds maintenance division for two years, caring for the Royal Parks in London
- 4 Training of local employees in the use of new technology and different ways of working forms an important element of our international projects



Management Development

All managers in Thames Water have participated in development activities aimed at improving their effectiveness and impact within the business. In addition, our Leadership Development Programme offers an opportunity to a cross-section of managers to improve their team working and influencing skills.

Employee Opinion Survey

The second employee opinion survey results were published and, once again, showed exceptionally high levels of commitment and job satisfaction. We take employees' concerns very seriously and are addressing both these and other important issues through employee focus groups, set up to provide a forum for discussion of ideas on improvements within the Company.

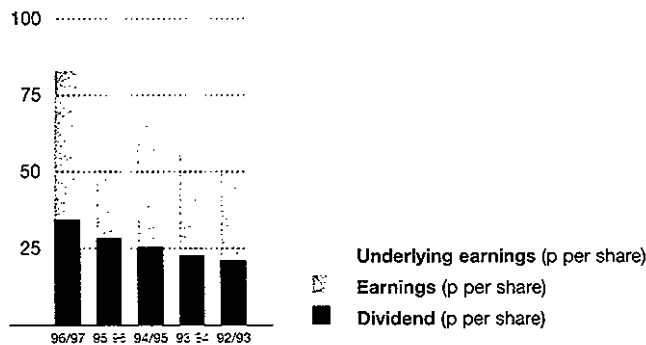
International

Thames Water staff bring their expertise to our overseas projects and are critical to business success. This experience also contributes to their own job satisfaction and personal development.

Financial review The strong growth in operating profit of £65m to £441m was due to greatly improved financial performance in the non-regulated trading businesses and to good progress in the Utility.



1 David Luffrum,
Finance and Planning Director



Financial Results

Group operating profit increased by 17% to £441m. The operating margin of 34.2% was 2.7% higher than the 31.5% in 1996.

Turnover of £1,287m was 8% greater than the previous year.

In March 1996, the Board decided to withdraw from stand-alone design and construction activities. As a result, a non-operating exceptional charge of £95m was made in the 1995/96 accounts, comprising write-down of assets, reorganisation costs, and the write-back of goodwill. Good progress has been made with the implementation of the withdrawal strategy with the disposal of the UK contracting and German consulting operations during the year. Although the remaining provision is considered to be adequate, there are some residual issues. As a result, there has been no release of the unutilised provision at 31 March 1997. The position will be evaluated during 1997/98.

The Company repurchased Convertible Bonds with a nominal value of £35.6m for £47.8m during the year. The premium of £12.2m is shown separately in the profit and loss account.

The Group has become liable to pay mainstream corporation tax in 1997. The tax charge of £51.4m represents an effective tax rate of 13.8% which takes account of the availability of capital allowances from the extensive capital investment programme. The full rate of corporation tax is unlikely to apply until well after the year 2000.

Underlying earnings per share grew by 15% to 85.5p. Improvements arose from increased profitability and the reduced number of shares in issue as a result of the share buy-back (see below) but these were partially offset by the higher tax charge. The increase in earnings per share after exceptional charges was 63%.



- Net cash used for**
- Capital investments 42%
 - Share buy-back 26%
 - Dividends and tax 21%
 - Equity investments 2%
 - Interest 7%
 - Other 2%



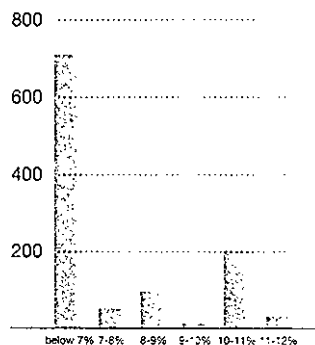
- Net cash obtained from**
- Operating cash flow 65%
 - Capital receipts 5%
 - Borrowing 30%

Shareholder Returns

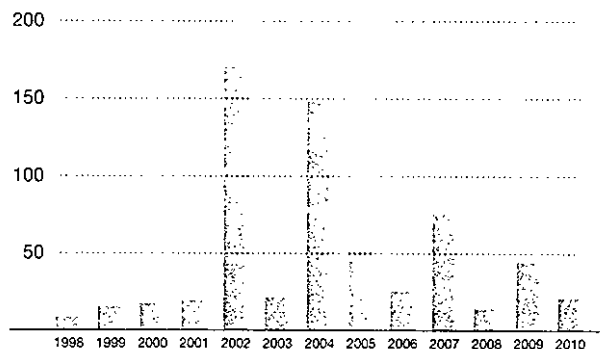
On average, there were 387.0m shares in issue during the year. This was a 3.6% reduction over the previous year. The following transactions contributed to the movement:

- the repurchase by the Company of 41.4m ordinary shares following approval by shareholders at last year's Annual General Meeting
- the issue of 10.8m ordinary shares resulting from decisions of bondholders to convert bonds to the value of £46.2m

Gross debt interest rate profile £m



Gross debt maturity profile £m



- the decision by some shareholders to take dividends in the form of new shares.

An increase in the dividend per share of 22% is proposed. This reflects the Board's commitment to continue its policy of real dividend growth which is supported by:

- the share buy-back which reduces by 10% the number of shares attracting a dividend
- a strong contribution by the non-regulated businesses to Group profits
- continuing profit growth in the regulated Utility.

Full year dividends were covered 2.4 times by earnings.

Before exceptional items, the return on shareholders' funds was 14.9% compared with 14.0% in 1996.

Capital Assets and Capital Structure

Total investment in fixed assets during the year was £410m of which £401m was in the Utility company. The benefits of the Utility's investment are reflected in major improvements in quality and customer service indicators. Equity investment of £16m was also made in our joint venture companies to assist with the financing of our major overseas operating concessions, and build, operate and transfer (BOT) projects.

The funding policy of the Group is to maintain a broad portfolio of debt, diversified by source and maturity. The current maturity profile of the gross debt of £1,092m at 31 March 1997 is shown in the chart above.

Net debt increased by £248m to £889m, largely as a result of the share buy-back and the associated tax charge. Together, these amounted to £271m. Gearing was 41.0% at the year end, compared with 29.6% at 31 March 1996. Interest costs reflect mainly the timing and life of debt raised. Lower short-term interest rates during 1996/97 are reflected in a reduction in the weighted average interest rate to 7.5%, from the 8.3% average in the previous year. Interest in the year was covered 7.8 times by underlying earnings.

Future Financing

Investment in the first five years since privatisation was almost £2bn. In the second five years up to 31 March 2000, a similar sum will be invested, including an additional £150m of discretionary investment announced in October 1996.

The Company may also be required to finance a special utilities 'windfall' tax but, at the time of writing, the scale and details of such a tax are not known.

Further capital market funding will be raised as appropriate to meet these financing needs and for other corporate purposes.

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 centre, not a profit centre. Formal statements of treasury policies and procedures are in place, which are established and monitored by the Board.

A framework of credit criteria to ensure acceptable counterparty risk across a broad range of financial transactions is regularly reviewed and adjusted from time to time.

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, forward rate contracts and options in specific circumstances are used to hedge interest rate and currency risks. No material open positions are taken.

A ratio of 60% fixed rate to 40% floating rate is now used as a guide in making decisions on maturities. The percentage of floating rate debt at the year end was 39%. A proportion (20%) of floating rate debt is protected by interest rate collars.

Going Concern

The finances of the Company are sound and the balance sheet remains strong. The Directors expect that the Group has adequate resources to continue its operational existence for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

D J Luffrum, Finance and Planning Director

Board members



Executive Directors

Sir Robert Clarke (68) Chairman

Appointed to the Board of Thames Water Authority in July 1988 and became Chairman of Thames Water Plc on 1 April 1994. From April 1996, Sir Robert has been full-time Executive Chairman. Chairman of Share Dealing and Nomination Committees.

Bill Alexander (50)

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.

Bill Harper (53)

Strategy Director, 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 to 1989, Deputy Chairman of Thames Water Utilities Limited 1989 to 1992, Deputy Chairman of Thames Water International 1992 to 1994, and Divisional Director, Products and Services 1994 to 1996. He is a member of the Environmental Review Committee.

David Luffrum (52)

Finance and Planning Director, was appointed to the Board of Thames Water Authority in March 1989. An Accountant, he joined Thames Water Authority in 1974, having previously held financial posts in the Thames Conservancy. He became Finance Director of Thames Water Authority in 1987. He is a member of the Charities Committee.

Non-Executive Directors

Sir Christopher Leaver GBE (59) 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, and a member of Nomination and Environmental Review Committees. He is a Director of Unionamerica Holdings Plc, Pathfinder Properties Plc and Drayhawk Limited.

Roger Carr (50)

Appointed to the Board of Thames Water Plc in November 1994. Member of the Audit, Nomination and Remuneration Committees. He is Chief Executive of Williams Holdings PLC, a Director of Bass Plc, Newmond Plc and Landau Forte College, and a member of the CBI Economic Affairs Committee.

Tony Hobson (49)

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.

John Thomson (69)

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

John Worlidge (69)

Appointed to the Board of Thames Water Authority in 1988. Chairman of Environmental Review Committee and member of the Remuneration Committee. Trustee Director of the Thames Water Pension Scheme.

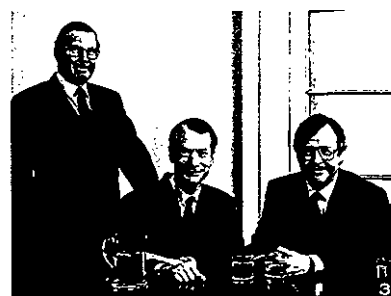
David Clementi (48)

Appointed to the Board of Thames Water Plc in January 1997. He is Vice Chairman of Kleinwort Benson Group Plc. Member of the Remuneration and Audit Committees.

Company Secretary

David Badcock (52)

Appointed Secretary and Legal Director to Thames Water Plc in October 1995. Joined Thames Water Authority as Secretary in 1986, and was appointed Secretary and Legal Director, Thames Water Utilities Limited in 1989.



From left to right

- 1 David Clementi
Sir Robert Clarke
John Worlidge
John Thomson
- 2 Tony Hobson
Bill Alexander
Roger Carr
David Luffrum
- 3 Sir Christopher Leaver
Bill Harper
David Badcock

Directors' report

The Directors present their eighth Annual Report together with the audited accounts for the year ended 31 March 1997.

Principal Activities

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

- water supply services, involving the abstraction of water, its treatment and distribution to customers' premises
- sewerage services, involving 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 operational and management contracts
- the development and manufacture of products for the treatment of water and wastewater
- waste management and environmental services
- other trading activities including insurance and property development.

A list of the principal subsidiary undertakings appears on pages 46 and 47. 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 Managing Director's operating review on pages 4 to 10.

Profits and Dividends

The Group profit for the year attributable to shareholders was £320.4m (1995/96 £203.5m). A review of the year's performance is included in the financial review on pages 12 and 13.

The Directors recommend payment of a final dividend of 23.2p per share, making a total for the year of 34.4p amounting to £132m.

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. Awards were made to the three Executive Directors under the Long Term Restricted Share Plan, approved by Shareholders in July 1996 (see page 20). An appropriation of shares was made to employees under the Thames Water Profit Sharing Scheme in respect of the year ended 31 March 1996. It is intended that a further appropriation will be made in respect of the year ended 31 March 1997.

Direct communication with employees was continued through the Company newspaper, videos, conferences and team briefings.

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 team consisting of specialists from within the Group and led by the 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 3,339,105 ordinary shares following the offer of a scrip dividend.

During the year 1,884,383 ordinary shares were issued to holders on the exercise of their options under the Company's Sharesave Scheme.

Options for 503,350 ordinary shares were exercised during the year under the Company's Executive Share Option Scheme. Under the Company's Profit Sharing Scheme for employees, 224,022 ordinary shares were issued.

Changes in capital arising from the repurchase by the Company of 10% of its issued share capital, and the conversion of bonds to shares by bond holders are outlined on page 12. The Company repurchased 10% of its issued share capital to return value to shareholders.

Directors

The names of the present Directors of the Company are shown on page 14. All the Directors served on the Board throughout the financial year, with the exception of David Clementi who was appointed on 1 January 1997. In accordance with Article 87 of the Company's Articles of Association, he will retire at the forthcoming Annual General Meeting and offer himself for re-election.

In accordance with Article 105, Sir Christopher Leaver, David Luffrum and Bill Harper will retire at the forthcoming Annual General Meeting and, being eligible, will offer themselves for re-election. John Worledge and John Thomson will also retire at the 1997 Annual General Meeting.

David Luffrum and Bill Harper, as Executive Directors, have service contracts with the Company, subject to termination by one year's notice. In common with the other non-Executive Directors, Sir Christopher Leaver and David Clementi do not have service contracts with the Company.

Directors' Interests in Shares

The beneficial interests of Directors and their families in shares in the Company at the beginning and end of the year are shown in the tables on pages 20 and 34 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 1997 to 20 June 1997. None of the Directors had any beneficial interests in the shares of any subsidiary company.

Significant Contracts

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

Substantial Shareholdings

At 20 June 1997, the Directors had been advised of notifiable interests in the issued ordinary share capital of 9.1% by Franklin Resources, Inc. and its affiliates, 3.4% by The Capital Group Companies, Inc., 3.4% by FINAXA S.A., AXA S.A. and their subsidiaries, and 3.0% by the Standard Life Group.

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. Pages 6 and 7 of the operating review highlight 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. The Environmental Review Committee, whose report is on page 21, has continued its work of reviewing the Group's environmental strategy, performance and reporting systems.

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, the CBI and the recent draft proposals for a new British Standard. The implementation of these principles in the Company's arrangements with its suppliers is managed by its procurement subsidiary CONNECT 2020, whilst arrangements with its contractors are managed through the Engineering Department. All payments to suppliers, service providers and contractors are made on the basis of mutually agreed terms and conditions which are established in advance of purchases.

The amount due to trade creditors at 31 March 1997 represented 41 days' purchases received from those creditors.

Political and Charitable Donations

Charitable donations amounting to £117,000 were made during the year. No donations were made for any 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 29 July 1997.

Special Business

In addition to the Ordinary Business to be transacted at the 1997 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 1996 to issue equity securities for cash other than pro rata to ordinary shareholders
- a Resolution authorising the Company to make market purchases of up to 10% of the Company's issued share capital, if appropriate.

By Order of the Board

David Badcock
David Badcock

David Badcock, Company Secretary
20 June 1997



1 Swans on the river at Walton-on-Thames

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. The Report of the Audit Committee on page 22 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 13. The Auditors' report on corporate governance matters is set out below.

The Board and Board Committees

At the close of the year under review, the Board comprised the full-time Executive Chairman, Sir Robert Clarke, three Executive Directors, including Mr W J Alexander as Managing Director, and six 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 strategy, business planning, acquisitions and disposals, and approval of major projects.

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), Tony Hobson, Roger Carr and David Clementi. 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 22.

Remuneration Committee

Sir Christopher Leaver (Chairman), Roger Carr, David Clementi, Tony Hobson, John Thomson and John Worlidge. The Remuneration Committee determines the service contracts, salaries and other remuneration of the Executive Directors. The Committee's report is on page 18.

Environmental Review Committee

John Worlidge (Chairman), Sir Christopher Leaver and Bill Harper. The Environmental Review Committee, whose report is on page 21, reviews the Company's environmental strategy, performance and reporting systems.

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 fund raising 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 above and internal financial control on page 22 concerning the Company's compliance with the paragraphs of the Cadbury Code of Best Practice specified for our review by the London Stock Exchange and their adoption of the going concern basis in preparing the financial statements. The objective of our review is to draw attention to non-compliance with Listing Rules 12.43(j) and 12.43(v).

Basis of Opinion

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

Opinion

With respect to the Directors' statements on internal financial control on page 22, and going concern on page 13, in our opinion the Directors have provided the disclosures required by the Listing Rules referred to above 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 above appropriately reflects the Company's compliance with the other aspects of the Code specified for our review by Listing Rule 12.43(j).


Coopers & Lybrand
 Chartered Accountants
 London 20 June 1997

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 1997 were as follows:

Sir Christopher Leaver (Chairman), Roger Carr, David Clementi (from 1 January 1997), Tony Hobson, John Thomson, John Worledge.

The Committee's primary role is to determine the contracts of service, 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 Executive Directors (see note 5 to the Accounts on page 34).

Compliance

The Remuneration Committee can confirm that the Company has complied fully with Section A of the Best Practice Provisions (annexed to the Stock Exchange Listing Rules) and further confirms that the Committee has taken into account the provisions of Section B of the Best Practice Provisions in framing its remuneration policy.

On 13 May 1997, the Stock Exchange announced new Listing Rules concerning the disclosure of directors' pension benefits effective for company accounts ending on or after 1 July 1997. Although these provisions do not take effect for the year under consideration, the Company has decided to adopt them early.

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 that they continue to be supportive of the Company's business objectives and the creation of shareholder value through comparison with similar jobs in other companies.

The Company uses the Hay method of job evaluation to enable these comparisons to be made and 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

Each July, the basic salary for each Executive Director is reviewed using data drawn from the comparator groups. The salaries of the Chairman and the Managing Director were not reviewed in July 1996 having been previously determined in April 1996 when Sir Robert Clarke became full time Executive Chairman and Mr Alexander became Managing Director. 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 Mr Alexander determined at £185,000, both effective from 1 April 1996.

At the July 1996 review, the salaries of Mr Luffrum and Mr Harper were increased by 3.4% and 7.3% respectively. The increases took account of performance and the prevailing market information on pay levels.

Annual Bonus

In addition to their basic salary, the Executive Directors are eligible for an annual non-pensionable bonus under the terms of the annual cash/share bonus plan which was approved by shareholders in July 1996. The targets for the bonus plan are set by the Remuneration Committee and are based on challenging performance criteria comprising both financial and customer service measurement to encourage superior performance. For 1996/97, bonus awards of 27% of basic salary have been made following a year of excellent profit performance and improving customer service performance. Two-thirds of the bonus is awarded in cash and will be paid in July 1997. Details appear on page 19. One-third of the bonus will be awarded in conditional rights to shares.

The Chairman does not participate in the annual cash/share bonus plan.

Long-Term Incentives

As part of the Company's response to the Greenbury Report, a new Long-Term Restricted Share Plan for Executive Directors was approved by shareholders in July 1996. The plan replaces the Executive Share Option Scheme and awards are non-pensionable.

Performance is measured by reference to total shareholder return (TSR) over a four-year period against a comparator group comprising eight water and sewerage companies. At the time the plan was approved by shareholders, there were nine water and sewerage companies. The reduction to eight has been recognised by reducing the awards for fourth and fifth position in the comparator group.

The maximum award for the first year was set by the Remuneration Committee at 20% of basic salary and details of the first awards made under the scheme are given on page 20. The maximum award is payable should the Company achieve first or second place in the comparative rankings. Achievement of third and fourth place would qualify for one-half and one-quarter of the award respectively. No award will be made for fifth place or below.

The Chairman does not participate in the Long-Term Restricted Share Plan.

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 Mr Alexander and details of this and the pension arrangements for all Executive Directors are given below.

Other Benefits

Executive Directors are eligible to participate in the Company's arrangements for executive benefits which include the provision of a fully expensed car, membership of private medical and insurance schemes, a financial advisory service and the reimbursement of business telephone charges.

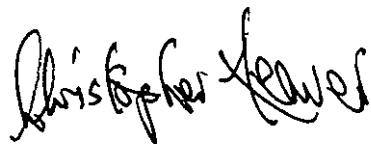
No changes were made to the structure of other benefits but the value of car benefits was increased in line with the scales issued by the Inland Revenue.

Service Contracts

From April 1996, the Chairman's service contract continues from year to year until he reaches the age of 70, subject to 12 months' notice by the Company.

In May 1996, the Executive Directors agreed to a further reduction in notice period from two years to one year. This followed an agreed reduction from three years to two in 1994/95. In the event of termination without notice, a payment of compensation will be made representing one year's remuneration and benefits.

Full details of the remuneration, pension arrangements and the interests in shares of the Executive Directors in 1996/97, compared with the previous year's figures, are shown immediately following this report.



Sir Christopher Leaver, Committee Chairman

Directors' Remuneration - Year ended 31 March 1997

	Salary and fees £000	Annual bonus £000	Other benefits £000	1997 Total £000	Salary and fees £000	Annual bonus £000	Other benefits £000	1996 Total £000
Executive Directors								
Sir Robert Clarke	234	-	13	247	144	-	7	151
W J Alexander	185	33	8	226	144	9	8	161
W R Harper	108	19	10	137	102	-	10	112
D J Luffrum	149	26	9	184	142	-	9	151
Former Director (note 1)	-	-	15	15	250	-	14	264
Totals	676	78	55	809	782	9	48	839

Notes

- In the year ended 31 March 1997, the Company made an unfunded pension payment of £14,607 (1996: Nil) to Mr Hoffman (a former Director).
- Details of the fees paid to non-Executive Directors are shown on page 34 (note 5 to the accounts).

Pension Arrangements

All Executive Directors, except Sir Robert Clarke, are members of the Thames Water Pension Scheme (the 'main' Scheme) and the Senior Executive Pension Scheme. The disclosure below is based upon the accrued benefits method and the amounts shown represent the annual pension accrued within the two schemes and payable on retirement at aged 60 based upon each Director's pensionable service to date, current pensionable salary and any benefits transferred in from previous employers.

Name of Director	Age at 31.3.97	Pensionable service at 31.3.97	Directors' contributions in year to 31.3.97 £000	Increase in accrued pension during the year to 31.3.97 £000	Accumulated total accrued pension at 31.3.97 £000
W J Alexander	50	7 years	5	2	11
W R Harper	53	35 years	3	4	61
D J Luffrum	52	34 years	5	4	88

Notes

- The pension entitlement shown is that which would be paid annually on retirement based on pensionable service to 31 March 1997.
- The contributions shown are those paid by the Directors under the terms of the main Scheme in the year to 31 March 1997.
- The increase in accrued pension during the year to 31 March 1997 excludes any increase for inflation.
- Sir Robert Clarke has an executive pension plan, contributions (£18,000 per annum) to which are through a salary sacrifice arrangement. The plan assumes a normal retirement age of 70 years. The benefits at age 70 will be those that can be provided from the value of the fund at the time.
- Mr Alexander is entitled to a pension on retirement at age 60 of 58% of his pensionable salary in the last fiscal year prior to retirement less benefits in his previous employer's pension schemes. This commitment will be met by a combination of funded pensions through the main Scheme and the Senior Executive Pension Scheme and an unfunded arrangement through an annual charge to the profit and loss account. For the year to 31 March 1997, this amounted to £111,000 (1996: £25,000), the increase resulting from Mr Alexander's salary revision following his appointment as Managing Director on 1 April 1996. The total provision at 31 March 1997 was £205,000.
- Mr Harper and Mr Luffrum are entitled to a pension on retirement at age 60 of two-thirds of pensionable salary in the last fiscal year prior to retirement. In both cases, the pensions will be funded from the main Scheme.
- Members of the main Scheme have the option to pay Additional Voluntary Contributions; neither the contributions nor the resulting benefits are included in the above table.
- Spouses' pensions following death in retirement, are payable equal to 50% of the Directors' pensions before the exercise of any cash option.
- Pension increases are pre-funded in line with inflation.

Directors' Interests in Shares**Ordinary Shares and Executive Share Options**

	Ordinary Shares		1996 Number	1997 Number	Executive Share Options		Date when exercisable	Expiry date
	31.3.96 Number	31.3.97 Number			Notional value £000	Exercise price		
Sir Robert Clarke	4,955	6,306	-	-	-	-	-	-
W J Alexander	14,588	14,682	18,000	18,000	59.0	347p	2.7.94	July 2001
			31,000	31,000	79.7	418p	24.6.95	June 2002
			22,000	22,000	48.8	453p	8.12.97	Dec 2004
W R Harper	11,300	11,788	22,000	22,000	72.2	347p	2.7.94	July 2001
			11,000	11,000	35.1	356p	15.11.94	Nov 2001
			9,000	9,000	20.0	453p	8.12.97	Dec 2004
D J Luffrum	20,656	36,643	6,000	-	-	283p	Exercised	
			25,000	-	-	347p		21.3.97
			13,000	-	-	356p		
			18,000	18,000	40.0	453p		8.12.97

Notes

- Following the adoption of the Long-Term Restricted Share Plan at the 1996 AGM, no further share options will be granted to Executive Directors under the Executive Share Option Scheme.
- (i) No executive share options granted to Executive Directors lapsed during the year;
(ii) On 21 March 1997, Mr Luffrum exercised options under the Executive Share Option Scheme on 44,000 shares. 28,020 shares were sold to cover the subscription cost of the exercise of option and the payment of tax on the capital gain (£138,630). The mid-market price on the date of exercise was 656p.
- Under the Thames Water Sharesave Scheme, which is available to Directors and all employees, Sir Robert Clarke had 4,097 options at 31 March 1997 (1996: 4,097). The exercise price of these options is 421p. Mr Luffrum had 2,205 options at 31 March 1997 (1996: Nil) and the exercise price of these options is 442p.
- 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 13 June 1997 (675p) and the exercise price. The share price ranged from 531.5p to 694.5p during the year.

Long-Term Restricted Share Plan (1996-2000)

	Date of award	Number of shares (maximum) (note 1)	Earliest vesting date
W J Alexander	2.8.96	6,941	1.4.2000
W R Harper	2.8.96	4,127	1.4.2000
D J Luffrum	2.8.96	5,628	1.4.2000

Notes

- The number of shares that will vest under the long-term plan is determined by the Company's position in the rankings, based upon comparative total shareholder return over the four-year period ending 31 March 2000. Should the Company rank below fourth place then no shares will vest and the Directors' interest in the shares will lapse. The proportion of shares to vest for fourth place and above is graduated as follows:
Ranking
4th - 25% of the shares
3rd - 50% of the shares
1st/2nd - 100% of the shares
- The market value of the shares was 675p at 13 June 1997.

Report of the Environmental Review Committee by John Worlidge

The Environmental Review Committee, comprising Sir Christopher Leaver, Bill Harper and myself, reviews the Company's environmental strategy, performance and reporting systems. In July 1997 we are publishing our fifth Environmental Review. This sets out the main environmental impacts of the business, our environmental performance over the last 12 months and our progress against targets. The data in the report has been externally verified.

Some key aspects of the Company's performance are summarised below:

Water Resources

The exceptionally dry conditions have been the dominant issue for the industry. Despite having only 70% of average rainfall last year, we were able to supply water to our customers without imposing restrictions. During such dry periods, major concerns are expressed about the environmental impact of abstractions. Our objective is to strike the right balance between such concerns and meeting customer needs for water.

Our Water Efficiency Plan, highly commended by Ofwat, was published in March. This tackles the key demand management measures. Leakage is our top priority. We are committed to halving mains leakage by the year 2000 and annual targets have been agreed with Ofwat. With over 800 staff involved in leakage control, we met our target at the end of March and continue to make good progress. We are installing domestic meters free of charge upon request and are pressing ahead in fitting meters into homes with high non-essential use. More than 120,000 customers have requested our water efficiency pack which sets out how people can use water wisely and includes a free 'Hippo' water saving device.

Drinking Water Quality

The quality of our drinking water improved again this year, with 99.5% of tests meeting regulatory standards – our highest ever achievement.

We were prosecuted in July for an incident that happened in 1994 where we supplied customers with water that was discoloured by iron deposits. Although there was no risk to health, we know that this was unacceptable. A full internal review was carried out and extensive measures taken to guard against this type of incident.

Wastewater Management

We maintained our excellent record. 99% of customers were served by sewage treatment works complying with the 'look-up' tables in the Environment Agency's consents. Our aim is to ensure that all works are fully compliant. Through continuing high investment levels, we will further enhance river quality which has been acclaimed by the Environment Agency. Regrettably, we were prosecuted three times for causing pollution as a result of operational incidents.

We have actively continued our 'Bag it and Bin it' campaign, educating people in the environmental problems associated with disposing of household wastes like fats, cotton buds and nappies down the drain. We received a commendation in the PR Week awards for communicating this message effectively.

Nature Conservation and Access

We have progressed works improvements including landscape enhancements, odour control, effluent quality and energy efficiency. Our Mogden sewage treatment works was commended in the Business Commitment to the Environment Awards.

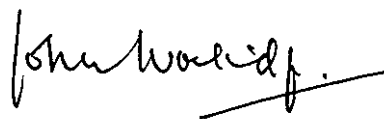
Our Kempton Park Nature Reserve saw the first recorded successful breeding of avocets in inland Britain. These are rare winter visitors to Britain which are usually confined to the coast. We also completed 41 habitat enhancement schemes this year (38 with local partners) improving nature conservation and public access.

Environmental Stewardship

Environmental awards won this year included a national commendation in the Tidy Britain Group's 1996 Queen Mother's Birthday Awards for our waste reduction initiatives and work on the ThamesClean project. We continue to support several community initiatives such as the Going for Green project with the London Borough of Merton and Global Action Plan.

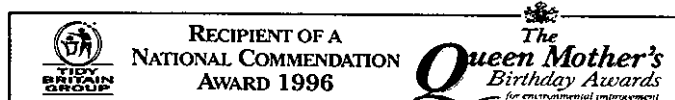
We have progressed our vision of sustainable development and implications for the water industry. As part of this, we have contributed to a number of local authority plans and hosted a technical seminar attended by more than 50 local authorities.

Looking forward, climate change appears inevitable. Our conservation measures will not suffice alone. We are, therefore, planning for a major sustainable reservoir resource to meet the region's needs in the next century.



John Worlidge, Committee Chairman

1 Thames Water sponsors the carp tank at London Zoo



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. Four non-Executive Directors, including myself as Chairman, comprise the core membership.

Each meeting of the Committee had an agenda linked to events in the Company's financial calendar.

In September 1996, 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.

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

At the meeting in January 1997, the external auditors' planned approach and fee proposal for the audit of the accounts for 1996/97 was reviewed. We also satisfied ourselves that

appropriate progress was being made by management to deal with matters raised in both the internal and external audit reports. An updated business ethics policy was agreed for dissemination throughout the Group.

In April 1997, we considered the principal accounting policies to be adopted in closing the financial accounts for 1996/97. We reviewed a report on the work of the internal audit department for that year and agreed the department's forward work programme for 1997/98. We considered a report detailing the results of the internal control self-certification questionnaires as completed by each business unit. We also agreed changes to the Group's corporate policies and procedures manual.

In May and June, the Committee met on two occasions specifically related to the release of the financial results for 1996/97.



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 Corporate 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 budget 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 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, Company Secretary
20 June 1997

Report of the Auditors to the members of Thames Water Plc

We have audited the financial statements on pages 24 to 47.

Respective Responsibilities of Directors and Auditors

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

Basis of Opinion

We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Directors in 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 1997 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
20 June 1997

Consolidated profit and loss account

Year ending 31 March	Note	1997	1997	1996	1996
		£m	£m	(Restated - see note 6) £m	£m
Turnover	3		1,287.4		1,193.6
Operating costs	4		(859.0)		(827.9)
			428.4		365.7
Other operating income	6		12.3		10.4
Operating profit			440.7		376.1
Other non-operating exceptional items:	2				
(Loss)/profit on sale/closure of discontinuing operations			(51.0)	2.2	
Less utilisation of 1996 provision			51.0	-	2.2
Provision for losses on the sale/closure of operations to be discontinued			-		(97.2)
Profit on ordinary activities before interest and taxation			440.7		281.1
Interest	7		(56.7)		(52.4)
Non-recurring premium on the repurchase of Convertible Bonds	20		(12.2)		-
Profit on ordinary activities before taxation			371.8		228.7
Taxation on profit on ordinary activities	8		(51.4)		(25.2)
Profit for the financial year	24		320.4		203.5
Dividends on equity shares	11		(132.0)		(114.2)
Retained profit transferred to reserves			188.4		89.3
Earnings per ordinary share	12		82.8p		50.7p
Adjusted earnings per ordinary share	12		85.5p		74.3p

There is no difference between the profit on ordinary activities before taxation and the retained profit for the year stated above and the historical cost equivalents.

Statement of recognised gains and losses

Year ending 31 March	1997 £m	1996 £m
Profit for the financial year	320.4	203.5
Currency translation differences	5.6	(1.2)
Advance corporation tax on the repurchase of shares	(44.9)	-
Total recognised gains for the financial year	281.1	202.3

Consolidated and Company balance sheets

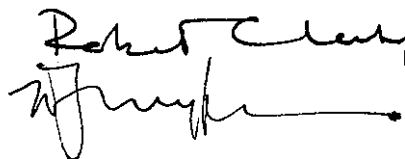
At 31 March	Note	Group		Company	
		1997 £m	1996 £m	1997 £m	1996 £m
Fixed assets					
Tangible assets	13	3,387.9	3,123.4	0.7	0.2
Investments	14	34.3	17.5	955.6	938.1
		<u>3,422.2</u>	<u>3,140.9</u>	<u>956.3</u>	<u>938.3</u>
Current assets					
Stocks and work in progress	15	25.3	39.8	-	-
Debtors	16	306.4	284.0	104.6	146.7
Investments	17	134.1	218.0	33.3	114.2
Cash at bank and in hand		68.7	57.6	22.1	33.2
		<u>534.5</u>	<u>599.4</u>	<u>160.0</u>	<u>294.1</u>
Creditors: amounts falling due within one year	18	(864.7)	(590.7)	(410.8)	(205.4)
Net current (liabilities)/assets		<u>(330.2)</u>	<u>8.7</u>	<u>(250.8)</u>	<u>88.7</u>
Total assets less current liabilities		<u>3,092.0</u>	<u>3,149.6</u>	<u>705.5</u>	<u>1,027.0</u>
Creditors: amounts falling due after more than one year	19	(839.5)	(773.6)	(102.2)	(118.7)
Convertible debt	20	-	(81.8)	-	(81.8)
Provisions for liabilities and charges	22	(87.0)	(123.9)	(0.1)	(1.5)
Net assets		<u>2,165.5</u>	<u>2,170.3</u>	<u>603.2</u>	<u>825.0</u>
Capital and reserves					
Called up share capital	23/24	379.4	404.0	379.4	404.0
Share premium	24	48.6	8.2	48.6	8.2
Capital redemption reserve	24	41.4	-	41.4	-
Profit and loss account	24	1,696.1	1,758.1	133.8	412.8
Equity shareholders' funds		<u>2,165.5</u>	<u>2,170.3</u>	<u>603.2</u>	<u>825.0</u>

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

The accounts were approved by the Board on 20 June 1997.

Sir Robert Clarke, Chairman

D J Luffrum, Finance and Planning Director



Consolidated cash flow statement

Year ended 31 March:	1997 £m	1997 £m	1996 £m	1996 £m
Cash flow from operating activities (note a)		562.3		444.0
Returns on investment and servicing of finance				
Interest received	17.1		18.6	
Interest paid	(55.6)		(55.8)	
Premium on repurchase of convertible bonds	(12.2)		-	
Interest element of finance lease rental payments	(13.4)		(12.8)	
Net cash outflow from returns on investment and servicing of finance		(64.1)		(50.0)
Taxation				
UK corporation tax paid	(26.3)		(21.6)	
Advance corporation tax on the purchase of shares	(44.9)		-	
Overseas tax paid	(3.4)		(0.6)	
Net cash outflow from taxation		(74.6)		(22.2)
Capital expenditure and financial investment				
Purchase of tangible fixed assets	(365.5)		(287.0)	
Capital contributions received	29.3		24.8	
Sale of tangible fixed assets	3.0		3.6	
Net cash outflow from capital expenditure and financial investment		(333.2)		(258.6)
Acquisitions and disposals				
Purchase of fixed asset investments	(16.1)		(14.8)	
Sale of businesses (note b)	(17.7)		18.7	
Net cash (outflow)/inflow from acquisitions and disposals		(33.8)		3.9
Equity dividends paid		(103.2)		(90.2)
Cash (outflow)/inflow before use of liquid resources and financing		(46.6)		26.9
Management of liquid resources		82.4		(31.3)
Financing				
Issue of shares	7.8		3.5	
Purchase of own shares	(226.2)		-	
Cash inflow from increase in debt and lease financing	185.3		20.9	
Other	-		(0.4)	
		(33.1)		24.0
Increase in cash in period		2.7		19.6

Reconciliation of net cash flow to movement in net debt

	1997 £m	1996 £m
Increase in cash in period	2.7	19.6
Cash inflow from increase in debt and lease financing:		
- loans due within one year	(184.4)	(36.6)
- loans due after more than one year	(38.1)	10.8
- capital repayment of finance leases	1.6	4.9
- purchase of convertible bonds	35.6	-
Cash inflow from decrease in liquid resources	(82.4)	31.3
Other	-	(0.4)
Change in net debt resulting from cash flows	(265.0)	29.6
Other non-cash movements:		
- new finance leases	(33.8)	(59.8)
- conversion of convertible bonds	46.2	-
Foreign exchange translation differences	4.5	-
	(248.1)	(30.2)
Net debt at 1 April	(641.4)	(611.2)
Net debt at 31 March	(889.5)	(641.4)

Notes to the cash flow statement

	1997	1996 (Restated - see note 6)
	£m	£m
a Reconciliation of operating profit to operating cash flow		
Operating profit	440.7	376.1
Depreciation	108.1	101.0
Decrease (increase) in stocks	15.7	(6.1)
Increase in debtors	(45.4)	(37.5)
Increase in creditors	60.1	12.2
(Decrease)/increase in long-term provisions	(16.3)	7.4
Other	(0.6)	(9.1)
Net cash inflow from operating activities	562.3	444.0

Of the net cash inflow from operating activities, £10.5m is in respect of cash outflows from non-operating exceptional items.

	1997 £m
b Sale of businesses	
Tangible fixed assets	1.2
Stocks	(1.2)
Debtors	20.7
Creditors	(24.5)
	(3.8)
Loss on disposal	(13.9)
Satisfied by bank loans	(17.7)

The subsidiary undertakings sold during the year utilised £7.3m of the Group's operating cash flows, received £0.1m in respect of net returns on investments and servicing of finance and paid £0.1m in respect of capital expenditure.

	at 1 April 1996	Cash flow	Other non-cash movements	Exchange movements	at 31 March 1997
	£m	£m	£m	£m	£m
c Analysis of net debt					
Cash in hand	57.6	11.1	-	-	68.7
Bank overdraft	(40.7)	(8.4)	-	-	(49.1)
Net cash	16.9	2.7	-	-	19.6
Loans due within one year	(65.0)	(184.4)	-	-	(249.4)
Loans due after more than one year	(510.3)	(38.1)	-	6.0	(542.4)
Convertible bonds	(81.8)	35.6	46.2	-	-
Finance leases	(219.2)	1.6	(33.8)	-	(251.4)
Liquid resources	218.0	(82.4)	-	(1.5)	134.1
	(641.4)	(265.0)	12.4	4.5	(889.5)

The Group includes as liquid resources term deposits of less than one year and fixed and floating interest rate securities.

d Major non-cash transactions

During the year the Group entered into the following non-cash transactions:

- the issue of 3.3m ordinary shares representing shareholders' election to take shares rather than cash dividends
- the conversion by bondholders of bonds to the value of £46.2m into 10.8m ordinary shares
- finance leases amounting to £33.8m to fund capital plant, equipment and vehicles.

Notes to the accounts

1 Principal accounting policies

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

- a Basis of preparation** The accounts have been prepared in accordance with the historical cost convention and with applicable accounting standards in the UK 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. The cash flow statement has been presented in accordance with Financial Reporting Standard (FRS) number 1 (revised). Material transactions between the Company and related parties are also disclosed in accordance with FRS 8 'Related Party Disclosures'.
- 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 13i.

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

g Investments

Fixed asset investments

- i **In the accounts of the Company** Investments held as fixed assets are stated at cost less provisions for permanent diminution in value.
- ii **In the Group accounts** interests in associated undertakings are accounted for using the equity method of accounting. The consolidated profit and loss account includes the Group's share of the pre-tax results and attributable taxation of the associated undertakings based on audited financial statements for the year. In the consolidated balance sheet the interests in associated undertakings are shown as the Group's share of the net assets, excluding goodwill, of the associated undertakings.

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

- h **Stocks and work in progress** with the exception of long-term contract work in progress, are valued at the lower of cost and net realisable value. Cost includes labour, materials, transport and an element of overheads. Long-term contracts are included in the profit and loss account by recording turnover and related costs as contract activity progresses. Profit attributable to turnover to date is included where the outcome of the contract can be foreseen with reasonable certainty. Full provision is made for losses on unprofitable contracts. Long-term contract work in progress is stated at net cost less foreseeable losses and progress payments received and receivable. The amount by which turnover is in excess of payments on account is separately disclosed within debtors as amounts recoverable on contracts. Progress payments received in excess of costs less foreseeable losses are disclosed in creditors. Where foreseeable losses exceed net costs the excess is disclosed in provisions for liabilities and charges.
- i **Pension costs** The majority of the Group's employees belong to pension schemes which are funded by both employers' and employees' contributions and which are of the defined benefit type. The pension cost is assessed in accordance with the advice of an independent qualified actuary to recognise the expected cost of providing pensions on a systematic and rational basis over the expected remaining service lives of employees. Any difference between the cost charged and the amounts paid by the Group is treated as a prepayment or accrual.
- j **Foreign currencies** All transactions denominated in foreign currencies are translated into sterling at the actual rate of exchange ruling on the date of the transaction. Assets and liabilities, including long-term liabilities, in foreign currencies are translated into sterling at rates of exchange ruling at the balance sheet date. All exchange differences arising are dealt with in the profit and loss account. This treatment is required by Statement of Standard Accounting Practice (SSAP) Number 20 in order to give a true and fair view of the Group's results. Compliance with SSAP 20 overrides Schedule 19 Paragraph 12 of the Companies Act 1985 which states that only profits realised at the balance sheet date should be included in the profit and loss account. The effect of currency retranslation is disclosed in note 4. The results of overseas subsidiary undertakings are translated at average rates of exchange for the year. Differences arising from the translation of year-end assets and liabilities at closing rates together with the restatement of opening balance sheets of overseas subsidiary undertakings at closing rates are dealt with through reserves together with exchange differences on the translation of foreign currency borrowings funding such investments.
- k **Research and development** expenditure is charged to the profit and loss account in the year in which it is incurred.
- l **Taxation** The charge for taxation is based on the profit for the year as adjusted for disallowable and non-taxable items. Tax deferred or accelerated is accounted for in respect of all material timing differences to the extent that it is probable that a liability or asset will crystallise. Provision is made at the rate which is expected to be applied when the liability or asset is expected to crystallise. In the Company, provision is made at such rate as reflects the anticipated consideration payable or receivable in respect of any future Group relief claims or surrenders.
- m **Provision for insurance liabilities** Provision is made for known and estimated liabilities arising from uninsured claims against the Group and for claims against its wholly owned insurance company.
- n **Goodwill** arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary and associated undertakings acquired, is written off against reserves in the year in which it arises. 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 up front construction element of Build, Operate and Transfer schemes.

Notes to the accounts

2 Continuing operations and other non-operating exceptional items

The Group provided for non-operating exceptional items of £95m in the year ended 31 March 1996 following its decision to implement a managed withdrawal from stand alone design and construction activities and the development of only those products and services businesses which are closely related to core utility strengths. The provision comprises the write down of assets, reorganisation costs, and the write back of goodwill.

Good progress has been made during the year on the implementation of the strategy. On 2 October 1996, the German consulting business and the majority of outstanding contracts in the UK and German contracting businesses were sold. As a result £58.6m of the provision has been utilised comprising goodwill written back (£22.9m), and losses on the sale/closure of operations (£28.1m) together with operating losses of £7.6m inclusive of redundancy payments which are disclosed in note 4. Although the remaining provision is considered to be adequate there are some residual issues and, as a result, there has been no release of unutilised provisions at 31 March 1997.

Since the implementation of the withdrawal strategy was not complete at the date these accounts were approved, Financial Reporting Standard Number 3 requires these activities to be classified as continuing. The summary below shows turnover and profit before interest and tax analysed between operations to be retained, and those to be discontinued.

	Turnover		Profit before interest and tax	
	1997 £m	1996 £m	1997 £m	1996 £m
Operations to be retained	1,236.0	1,107.3	440.6	404.5
Sold or closed	-	15.5	-	(0.4)
Operations to be discontinued	51.4	70.8	0.1	(28.0)
	1,287.4	1,193.6	440.7	376.1
Other non-operating exceptional items	-	-	-	(95.0)
	1,287.4	1,193.6	440.7	281.1

3 Segmental analysis

The segments by class of business are: **Utilities**, the regulated water and wastewater business; **International Operations**, international water and wastewater operations and the marketing of technical managerial services. **Products**, the development and manufacture of products for the treatment of water, wastewater and industrial process fluids. **Services**, 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**.

With effect from 1 April 1996 the provision of waste management and urban environmental services has been separately reported as the Services segment. Previously these activities were included in the Products and Services segment which is now to be reported as the Products segment.

Turnover	1997			1996		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
By class of business						
Utilities	-	7.4	990.9	-	1.7	973.9
International operations:						
- to be retained	4.7	-	108.7	1.0	0.1	7.1
- to be discontinued	1.7	5.4	51.4	3.3	9.4	70.8
Products:						
- to be retained	1.0	6.9	63.6	2.0	4.6	64.8
- sold or closed	-	-	-	-	-	15.5
Services	0.2	54.9	54.6	0.9	24.9	43.7
Insurance and Property	0.2	16.4	18.2	-	15.6	17.8
Total	7.8	91.0	1,287.4	7.2	56.3	1,193.6

Notes to the accounts

3 Segmental analysis (continued)

Geographical segment by origin	1997			1996		
	Intra-segment £m	Inter-segment £m	Third parties £m	Intra-segment £m	Inter-segment £m	Third parties £m
UK	19.3	76.1	1,180.3	57.0	1.7	1,096.2
Continental Europe	-	-	11.6	-	-	31.0
Americas	-	0.9	38.2	0.3	0.4	46.3
Africa	-	-	-	-	-	4.9
Asia Pacific	2.3	0.1	57.3	3.2	0.9	15.2
Total	21.6	77.1	1,287.4	60.5	3.0	1,193.6

Geographical segment by destination	1997		
	Intra-segment £m	Inter-segment £m	Third parties £m
UK	14.3	76.1	1,094.1
Continental Europe	2.1	-	81.7
Americas	1.0	0.9	42.0
Africa	-	-	4.0
Asia Pacific	4.2	0.1	65.6
Total	21.6	77.1	1,287.4

In 1996 turnover by destination did not materially differ from turnover by origin.

Profit before tax	1997	1997	1996	1996
	£m	£m	£m	£m
Utilities		412.1		393.1
International operations				
- to be retained	2.2		(10.0)	
- to be discontinued	0.1	2.3	(28.0)	(38.0)
Products:				
- to be retained	4.4		2.9	
- sold or closed	-	4.4	(0.4)	2.5
Services		5.5		2.0
Insurance and Property		18.9		19.1
Other activities		(2.5)		(2.6)
		440.7		376.1
Other non-operating exceptional items:				
International operations	-		(97.2)	
Products and Services	-	-	2.2	(95.0)
Profit on ordinary activities before interest and taxation		440.7		281.1
Interest		(56.7)		(52.4)
Non-recurring premium on the repurchase of Convertible Bonds		(12.2)		-
Profit on ordinary activities before taxation		371.8		228.7

The segmental profit before interest and taxation shown above is to third parties. Operating profit shown in the operating review on pages 4 to 10, which is defined as profit before interest and taxation, is inclusive of inter-segment trading.

Notes to the accounts

3 Segmental analysis (continued)

Net assets

	1997	1997	1996	1996
	£m	£m	£m	£m
Utilities		3,177.8		2,934.7
International operations				
- to be retained	5.6		8.2	
- to be discontinued	(26.1)	(20.5)	(49.3)	(41.1)
Products:				
- to be retained	15.2		15.2	
- sold or closed	-	15.2	-	15.2
Services		(5.7)		9.1
Insurance and Property		15.5		0.7
Other activities		(127.3)		(106.9)
		3,055.0		2,811.7
Net debt		(889.5)		(641.4)
Net assets		2,165.5		2,170.3

	Profit/(loss) before tax		Net assets/(liabilities)	
	1997	1996	1997	1996
	£m	£m	£m	£m
By geographical segment				
UK	434.1	403.3	3,051.2	2,833.6
Continental Europe	0.7	(17.4)	(17.2)	(37.8)
Americas	3.2	(0.6)	8.0	5.3
Africa	-	-	-	(0.9)
Asia Pacific	2.7	(9.2)	13.0	11.5
	440.7	376.1	3,055.0	2,811.7
Other non-operating exceptional items	-	(95.0)		
	440.7	281.1	3,055.0	2,811.7
Interest	(56.7)	(52.4)		
Non-recurring premium on the repurchase of Convertible Bonds	(12.2)	-		
Net debt			(889.5)	(641.4)
Total	371.8	228.7	2,165.5	2,170.3

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

Notes to the accounts

4 Operating costs

Analysis of operating costs by type of expense

	1997 £m	1997 £m	1996 £m
Manpower	236.8		
Utilisation of 1996 provision (see note 2)	(4.6)	232.2	248.6
Materials and consumables		139.2	109.3
Other operating charges	348.9		
Utilisation of 1996 provision (see note 2)	(3.0)	345.9	352.7
Infrastructure renewals charge		38.4	37.5
Depreciation:			
- owned assets		97.6	89.6
- assets held under finance leases		10.5	11.4
Rentals under operating leases:			
- hire of plant and machinery		7.4	4.7
- other		3.8	3.1
Research and development		8.4	8.4
Foreign currency gains (see note 1j)		(2.0)	0.4
		881.4	865.7
Own work capitalised		(22.4)	(37.8)
		<u>859.0</u>	<u>827.9</u>

i Included in other operating charges are:

	1997 £m	1996 £m
Auditors' remuneration in respect of:		
- audit work	0.6	0.7
- other statutory and regulatory requirements	0.1	0.1
- non-audit work : UK	0.2	0.3
: overseas	-	-
	<u>0.9</u>	<u>1.1</u>

- ii Included in auditors' remuneration is £82,000 in respect of audit fees incurred by the Company in 1997 (1996: £70,000).
- iii The foreign currency gains in 1997 are net of unrealised gains and losses of £7.7m and £5.7m respectively.

Notes to the accounts

5 Information regarding Directors and employees

The Company's policy regarding the remuneration of the Chairman and Executive Directors is set out in the report of the Remuneration Committee on pages 18 to 20 of the Annual Report together with details of the remuneration of individual Executive Directors and their shareholdings in the Company on pages 19 and 20.

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 Company's bonus, long-term incentive schemes or other benefits.

	Fees		Number of Shares at 31 March	
	1997 £000	1996 £000	1997	1996
Non-Executive Directors:				
Sir Christopher Leaver	45	45	4,537	3,931
R M Carr	19	19	3,000	3,000
D C Clementi	5	-	1,000	-
Sir Peter Harrop	-	8	-	-
A J Hobson	19	19	1,000	1,000
J M Thomson	19	19	2,000	2,000
E J Worledge	19	19	2,521	2,389

The 1997 non-Executive fees for D C Clementi are for a part year since he was appointed with effect from 1 January 1997. The 1996 non-Executive fees for Sir Peter Harrop are for a part year since he retired on 25 July 1995.

	1997 £000	1996 £000
Directors' remuneration in total		
Fees for non-Executive Directors	128	130
Remuneration of Executive Directors (see page 19)	809	839
Gains made on the exercise of share options (see page 20)	139	-
Compensation for loss of office	-	384

Retirement benefits are accruing to one Director on a salary sacrifice money purchase pension scheme and to three Directors under a defined benefit scheme.

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 nor are there any related party transactions with the Directors or connected persons.

	1997 £m	1996 £m
Employee information		
Group employment costs including Executive Directors' remuneration were:		
- Salaries and wages	205.8	212.1
- Social security costs	18.8	21.2
- Pension contributions (note 27)	12.9	19.2
Total	237.5	252.5

Total employment costs contain £3.7m (1996: £2.3m) and £1.6m (1996: £1.6m) which are included in the infrastructure renewals charge and research and development costs respectively in note 4.

Notes to the accounts

5 Information regarding Directors and employees (continued)**Average monthly number of persons employed by the Group, including Executive Directors, analysed by class of business**

	1997 number	1996 number
Utilities	5,912	6,338
International operations	1,397	1,519
Products	605	791
Services	2,976	1,647
Property	47	-
Other activities	64	65
Total	11,001	10,360

The Services and Property segmental monthly average number of employees in 1997 have increased by 202 and 47 in respect of the transfer of employees from the Utilities segment.

6 Other operating income

	1997 £m	1996 restated £m
Realised/unrealised gains and losses on fixed interest short-term investments	3.1	3.1
Insurance investment income	3.9	3.5
Profit/(loss) from interests in associated undertakings	0.7	(0.1)
Net rents receivable	1.4	1.6
Miscellaneous	3.2	2.3
	12.3	10.4

Other operating income has been restated to include insurance investment income which has previously been accounted for in interest receivable. In the opinion of the Directors, investment income is fundamental to the operations of an insurance company and therefore more appropriate to include in operating income.

7 Interest

	1997 £m	1996 restated (see note 6) £m
Bank loans, overdrafts and other loans:		
- Repayable within five years otherwise than by instalments	(10.1)	(2.1)
- Repayable within five years by instalments	(2.8)	(2.6)
- Not wholly repayable within five years	(45.1)	(51.1)
Finance charges in respect of finance leases	(13.4)	(12.8)
Other finance charges	(0.2)	(0.7)
Interest payable and similar charges	(71.6)	(69.3)
Interest receivable	14.9	16.9
Total	(56.7)	(52.4)

8 Taxation on profit on ordinary activities

	1997 £m	1996 £m
Corporation tax on income at 33%	38.4	-
Overseas taxation	3.5	0.6
Advance corporation tax written off	31.1	24.6
Prior years advance corporation tax (ACT) relieved	(21.6)	-
	51.4	25.2

No liability to UK mainstream corporation tax arose on the 1996 result for the year because of the availability of capital allowances and tax losses brought forward.

Notes to the accounts

9 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. If a provision for deferred tax had been made on the full liability method, there would have been a corporate tax charge of £121.9m (1996: £108.6m).

	Group	
	1997	1996
	£m	£m
An analysis of amounts unprovided is as follows:		
Accelerated capital allowances:		
- Infrastructure assets	302.5	272.2
- Other assets	354.2	314.9
Other timing differences	(3.9)	(12.5)
Losses	(0.5)	(2.1)
Advance corporation tax	(195.8)	(141.6)
	<u>456.5</u>	<u>430.9</u>

Advance corporation tax includes £44.9m in respect of the purchase of shares which has been charged directly to Profit and Loss Reserves (see note 24).

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.

10 Profit for the financial year

Of the consolidated profit attributable to the shareholders, £109.0m (1996: £477.7m) has been dealt with in the accounts of the Company. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

	1997		1996	
	pence per share	£m	pence per share	£m
11 Dividends on equity shares				
Interim	11.2	44.1	9.2	37.0
Final proposed	23.2	87.9	19.1	77.2
	<u>34.4</u>	<u>132.0</u>	<u>28.3</u>	<u>114.2</u>

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 1997 are shown in note 23.

12 Earnings per ordinary share

	1997	1996
Profit for the financial year	£320.4m	£203.5m
Earnings per ordinary share	82.8p	50.7p
Non-recurring premium on the repurchase of Convertible Bonds	2.7p	-
Other non-operating exceptional items	-	23.6p
Adjusted earnings per ordinary share	<u>85.5p</u>	<u>74.3p</u>

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 (387.0m).

Adjusted earnings per share is based on earnings before the deduction of the non-recurring premium incurred on the repurchase of convertible bonds and, in the opinion of the Directors, more appropriately reflects the underlying financial performance of the Group.

Earnings per ordinary share in 1996 was 56.8p on a nil distribution basis. The nil distribution basis, assumes no charge for irrecoverable ACT as this arises solely from the declaration of the dividend.

There would be no significant dilution of earnings per ordinary share from the exercise of outstanding share options.

Notes to the accounts

13 Tangible fixed assets

	Group			Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Plant and equipment £m
Net cost at 1 April 1996	1,309.6	1,132.9	1,286.3	0.6
Foreign exchange adjustments	(4.7)	-	(1.3)	-
Additions at cost	90.0	127.4	192.3	0.6
Disposal of subsidiaries	-	-	(3.6)	-
Disposals	(1.1)	-	(52.6)	-
Reclassifications	1.4	-	(1.4)	-
Capital contributions	-	(28.4)	-	-
Net cost at 31 March 1997	1,395.2	1,231.9	1,419.7	1.2
Depreciation at 1 April 1996	245.2	-	360.2	0.4
Foreign exchange adjustments	(1.1)	-	(0.7)	-
Provided during the year	25.2	-	82.9	0.1
Disposal of subsidiaries	-	-	(2.4)	-
Disposals	(0.3)	-	(50.1)	-
Reclassifications	0.4	-	(0.4)	-
Depreciation at 31 March 1997	269.4	-	389.5	0.5
Net book value				
At 31 March 1997	1,125.8	1,231.9	1,030.2	0.7
At 31 March 1996	1,064.4	1,132.9	926.1	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 £149.7m (1996: £121.3m).

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

	Group	
	1997 £m	1996 £m
Freehold land and buildings	1,091.8	1,032.9
Leaseholds: over 50 years	28.0	26.3
: under 50 years	6.0	5.2
	1,125.8	1,064.4

iii No depreciation has been charged on freehold land included at a cost of £11.8m (1996: £11.6m).

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

	Cost		Net book value	
	1997 £m	1996 £m	1997 £m	1996 £m
Plant and equipment	291.0	259.6	235.9	212.2

v Tangible fixed assets at 31 March 1997 include £398.9m (1996: £322.2m) of assets in the course of construction.

Notes to the accounts

	Group	Company	
	Interests in associated undertakings £m	Investment in undertakings subsidiary £m	associated £m
14 Fixed asset investments			
Value at 1 April 1996	17.5	930.6	7.5
Foreign exchange adjustments	(0.8)	(2.5)	-
Additions	16.9	42.1	7.5
Amounts written off	-	(29.6)	-
Share of profits for the year	0.7	-	-
Value at 31 March 1997	34.3	940.6	15.0

Group

The cost of the Group's interests in associated undertakings at 31 March 1997 amounted to £38.6m (1996: £21.7m). The Group's share of post-acquisition accumulated profits at 31 March 1997 was £0.1m (1996: loss of £0.6m). The associated undertakings are unlisted.

Company

Investments amounting to £42.1m 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.

	Group	
	1997 £m	1996 £m
15 Stocks and work in progress		
Raw materials and consumables	16.3	17.8
Work in progress	5.5	16.0
Finished goods and goods for resale	3.5	5.8
Payment on account of raw materials	-	0.2
Total	25.3	39.8
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	191.6	167.2
Applicable payments on account	(191.3)	(170.1)
	0.3	(2.9)

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

16 Debtors

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Due within one year:				
Trade debtors	182.8	175.1	-	-
Amounts recoverable on contracts	10.0	12.0	-	-
Amounts owed by subsidiary undertakings	-	-	103.7	145.6
Other debtors	26.4	14.8	-	-
Prepayments and accrued income	78.0	73.3	0.9	1.1
Infrastructure renewals expenditure	8.3	1.8	-	-
	305.5	277.0	104.6	146.7
Due after more than one year:				
Trade debtors	0.4	5.9	-	-
Amounts owed by subsidiary undertakings	-	-	-	-
Prepayments and accrued income	0.3	0.4	-	-
Other debtors	0.2	0.7	-	-
Total	306.4	284.0	104.6	146.7

17 Current asset investments

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Fixed term deposits and certificates of deposit	54.0	102.0	10.5	46.0
Fixed and floating interest rate securities	80.1	116.0	22.8	68.2
Total	134.1	218.0	33.3	114.2

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

18 Creditors: amounts falling due within one year

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Bank loans	237.1	64.4	212.7	32.7
Bank overdrafts	49.1	40.7	30.9	13.9
Other loans	4.8	0.6	-	-
Obligations under finance leases	1.4	2.5	-	-
Progress claims and advance payments	100.7	94.8	-	-
Trade creditors:				
- operating	61.1	58.9	-	-
- capital	97.8	87.5	-	-
Bills of exchange payable	7.5	-	-	-
Amounts owed to subsidiary undertakings	-	-	39.7	29.1
Advance corporation tax	30.8	27.9	30.8	27.9
Taxation and social security	25.0	6.3	-	-
Accruals and deferred income	144.2	120.8	4.3	0.3
Other creditors	17.3	8.8	4.5	24.0
Proposed dividend	87.9	77.5	87.9	77.5
Total	864.7	590.7	410.8	205.4

Notes to the accounts

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
19 Creditors: amounts falling due after more than one year				
Bank loans	263.5	221.3	-	-
Other loans	278.9	289.0	-	-
Obligations under finance leases	250.0	216.7	-	-
Amounts owed to subsidiary undertakings	-	-	102.2	118.7
Deferred income	40.1	36.9	-	-
Other creditors	7.0	9.7	-	-
Total	839.5	773.6	102.2	118.7

20 £82m 9½% Convertible Subordinated Bonds due 2006

During the year, the Company repurchased and cancelled 9½% Convertible Bonds to the nominal value of £35.6m for a price of £47.8m. The non-recurring premium of £12.2m on the repurchase is separately identified in the consolidated profit and loss account. In addition, bondholders have converted bonds to the value of £46.2m into 10.8m ordinary shares. At 31 March 1997, all of the £82m 9½% Convertible Bonds had either been converted or repurchased.

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
21 Borrowings				
Bank loans and overdrafts				
- Within one year	286.2	105.1	243.6	46.6
- Between one and two years	15.5	6.6	-	-
- Between two and five years	50.4	48.4	-	-
- After more than five years	197.6	166.3	-	-
	549.7	326.4	243.6	46.6
Other loans and finance leases				
- Within one year	13.7	3.1	-	-
- Between one and two years	1.9	3.2	-	-
- Between two and five years	164.5	4.4	-	-
- After more than five years: other loans	362.5	498.1	-	-
: convertible debt	-	81.8	-	81.8
	542.6	590.6	-	81.8
Total borrowings	1,092.3	917.0	243.6	128.4

i Loans are repayable between 1997 and 2030.

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

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
- Bank Loans	100.0	50.0	-	-
- Other loans	124.4	362.2	-	81.8
	224.4	412.2	-	81.8

Notes to the accounts

21 Borrowings (continued)

- iii Other loans include:
- £150m 10½% Guaranteed Bonds due 2001
 - \$150m 6¾% Notes due 2004
 - loans totalling £32.4m (1996: £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 after more than five years hence are:

	Group	
	1997 £m	1996 £m
- Bank Loans	170.9	173.5
- Other loans	3.7	4.3
- Finance leases	248.6	213.2
	423.2	391.0

- v The Group is committed to further outstanding lease obligations of £16.7m (1996: £43.7m) to fund future capital investment.
- vi The range of interest rates on outstanding bank loans are 3.5% to 11.5% (1996: 3.5% to 11.5%) and on other loans 3% to 11% (1996: 3% to 11%). 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 following interest rate protection arrangements are in place:
- the Company has arranged interest rate collars fixing the maximum and minimum rates payable on sterling borrowings of £90m. The weighted average maximum rate payable is 8.18%, the weighted average minimum rate payable is 6.52% with an average remaining term of 18 months.
 - the Group has in place long-dated interest rate swaps which fix the rate of interest at an average of 9.33% on sterling borrowings of £15m for a remaining term of 11 years.
 - the Group has in place long-dated interest rate swaps which convert £35m of sterling borrowings from an average fixed rate of 10.4% to floating rates (based on LIBOR) for a weighted average remaining term of two years.

22 Provisions for liabilities and charges

	Group				Company	
	Closure and contract provisions £m	Insurance liabilities £m	Other £m	Pensions (note 27) £m	Total £m	Other provisions £m
Balance at 1 April 1996	81.6	33.5	4.0	4.8	123.9	1.5
Foreign exchange adjustments	0.8	-	-	(0.4)	0.4	-
Provided during the year	0.9	3.6	0.8	0.4	5.7	-
Utilised during the year	(36.8)	-	(0.4)	(0.1)	(37.3)	(1.4)
Released during the year	(1.7)	-	(1.0)	(3.0)	(5.7)	-
Balance at 31 March 1997	44.8	37.1	3.4	1.7	87.0	0.1

Of the £36.8m utilisation of closure and contract provisions, £35.7m is in respect of the 1996 non-operating exceptional items.

Notes to the accounts

	Group and Company			
	1997		1996	
23 Share capital	£m		£m	
Authorised				
525,000,001 ordinary shares of £1 each	525.0		525.0	
Allotted, called up and fully paid				
379,366,486 ordinary shares of £1 each (1996: 403,981,137)	379.4		404.0	
	Number of shares allotted		Consideration	
	1997	1996	1997	1996
	000	000	£m	£m
Details of ordinary shares allotted during the year are as follows:				
Scrip dividends	3,339	3,109		
Purchase of own shares	(41,364)	-	(224.6)	-
Conversion of Convertible Bonds (note 20)	10,799	-		
Employee share schemes:				
- Sharesave Scheme	1,884	676	4.6	1.5
- Executive Share Option scheme	503	316	1.9	1.2
- Profit Sharing Scheme	224	153	1.2	0.8
	<u>(24,615)</u>	<u>4,254</u>	<u>(216.9)</u>	<u>3.5</u>

Scrip dividends

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

- 1996 final dividend 1,975,990 shares - 15 August 1996
- 1997 interim dividend 1,363,115 shares - 17 January 1997.

Purchase of own shares

On 31 July 1996, the Company purchased and subsequently cancelled, 41,364,482 ordinary shares representing 10% of its issued share capital. The shares were purchased at a price of 543p.

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 three, five or seven year contract

Notes to the accounts

23 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. No options were granted under the scheme during the year
- 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 1997

Date of grant	Number of ordinary shares	Option price per share	Normal date of exercise
Thames Water Sharesave scheme			
Three-year scheme			
28 November 1996	516,603	442p	Feb 2000 - Jul 2000
Five-year scheme			
29 November 1991	32,161	296p	Feb 1997 - Jul 1997
10 July 1992	283,913	349p	Oct 1997 - Mar 1998
9 July 1993	475,461	372p	Oct 1998 - Mar 1999
1 December 1994	1,161,930	421p	Feb 2000 - Jul 2000
30 November 1995	979,993	420p	Feb 2001 - Jul 2001
28 November 1996	575,278	442p	Feb 2002 - Jul 2002
Seven-year scheme			
12 December 1989	73,292	176p	Feb 1997 - Jul 1997
13 July 1990	114,478	227p	Oct 1997 - Mar 1998
12 July 1991	225,380	288p	Oct 1998 - Mar 1999
29 November 1991	232,924	296p	Feb 1999 - Jul 1999
10 July 1992	183,547	349p	Oct 1999 - Mar 2000
9 July 1993	124,040	372p	Oct 2000 - Mar 2001
1 December 1994	337,160	421p	Feb 2002 - Jul 2002
30 November 1995	261,766	420p	Feb 2003 - Jul 2003
28 November 1996	185,007	442p	Feb 2004 - Jul 2004
Thames Water Executive Share Option scheme			
17 January 1990	8,000	278p	1993 - 2000
2 July 1991	130,000	347p	1994 - 2001
15 November 1991	11,000	356p	1994 - 2001
24 June 1992	68,000	418p	1995 - 2002
19 November 1993	25,000	521p	1996 - 2003
8 December 1994	337,400	453p	1997 - 2004
8 December 1995	335,020	560p	1998 - 2005
Thames Water Long Term Restricted Share Plan			
Awards made giving conditional rights to acquire shares			
Date of award	Number of ordinary shares		Vesting date
2 August 1996	16,696		31 March 2000

These shares will only vest in full if the Company's performance ranks first or second in a comparator group over a four year period (see page 18).

Notes to the accounts

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	1997 Total £m	1996 Total £m
24 Movement in Shareholders' Fund						
The Group						
Balance at 1 April	404.0	8.2	-	1,758.1	2,170.3	2,035.2
Foreign exchange adjustments	-	-	-	5.6	5.6	203.5
Profit for the financial year	-	-	-	320.4	320.4	(1.2)
Dividends on equity shares	-	-	-	(132.0)	(132.0)	(114.2)
Goodwill written back	-	-	-	-	-	28.3
Adjustment for the issue of scrip shares	3.4	-	-	15.1	18.5	15.5
New share capital subscribed (see note 23)	2.6	5.2	-	-	7.8	3.5
Purchase of own shares	(41.4)	-	41.4	(226.2)	(226.2)	-
Advance corporation tax on the purchase of shares	-	-	-	(44.9)	(44.9)	-
Conversion of convertible bonds	10.8	35.4	-	-	46.2	-
Share issue expenses	-	(0.2)	-	-	(0.2)	(0.3)
Balance at 31 March	379.4	48.6	41.4	1,696.1	2,165.5	2,170.3
The Company						
Balance at 1 April	404.0	8.2	-	412.8	825.0	442.8
Profit for the financial year	-	-	-	109.0	109.0	477.7
Dividends	-	-	-	(132.0)	(132.0)	(114.2)
Adjustment for the issue of scrip shares	3.4	-	-	15.1	18.5	15.5
New share capital subscribed (see note 23)	2.6	5.2	-	-	7.8	3.5
Purchase of own shares	(41.4)	-	41.4	(226.2)	(226.2)	-
Advance corporation tax on the purchase of shares	-	-	-	(44.9)	(44.9)	-
Conversion of convertible bonds	10.8	35.4	-	-	46.2	-
Share issue expenses	-	(0.2)	-	-	(0.2)	(0.3)
Balance at 31 March	379.4	48.6	41.4	133.8	603.2	825.0

The cumulative goodwill taken to Group reserves, net of goodwill relating to undertakings disposed of, as at 31 March 1997 amount to £71.5m (1996: £71.5m).

The total cost of £226.2m for the purchase of own shares comprises cost of shares (£224.6m) and other expenses (£1.6m).

25 Operating leases

At 31 March 1997 the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group		Company	
	1997 £m	1996 £m	1997 £m	1996 £m
Land and buildings				
Leases which expire:				
- Within one year	0.5	0.3	-	-
- Between two and five years	0.8	0.6	-	-
- After more than five years	3.8	2.1	0.4	0.4
Total	5.1	3.0	0.4	0.4
Other				
Leases which expire:				
- Within one year	0.6	0.7	-	-
- Between two and five years	4.4	4.1	-	-
- After more than five years	0.2	-	-	-
Total	5.2	4.8	-	-

Notes to the accounts

26 Capital commitments

Contracted for but not provided in the financial statements

		Group
1997	1996	
£m	£m	
176	154	

- 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.

27 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 1997 was £12.9m (1996: £19.2m) of which £0.7m (1996: £1.3m) 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.

Contributions to the UK schemes for the year ended 31 March 1997 are based on actuarial reviews of the various schemes as at 6 April 1993. For the two largest UK schemes, actuarial valuations as at 6 April 1996 were completed during the year. The pension charge for the year ended 31 March 1997 reflects the surplus disclosed by these valuations; contributions by the employer will be reduced from 1 April 1997. 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 is assumed to 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 two largest schemes of the Group the total market value of assets as at the last valuation date was £654m and the actuarial value of these assets represented 111% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

28 Related parties

During the year, the Group completed the following sales to related parties, all of which were undertaken at arm's length commercial prices in the ordinary course of business.

Related party	Status	Sale value	Balance
		£m	£m
Izmit Su As	Associate	66.2	0.1 (debtor)
Pathum Thani Water Company	Associate	21.5	0.7 (creditor)
Bovis Thames (Shanghai)	Associate	8.3	-
United Water	Associate	0.7	-
Thames Dick Super Aquaduct Partners Inc.	Associate	3.5	0.4 (debtor)
Binnie Thames Water Ltd.	Associate	0.4	0.2 (debtor)

29 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £412.1m (1996: £378.8m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £135.1m at 31 March 1997 (1996: £166.6m). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations which have been entered into in the normal course of business. No loss is expected to arise under these arrangements.

30 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 1997 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

31 Group undertakings

At 31 March 1997, the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

Subsidiary undertakings	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Utilities:					
Thames Water Utilities Limited	England and Wales	Ordinary	100%		Water and wastewater services
CONNECT 2020 Limited	England and Wales	Ordinary		100%	Procurement logistics
International Operations:					
Thames Water International Services Holdings Limited	England and Wales	Ordinary	100%		Management company
Thames Water International Services Limited	England and Wales	Ordinary		100%	Marketing of technical managerial services
Thames Water Overseas Limited	England and Wales	Ordinary		100%	Management company
Thames Water Overseas Consultancy Limited	England and Wales	Ordinary		100%	Marketing of technical managerial services
PWT Projects Limited	England and Wales	Ordinary		100%	Design contracting
Water Projects International Limited	England and Wales	Ordinary		100%	Design contracting
Thames Water Asia/Pacific Pty Limited	Australia	Ordinary		100%	Design contracting
Thames Water International (Singapore) Pte Limited	Singapore	Ordinary		100%	Design contracting
Thames Water Engineering (Malaysia) Sdn.Bhd.	Malaysia	Ordinary		100%	Design contracting
Thames Water (Malaysia) Sdn.Bhd.	Malaysia	Ordinary		90%	Water operations and maintenance
Kelantan Water (Malaysia) Sdn.Bhd.	Malaysia	Ordinary		60%	Water operations and maintenance
Thames Water International (Thailand) Limited	Thailand	Ordinary		100%	Water operations and maintenance
Thames Water International (Hong Kong) Limited	Hong Kong	Ordinary		100%	Design contracting
Simon Hartley (Hong Kong) Limited	Hong Kong	Ordinary		100%	Wastewater projects
Thames Water Deutschland GmbH	Germany	Ordinary		100%	Management company
Mitte-deutsche Wasser-und Umwelttechnik AG (UTAG)	Germany	Ordinary		100%	Water contracting and consultancy
Products:					
Thames Water Products and Services Limited	England and Wales	Ordinary	100%		Management company
Simon Hartley Limited	England and Wales	Ordinary		100%	Water and wastewater equipment
PCI Membrane Systems Limited	England and Wales	Ordinary		100%	Municipal and industrial membrane filtration
T M Products Limited	England and Wales	Ordinary		100%	Pipeline products, water treatment and disinfection
Thames Water Technologies	England and Wales	Ordinary		100%	Product technology
Thames Water Holdings Inc	USA	Common Convertible		100% 100%	Management company
Ashbrook Corporation Inc	USA	Ordinary		100%	Water and wastewater equipment

Notes to the accounts

31 Group undertakings (continued)

Subsidiary undertakings (continued)	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Products: (continued)					
Hydro-Aerobics Inc	USA	Ordinary		100%	Packaged sewage treatment
F B Leopold Company Inc	USA	Ordinary		100%	Water products
Services:					
Thames Water Environmental Services Limited	England and Wales	Ordinary	100%		Management company
Metro Rod Plc	England and Wales	Ordinary		100%	Drain and pipe cleaning services
Morgan Collis Group Limited	England and Wales	Ordinary		100%	Sewerage services
Subterra Holdings Limited	England and Wales	Ordinary		100%	Pipeline rehabilitation services
Thames Waste Management Limited	England and Wales	Ordinary		100%	Waste management and treatment
Thames Incineration and Recycling Limited	England and Wales	Ordinary		100%	Waste and incineration facilities management
Thames Water Contracting Plc	England and Wales	Ordinary		100%	Utilities and grounds maintenance
Property and Insurance:					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Kennet Properties Limited	England and Wales	Ordinary	100%		Property
Thames Water Investments Limited	England and Wales	Ordinary	100%		Property
Thames Water Property Limited	England and Wales	Ordinary	100%		Property
Thames Water Developments Limited	England and 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 and Wales	Ordinary		50%	International consultancy
St James Homes	England and Wales	Ordinary		50%	Property
Thames Dick Super Aquaduct Partners Inc	USA	Ordinary		50%	Water operations and maintenance
Izmit Su As	Turkey	Ordinary	35%		Water operations and maintenance
Pathum Thani Water Company Limited	Thailand	Ordinary		30%	Water operations and maintenance
BJT Water Company Limited	Thailand	Ordinary		40%	Industrial estate management
Thames Water Japan Limited	Japan	Ordinary		50%	Finance company
United Water International Pty Limited	Australia	Ordinary		47.5%	Water operations and maintenance
Bovis Thames (Shanghai) Limited	British Virgin Islands	Ordinary		50%	Management company

Group five year summary

Profit and loss account

Year ended 31 March	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Turnover: continuing operations	1,287.4	1,193.6	1,173.6	1,104.8	1,044.4
Operating costs	(859.0)	(827.9)	(816.0)	(785.8)	(769.2)
Operating exceptional items	-	-	-	(35.0)	-
	428.4	365.7	357.6	284.0	275.2
Other operating income	12.3	10.4	2.4	9.8	11.6
Operating profit	440.7	376.1	360.0	293.8	286.8
Other non-operating exceptional items	-	(95.0)	-	-	-
Non-recurring premium on the repurchase of Convertible Bonds	(12.2)	-	-	-	-
Interest	(56.7)	(52.4)	(56.3)	(52.1)	(35.5)
Profit on ordinary activities before taxation	371.8	228.7	303.7	241.7	251.3
Taxation on profit on ordinary activities	(51.4)	(25.2)	(21.5)	(19.4)	(21.7)
Profit for the financial year	320.4	203.5	282.2	222.3	229.6
Capital Investment	409.7	349.0	314.0	376.6	398.5
Earnings per share					
- pre-exceptional items and bond premium	85.5p	74.3p	71.3p	65.8p	59.3p
- post-exceptional items and bond premium	82.8p	50.7p	71.3p	56.8p	59.3p
Dividend per share	34.4p	28.3p	25.3p	22.5p	21.0p

Balance sheet

As at 31 March	1997 £m	1996 £m	1995 £m	1994 £m	1993 £m
Fixed assets	3,422.2	3,140.9	2,900.9	2,703.4	2,425.6
Net current assets/(liabilities)	(330.2)	8.7	(22.8)	(73.3)	(114.9)
Creditors: amounts falling due after more than one year	(839.5)	(773.6)	(718.5)	(673.8)	(502.9)
Convertible debt	-	(81.8)	(81.4)	(80.9)	(80.5)
Provisions for liabilities and charges	(87.0)	(123.9)	(43.0)	(42.6)	(36.8)
Net assets	2,165.5	2,170.3	2,035.2	1,832.8	1,690.5
Share capital	379.4	404.0	399.7	393.4	389.7
Share premium	48.6	8.2	6.2	3.9	1.5
Capital redemption reserve	41.4	-	-	-	-
Reserves and retained profits	1,696.1	1,758.1	1,629.3	1,435.5	1,299.3
Equity shareholders' funds	2,165.5	2,170.3	2,035.2	1,832.8	1,690.5

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

Other operating income has been restated to include insurance investment income which has previously been accounted for as interest receivable (see note 6 to the accounts).

Shareholder information and services

Category	Number of Holders	%	Holding	%
Private persons	221,384	96.36	69,579,647	18.34
Banks and nominees	6,979	3.04	287,992,381	75.92
Insurance, investment and other limited companies	926	0.40	9,848,016	2.60
Pension funds	39	0.02	7,262,885	1.91
Other corporate bodies	414	0.18	4,683,557	1.23
Total	229,742	100	379,366,486	100

Band analysis as at 31 March 1997	Number of Holders	%	Holding	%
1-500	201,681	87.79	49,055,037	12.93
501-1,000	19,485	8.48	13,043,993	3.44
1,001-5,000	6,857	2.98	12,449,047	3.28
5,001-50,000	1,071	0.47	17,718,170	4.67
50,001-100,000	212	0.09	15,523,747	4.09
100,001-1,000,000	383	0.17	113,243,954	29.85
1,000,001 and over	53	0.02	158,332,538	41.74
Total	229,742	100	379,366,486	100

Financial Calendar

Financial year ended 31 March 1997

17 June 1997 Preliminary announcement of final results

7 July 1997 Ex-Dividend date for final dividend

11 July 1997 Record (or qualifying) date for 1997 final dividend

29 July 1997 Barbican Centre, London 1997 Annual General Meeting

1 September 1997 Final dividend payable

Financial year ending 31 March 1998

4 November 1997 Announcement of half-yearly results for six months to 30 September 1997

February 1998 Interim dividend payable

Scrip Dividends

As shareholders were informed in December 1996, the Scrip Dividend Alternative Scheme has been discontinued. The September 1997 dividend and all future dividends will be paid in cash.

Payment Direct to Bank

Cash dividends mandated by shareholders to a bank or 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.

Shareholder Enquiries

The Company's share register is maintained by The Royal Bank of Scotland plc at the following address: The Registrar, Thames Water Plc, The Royal Bank of Scotland plc, PO Box 435, Owen House, 8 Bankhead Crossway North, Edinburgh EH11 4BR. Shareholders who require help or information about their shareholding may either write to the Registrar at this address or telephone on 0131 523 6666.

Shareholders with enquiries about Thames Water Plc or other shareholder matters can write to the Thames Water Shareholder Enquiry Unit, 9th Floor, Nugent House, Vastern Road, Reading, Berkshire, RG1 8DB or telephone on 0345 414140 - local call rates apply from the UK.

CREST

Thames Water shares have now entered the CREST electronic settlement system, enabling shareholders who wish to transfer their shares electronically to do so. Shareholders who prefer to retain their share certificates need do nothing, and this may be the most appropriate course of action for those who do not deal in shares on a regular basis.

Thames Water CREST Service

A special Thames Water CREST Service will be available later in the year, enabling shareholders to deal quickly and cost effectively in CREST. Shareholders who transfer their shares into the Thames Water CREST Service will receive all shareholder information and dividend payments, and, in place of their share certificates, will be sent a half-yearly statement with advice notes whenever shares are bought or sold through the service. There will be no annual charge for the maintenance of holdings in the Thames Water CREST Service which is being administered by The Royal Bank of Scotland.

Thames Water PEPs

The Company has arranged with The Royal Bank of Scotland plc to offer shareholders a Single Company PEP (maximum investment for 1997/98 tax year £3,000) and a General (Corporate) PEP (maximum investment for 1997/98 tax year £6,000) as a means of holding Thames Water shares without incurring capital gains tax on any growth in their value or paying income tax on dividends.

Share Dealing Service

Shareholders are able to use a low cost postal dealing service operated for Thames Water Plc by Cazenove & Co. A £10 minimum charge per transaction will apply.

For details of any of the above services please contact The Royal Bank of Scotland Registrars at the address on this page.

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.



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