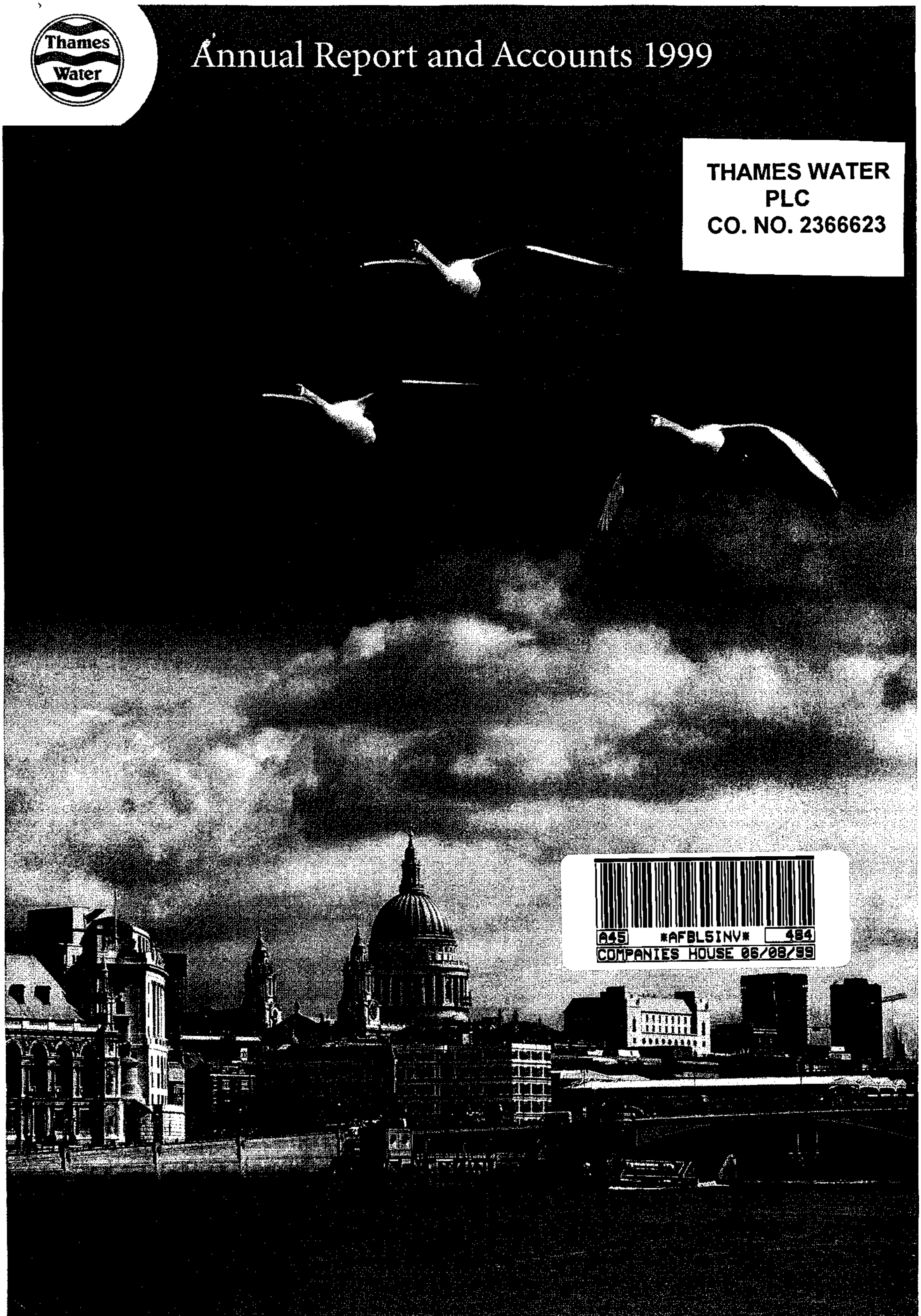
Annual Report and Accounts 1999

THAMES WATER
PLC
CO. NO. 2366623



Thames Water Plc

Thames Water is one of the world's largest water and wastewater companies, focusing on water-related products and services. Worldwide, the Company serves more than 21 million domestic and commercial customers.

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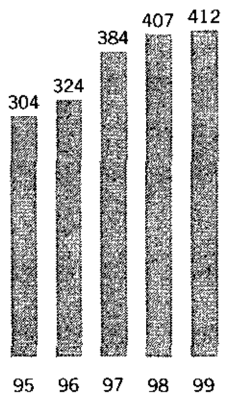
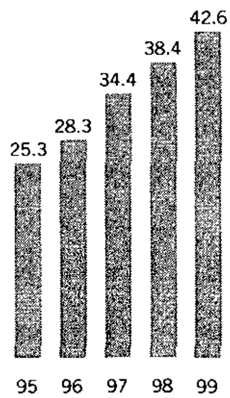
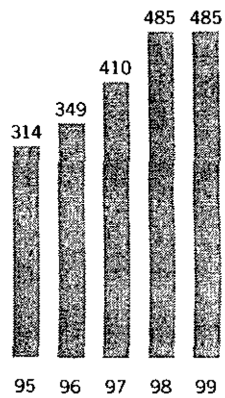


Pre-tax profit *£m*
Excluding exceptional items



Ordinary dividend per share *p*



Capital investment *£m*

Utility

- Supplying 12 million customers in London and the Thames Valley
- Largest UK water and wastewater company

Utility	
Profit before tax £m	396
Turnover £m	1,092
Average number of employees	5,732

International

- Providing water services to 9.8 million customers overseas
- Operating in Australia, China, Indonesia, Malaysia, Puerto Rico, Thailand and Turkey

International	
Profit before tax £m	16
Turnover £m	72
Average number of employees	2,240

Highlights

- *Group operating profit increased by 8% to £521m*
- *Non-regulated profit before tax increased by 29% to £53m*
- *Utility capital investment £463m*
- *Highest ever customer service standards*
- *All regulatory targets met or exceeded*
- *Lowest average bill for combined water and wastewater services in England and Wales*
- *Investment programme of £350m completed to improve the quality of drinking water*

Year ended 31 March	**1999** Excluding exceptional items	1998 Excluding exceptional items	**1999** Including exceptional items	1998 Including exceptional items
Pre-tax profit	**£411.6m**	£406.9m	**£418.6m**	£418.6m
Post-tax profit	**£377.4m**	£344.7m	**£384.4m**	£125.7m
Earnings per ordinary share	**104.4p**	90.7p	**106.3p**	33.1p
Dividend per ordinary share	**42.6p**	38.4p	**42.6p**	38.4p

Property & Insurance

- Selling and developing land mainly released from the Utility business in the UK
- Land used for both residential and commercial developments
- Company risks self-insured generating investment income

Property and Insurance	
Profit before tax £m	28
Turnover £m	42
Average number of employees	76

Products

- Three businesses based in the UK and two US companies manufacturing:
  - water and wastewater process equipment
  - membranes and advanced separation equipment
  - pipes, valves and fittings

Products	
Profit before tax £m	4
Turnover £m	83
Average number of employees	810

Services

- Six businesses based in the UK providing:
  - underground pipelines and networks
  - integrated waste management solutions
  - maintenance engineering
  - grounds maintenance
  - facilities management

Services	
Profit before tax £m	5
Turnover £m	189
Average number of employees	3,593

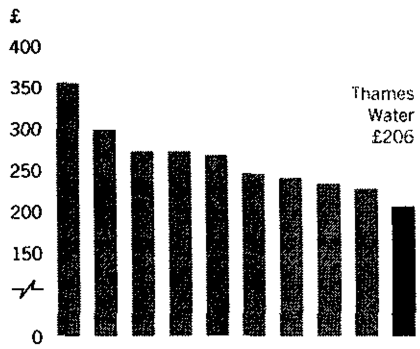
Chairman's statement

"The focus of our strategy is to increase value for our shareholders by delivering excellent service to our customers at the highest levels of efficiency."

Roger Carr, Chairman

In my first Statement as Chairman of Thames Water, I am pleased to report that the Group has had another good year:

- Group operating profit up 8% to £521m
- Utility profit before tax up 1%
- Non-regulated (including international) profit before tax up 29% to £53m
- International profit before tax doubled to £16m
- Earnings per share up 15% to 104.4p
- Balance sheet successfully restructured.



Average combined household bills 1999/00
Comparison of the 10 water and wastewater companies

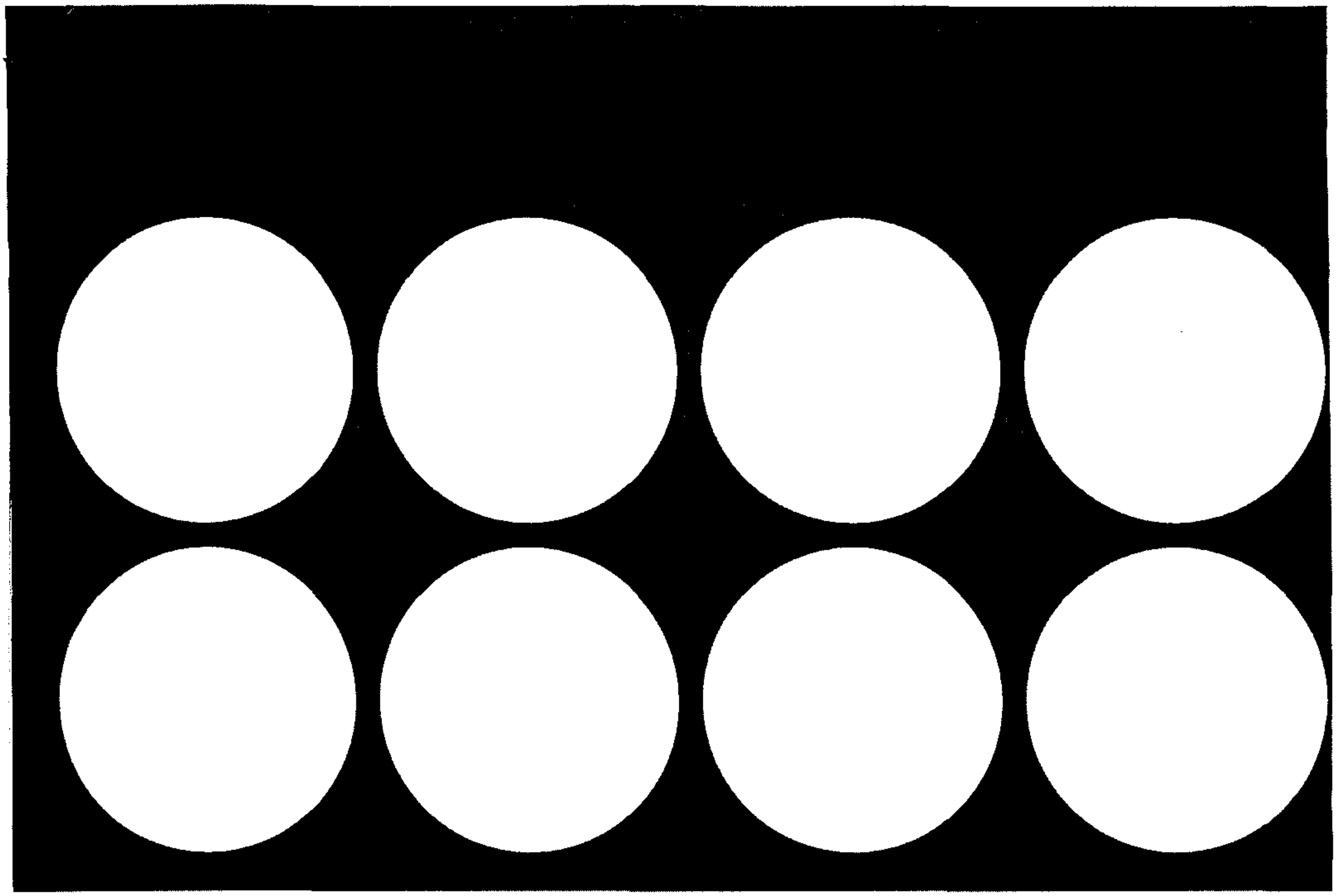
The results have enabled the Board to recommend a final dividend per ordinary share of 28.6p, making a total dividend of 42.6p for the year – an increase of 11% on last year.

This performance is a tribute to the leadership of Sir Robert Clarke who retired in March 1999 after five years as Chairman. Since he joined the Board in 1988, Sir Robert has made a major contribution to the Group, helping not only to steer it through privatisation, but also to transform it into a successful international business. In my role as Chairman, I am delighted to be working with the Chief Executive, Bill Alexander, to take up the challenge of building on the foundations laid by Sir Robert.

The Board's strategy is clearly established, focusing on water-related products and services in the UK and around the world. A high priority for us in the coming months is to achieve a fair and balanced result from the five-year price review for our Utility business. We are looking for an outcome which reflects the needs of all our stakeholders, so that we can continue to improve customer service and environmental performance, while increasing shareholder value.

In the past year, Thames Water has maintained the lowest average bill for combined water and wastewater services in England and Wales. We have continued to seek out efficiencies, and maintained our commitment to capital investment and customer service. Leakage is now at its lowest ever, while drinking water standards have never been higher.

Our non-regulated businesses continue to grow. Over the last year, we completed construction and commenced operation of new water treatment plants in Thailand and in Izmit, Turkey, where, along with our partners, we have built the largest privately financed water project in the world. Our Property development activities continue to prosper and our Products division has



Our non-regulated businesses increased profits by 29%.
Our International division showed the most progress,
with profits doubling to £16m.

grown through three acquisitions. The Services division has increased income from waste disposal and facilities management activities.

Last year, the Board decided to return equity capital of £300m to shareholders, replacing this with debt to reduce the Group's overall cost of capital. This capital restructuring has been successfully implemented with the repurchase of 92% of B shares issued in August 1998.

The Board has been strengthened by the appointment in September 1998 of Andrew Longhurst, former Chairman of Cheltenham & Gloucester Plc, as a non-Executive Director. He brings a depth of experience, particularly in the areas of business technology and customer service.

Sir Christopher Leaver, Vice Chairman, has informed us of his intention to retire from the Board in March of next year. He has made a significant contribution to Thames Water over many years, as a Board member of the Water Authority since 1983, a Director of the Plc since flotation in 1989 and your Chairman between 1993 and 1994. Throughout his involvement with the Company, he has worked with enthusiasm, dedication and commitment. We will miss his experience and wise counsel.

We are holding our Shareholder Open Days again this year in September. Details are enclosed and I hope you will come to see us.

We are proud of the achievements of the past year. As I take up the Chairmanship, I am impressed by the efforts and commitment of all our employees and look forward to their ongoing support. We will continue to deliver high standards of service in all our businesses and will maintain our commitment to create added value from our growing non-regulated businesses.

Roger Carr, Chairman

Chief Executive's review

"Thames Water has a growing reputation for offering excellent value for money and I intend to continue this healthy trend."

Bill Alexander, Chief Executive

We have announced good results for 1998/99, reflecting the success of a consistent and straight forward strategy. We will continue to achieve shareholder value by:

- focusing on our core strengths in water and water-related products and services
- accelerating the development of Thames Water as a leading competitive force in the international water market
- continuing to press for a balanced outcome from the Price Review
- and ensuring we have the capability to exploit any competitive opportunities.

	1998/99	1990
Drinking water quality compliance*	99.84%	95%
Wastewater quality compliance	99.67%	84%
Supply interruptions compliance	99.97%	94%
Avoidance of water use restrictions	100%	22%

Service standards compliance

*Drinking water quality compliance relates to the calendar year

Utility

The Utility produced a strong operational performance and delivered good financial results:

- turnover increased by 5% to £1,092m
- operating profits went up by 7% to £474m
- operating costs, excluding depreciation and infrastructure renewal charges, increased by only 0.5%, largely absorbing inflation and the operating costs of new facilities, as further operational efficiencies were made
- capital investment of £463m.

Customer Service is a Key Priority

Over the last year, our levels of customer service have risen to an all time high and new services have been introduced.

The importance we place on meeting the special needs of our customers is demonstrated by:

- our range of leaflets in large print and braille
- services we offer for the deaf and hard of hearing
- our Customer Assistance Fund to help and support customers who face financial difficulties.

In December 1998, we received our sixth Utility Week Achievement Award, on this occasion, in recognition of the services provided by our 24-hour Customer Centre.

We have the solid platform to achieve profitable growth beyond the Price Review.

We continue to offer our customers very high levels of service.

Our Advanced Water Treatment technology has improved the quality and taste of our drinking water supplies.

Testing water for E.coli. Through innovation, the time it takes to conduct this process has more than halved.

The award-winning sludge-powered generators use state of the art technology.

Our pioneering partnership to market electricity generated *by wastewater treatment processes underlines our commitment to the environment through supporting sustainable energy projects.*

Environmental initiatives undertaken by Thames Water range from recycling green waste as a mulch on flower beds to utilising methane released from landfill sites to generate electricity.

Future Plans, Future Prices

The Utility business has been working with Ofwat, the water regulatory body, to achieve a balanced outcome from the Price Review for the five years from April 2000. In July, we are expecting the Regulator to announce a draft determination of future charging limits for the company. We will then have an opportunity for further discussions with him, before a final decision is made in November.

We believe we have achieved a fair balance to date:

- we have exceeded the external targets set at the Price Review five years ago
- the efficiency of the business has improved significantly
- we have the lowest average bill for combined water and wastewater services in England and Wales
- our average unit costs for providing water and wastewater services are among the lowest in the industry
- we have shared our outperformance with customers through discretionary capital investment, as well as a range of additional services.

Capital Investment Achievements

Our capital investment programme is at the heart of our service improvements. This year, we have invested £463m. Since privatisation in 1989, the Utility business has invested £3.5bn.

We completed our £350m Advanced Water Treatment programme ahead of schedule and under budget, ensuring our drinking water meets strict European standards. Key to this success is our pioneering Superfilter, making drinking water clearer and brighter than ever before.

A high point of the year was the official opening in November of our sludge-powered generators at Beckton and Crossness Wastewater Treatment Works by His Royal Highness, The Duke of Edinburgh. We have invested £165m to build these plants, in preparation for new directives brought in to end the disposal of sewage-sludge at sea.

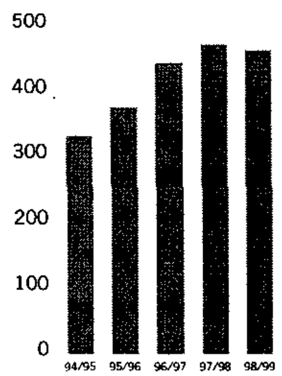
The generators represent a significant step forward in renewable energy technology, creating enough environmentally-friendly electricity to supply around 20,000 homes. This green energy is being sold to businesses, as part of our relationship with the Renewable Energy Company to market electricity generated from 20 wastewater treatment works throughout the Thames Water region.

Managing our Water Resources

The drought of 1997 is now well behind us and we have learnt a great deal about how to make the best use of our resources. We have invested £300m in leakage reduction over the last five years and have developed the latest technology in leak detection. We exceeded the demanding Ofwat leakage target for 1998/99 and our levels are now the lowest since reliable records began.

Rising groundwater under London is becoming an increasing problem for the Capital. The Company has pledged to maximise the amount we use to supplement water supplies. We have already invested £8m to open up boreholes on the outskirts of the Capital, as part of a five stage solution involving more than 50 new boreholes.

"Excellence in customer service, operational efficiency and strong regulatory relationships are central to Thames Water's strategy."

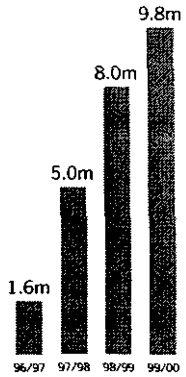


Capital investment over the last five years *£m*

International

This has been a record year for our International business. Operating profit increased from £6m to £18m while turnover, as expected, reduced to £72m.

Construction work has been completed in Turkey, China and Thailand, and good progress has been made in our other projects, especially in Australia, Indonesia and Puerto Rico. In all cases, we have maintained our reputation for delivering projects on time and to budget. We have won new contracts in Malaysia, Australia and Scotland.



Number of international customers receiving water services from Thames Water based on current contracts

Turkey

This £560m scheme, to build and operate a new water system for the city of Izmit, became fully operational in January 1999, after construction had been completed within budget and three months ahead of schedule. Thames Water will operate the project for the next 15 years, providing water for a rapidly growing population of 1.2 million customers.

Scotland

In March 1999, we commenced work with our partners on our first Public-Private Partnership scheme for East of Scotland Water in Edinburgh. This involves the upgrading and operation of five sewage treatment works to improve the environment and replacement of sludge disposal to sea with recycling to land. We have now secured a £20m extension to this contract for the Esk Valley.

Malaysia

Following lengthy discussions with the Kelantan State Government about the introduction of an economic tariff to support much needed investment, we concluded that the contract was not viable in the long term. In April 1999, the original contract was transferred to the State with a small profit to the Group.

The Future

We have planned for growth in our overseas activities by strengthening central and regional management teams to build on our business relationships around the world and to develop new commercial opportunities.

Our penstock business has increased its market share through the acquisition of Ham Baker, one of three acquisitions made this year by our Products division.

Products

The Products business has delivered an operating profit of £4m on increased turnover up from £81m to £83m.

During the year, our position in key UK and US markets was strengthened by three acquisitions:

- we acquired the Ham Baker penstock business, to complement our UK-based business Simon Hartley
- we acquired Underpressure Engineering plc, to extend our range of pipe fittings and accessories
- Memtech (UK) Ltd was acquired to increase the product range offered by PCI Membranes and to supply a broader range of customers in industrial and municipal markets.

We will continue to improve our competitive position by seeking opportunities to extend our product lines and to expand our business geographically.

In Turkey we are now supplying water to 1.2 million customers.

The strength of our International business is underpinned by our ability to export UK expertise *and by working with local partners.*

Attracting and retaining the **best people** *to meet our business needs is a key element in the continuing success of Thames Water.*

Hi-tech street bollards, developed by Thames Water to help pin-point leaks, were named as one of the Design Council's Millennium Products.

We have made excellent progress on our property development at Surbiton, where over half the new homes have now been sold.

We have developed an innovative conservation and recycling system to provide water to the Millennium Dome, making it a showcase for the latest in water recycling technology.

Services

Following restructuring, the division improved its performance in the second half of the year, producing an operating profit of £6m on turnover of £189m. Sales increased with the award of a number of new contracts, including our success as preferred bidder for the facilities management contract for the Cardiff Bay Barrage.

We will continue to grow the business through the development of new service initiatives, while pursuing business opportunities with commercial, industrial and public sector clients in the UK.

Property

At the end of another good year, our Property business delivered an operating profit of £18m on turnover of £29m.

The Innova Park development in north London has made excellent progress. Two major contracts have been signed for depot and warehouse facilities.

Our St James Homes joint venture with Berkeley Group Plc continues to progress well, as we make more of our brownfield sites available for housing developments.

Insurance

Our insurance company (Isis), produced an operating profit of £12m, including net investment income of £9m.

Group-wide activities

Year 2000

Since 1995, we have undertaken a full review of all Thames Water systems and assets, to ensure that we are well prepared for the date change at the end of this year. Our compliance programme, including financial systems and embedded chips in plant and equipment, is close to completion and is in the final stages of testing.

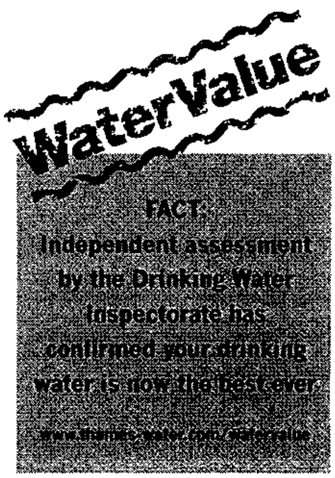
The estimated cost of our compliance programme is £14m, most of which has been incurred and capitalised as part of general systems upgrades. Expenditure of £1.1m was charged to the profit and loss account during the year.

Innovation

Thames Water continues to view research and development as a high priority. Our strategy remains focused on developing innovative solutions in support of improvements in customer service, drinking water quality and protection of the environment. Particular emphasis is being placed on water efficiency and the effects of climate change on future demand.

Employees

The success of the Company relies on the hard work and dedication of our employees. I would like to extend my personal thanks to all our staff and to welcome new employees who have joined us during the year, throughout our worldwide operations.



We have made excellent progress in the year and I am confident that this is set to continue. In the Utility business, we are concentrating our efforts on achieving a balanced outcome from the forthcoming Price Review. Our non-regulated businesses have shown excellent growth and prospects are positive, particularly internationally.

Bill Alexander, Chief Executive

Caring for the community and the environment

The Company provides a range of services to many different communities and cultures around the world. It is therefore vital that the Group operates according to clear and consistent values and principles.

In 1998 we introduced our Statement of Business Principles governing the decisions, actions and standards of employees throughout the Company.

The Statement pulls together the Group's corporate values with principles which guide behaviour. The principles are being rolled out across the organisation to ensure their implications are clearly understood.

To help promote these business principles, we are publishing a new report to complement the Annual Report and Accounts, and to discuss and illustrate in detail how they are being translated from theory into action. The report will also include environmental and community commitments and activities.

Community Activities

The Company aims to make as much of its resource as possible available to local communities.

At our reservoirs within the Thames Water Utility catchment area, for example, we support the development of sailing, bird watching, fishing and other recreational activities. We have supported the conversion of brownfield sites, such as Barn Elms in south-west London, into sustainable wildlife habitats.

Wider community relations are supported by a full-time team of Community Liaison Officers. Operating on the principle of partnership, they establish working relationships in our local communities, resolving local issues and supporting local community and charitable initiatives. We reinforce our involvement in the community through an extensive education programme to raise awareness of water related issues in the classroom.

During the year, the Company's Charities Committee has donated £125,000 to registered charities. In addition we have led a project to help the homeless in the Utility's head office town of Reading, and staff community initiatives are also encouraged with corporate donations matching employee fundraising.

An increasing international presence means greater opportunities for Thames Water to support community activities around the world. In Indonesia, for example, we are working with local community leaders to help bring potable water to some areas for the first time ever, while also working to improve the existing infrastructure in Jakarta. This is in addition to continuing support given to WaterAid, the water industry's overseas charity, by the Company, its customers and employees.

We seek to make a positive contribution to community activities wherever we do business, and to behave in a socially responsible manner. The Group recognises that a healthy social environment assists commercial success.

Caring for the Environment

The Company is concerned with the conservation of the environment in its broadest sense and recognises that certain resources are finite and must be used responsibly.

We are placed in the top quintile of FTSE 100 companies surveyed for the Business in the Environment index of corporate environmental engagement. Other awards achieved last year include the Queen Mother's Birthday Award for environmental improvement, the Mars Berkshire Award for environment and sustainable development and the Green Apple Award for environmental best practice.

Our major investment programme continues to bring benefits in terms of excellent effluent compliance and the highest ever drinking water quality.

Despite our strong environmental performance, the Utility company was regrettably prosecuted on four occasions. Remedial action has been taken to avoid recurrence. The river Thames continues to be the cleanest metropolitan river in Europe.

International

Environmental commitment extends to international operations and we are currently implementing global environmental management systems to ensure co-ordination and use of best practice.

The United Water joint venture company in Adelaide, Australia has achieved certification to international ISO14001 standards for four wastewater treatment works. Operations in Turkey, China and Indonesia have all agreed environmental improvement plans.

Climate Change

Climate change is an important environmental issue which may impact on the availability of water resources.

In the Thames Water Utility region we have implemented four low river flow alleviation schemes since 1990 and plan five more over the next five years. We have recently submitted detailed plans to tackle and use London's rising groundwater through the introduction of new boreholes which can be used to supply water to London businesses in a sustainable manner.

In order to play our role in the management of greenhouse gases we have implemented a number of energy reduction programmes, as well as forming an innovative green electricity partnership to use power generated from the incineration of household sewage. Sludge-powered generators opened last year are capable of producing enough electricity for around 20,000 homes, or a town the size of Windsor.

Sustainable Development

The Company recognises the importance of meeting the needs of present generations without putting at risk future requirements. The principle of sustainable development will be integrated into planning processes and improvements funded by our Strategic Business Plan for the five years from April 2000. To assist this process the Company has developed indicators of progress to be reported in an open, honest and comprehensible manner.

Biodiversity

A project to develop a clear corporate approach to the management of biodiversity has been commissioned and, among other things, will evaluate the biodiversity of landholdings. In addition, we specifically sponsored the protection of three endangered species, the otter, water vole and depressed river mussel.

The Group uses best practice in the environmental performance of its operations and these practices will be regularly reviewed and audited where appropriate.

As part of our education programme, children at Hungerford Primary School in London learn about the importance of water resources and the environment.

Financial review

David Luffrum,
Finance and Planning Director

"The financial results reflect the continuing successful implementation of Group strategy. They have been achieved alongside enhanced customer service and quality improvements group-wide."

Financial Results

As expected, turnover of £1,326m was 5% lower than last year, as the construction of three international water treatment and distribution projects were completed and they moved successfully into operation.

Operating profit increased by 8% to £521m. The Group operating margin improved to 39% compared with 35% in the previous year.

Profit before tax and exceptional items of £412m was 1% higher, after absorbing a £36m increase in interest expense. The higher interest resulted from a combination of balance sheet restructuring (£12m), capital investment (£16m) and the effects of financing the windfall tax (£8m).

A final exceptional credit of £7m (1998: £20m) was released to the profit and loss account from the provision made in 1996 relating to discontinued operations.

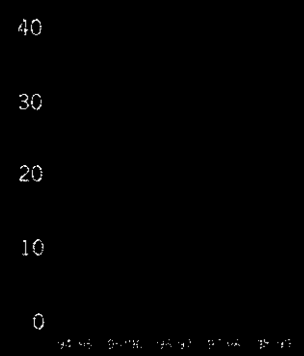
The tax charge for the year of £34m (1998: £293m) benefited from changes in advance corporation tax and the inclusion in 1997/98 of a windfall tax levy of £231m.

The good trading performance, low effective tax rate and reduced numbers of shares in issue produced pre-exceptional earnings per share growth of 15% to 104.4p. Earnings per share after exceptional items increased to 106.3p.

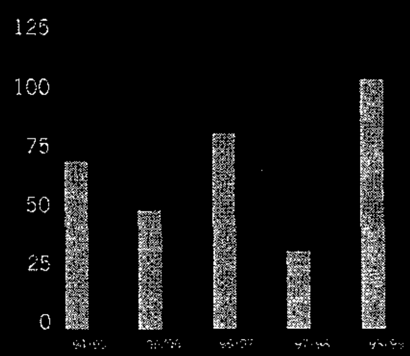
Shareholder Returns

The trading results helped Thames Water shares to retain a premium rating in the water sector. However, during the year the sector lost ground generally against the market, largely because confidence in the national economy returned and the water sector's defensive qualities became less valued by investors.

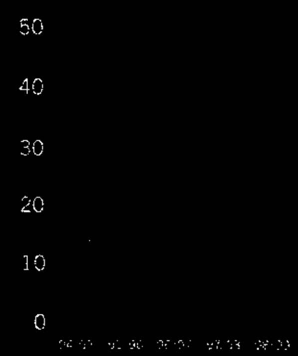
In recent years we have been improving the efficiency of the balance sheet by replacing some equity with debt. A further step was taken in 1998/99.



(percentage)
Operating margin



(p per share)
Earnings
Underlying earnings



(p per share)
Ordinary dividend

This action is consistent with the Utility Regulator's view of the best balance between debt and equity when determining the regulatory rate of return for price setting purposes.

On average, there were 361m shares in issue during the year, a reduction of 5% from the previous year. The balance sheet was restructured by a share reorganisation in which, for every 12 shares held, shareholders received 11 new ordinary shares and 12 new B shares. Of these B shares, 92% had been repurchased by 31 March 1999 at a cost of £276m.

An increase in dividend per ordinary share of 11% is proposed, in keeping with the Board's present policy to grow dividends in real terms. Full year dividends were covered 2.5 times by earnings.

The return on the book value of shareholder's funds, before exceptional items, was 18% compared to 16% in 1998.

Investments

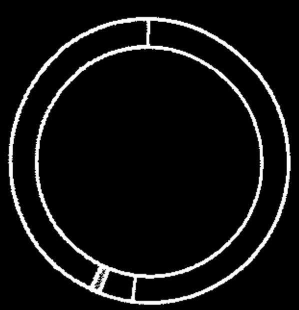
Total investment during the year was £517m, of which £485m was in tangible fixed assets (£463m in the Utility business). The remainder was largely for equity investments in joint venture companies and acquisitions in our Products division. For a total consideration of £22m the Group made three acquisitions in Ham Baker, Underpressure Engineering plc and Memtech (UK) Ltd, and we also purchased the minority interest in our subsidiary PT Kekar Thames Arindo.

Funding and Treasury Policy

Although £603m of cash flow was generated from the Group's operating activities, net debt increased by £508m to £1,592m as a result of the share repurchase, high capital investment in the Utility, and the payment of the second instalment of the windfall tax. Gearing at the year end was 76%, an increase from 51% in the previous year.

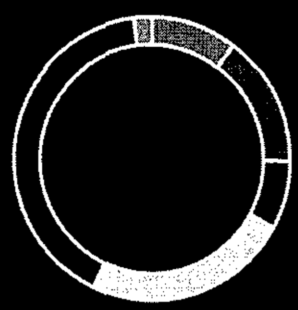
The Group's funding policy is to maintain a broad portfolio of debt, diversified by source and maturity in order to protect profits against risks arising from adverse movement in interest rates and currency exposures. The current maturity profile of gross debt is shown in the chart overleaf. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward contracts are employed to manage the interest rate and currency risks arising from the primary financial instruments used to finance the Group's activities. Matching of assets and liabilities in foreign currencies is also applied wherever practicable.

Group Treasury operations are managed centrally by a small specialist team. Their objective is to ensure availability of a timely flow of funds at a cost which reflects the credit worthiness of the Group. It is managed as a cost, not profit centre; no material open or speculative positions are taken. These and other statements of treasury policy and procedures are formally established and monitored by the Board. A framework of credit criteria to ensure



Net cash received from

- Operating cash flow 52%
- Capital receipts 4%
- Management of liquid resources 1%
- External funding 43%



Net cash used for

- Interest 10%
- Tax 15%
- Dividends 8%
- Purchase of own shares 24%
- Capital investments 41%
- Equity investments 2%

acceptable counter party risk across a broad range of financial transactions is regularly reviewed and adjusted from time to time.

The current gross debt of £1,773m comprises bonds, medium-term notes, commercial paper, finance leases and other short-term borrowings. An analysis is provided in note 23 to the Accounts, along with the associated interest rate and maturity profiles. At the year end, the Group also had liquid investments of £86m, most of which were held by the Group's captive insurance company.

A ratio of between 50% and 70% of net debt at fixed rate is used in making decisions on borrowings. The percentage of fixed rate net debt at year end was 66%.

The Group's weighted average interest rate declined to 6.7% at March 1999 from 7.6% at March 1998, reflecting the fall in long and short term rates in the market generally. Interest cover in the year was 4.7.

Financial Systems

A new set of financial systems was introduced during the year. This has not only further improved financial reporting in the Utility, but has also enabled risks from the 'Year 2000 bug' to be dealt with. In addition, we are starting to prepare for possible UK participation in the euro.

Management of Risk

The identification and management of risk is an important element of the Group's business processes. It is overseen by a risk management committee, which comprises managers and experts from many parts of the Group. Periodic reports are made to the Board.

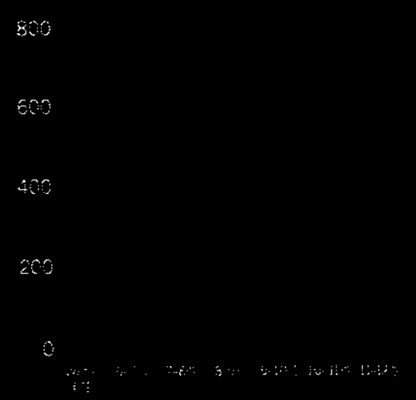
Utility Price Review

The Utility company's Regulator (Ofwat) is conducting a review of water and wastewater prices. This is a key event, affecting future Utility financing needs and profitability. We have submitted detailed proposals to achieve an outcome from the review which balances the needs of customers, investors, employees and the environment. The final determination of prices by Ofwat is due on 25 November 1999 and will apply from 1 April 2000.

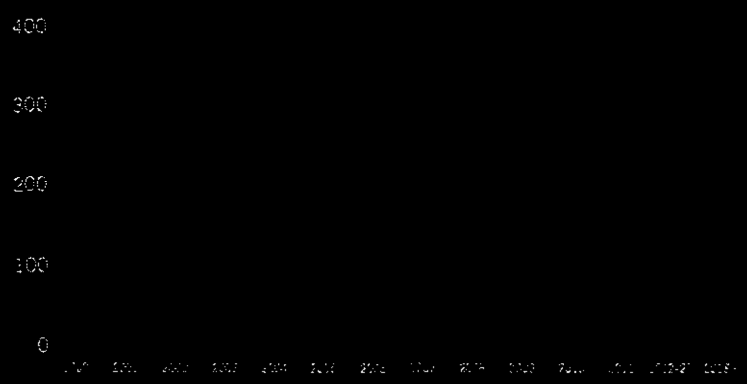
Going Concern

The Group has again demonstrated good trading progress in both the Utility and non-regulated businesses. The latter's growth of 29% is particularly pleasing. The balance sheet remains sound. The Directors believe that the Group has adequate resources to continue its operational activities for the foreseeable future. For this reason, we continue to adopt the going concern basis in preparing the accounts.

David Luffrum,
Finance and Planning Director



Gross debt interest rate profile £m



Gross debt maturity profile £m

Board members

Roger Carr | David Luffrum | Sir Christopher Leaver | Lesley Knox

Bill Alexander | David Badcock | Tony Hobson | Andrew Longhurst

Chairman

Roger Carr (52) ✪ ◆ ■
Appointed to the Board of Thames Water Plc in November 1994 and became Chairman in March 1999. He is Chief Executive of Williams PLC, a Director of Bass Plc and a member of the CBI Economic Affairs Committee. Chairman of Nomination and Share Dealing Committees.

Executive Directors

Bill Alexander (52)
Chief Executive
Appointed to the Board of Thames Water Plc in April 1994 and became Chief Executive in October 1997. 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.

David Luffrum (54) ▲ ■
Finance and Planning Director, was appointed to the Board of Thames Water Plc in 1989. He joined Thames Water Authority in 1974 and previously held financial posts in the Thames Conservancy. He became Finance Director of Thames Water Authority in 1987.

David Badcock (54) ▲ ■
Joined Thames Water Authority as Secretary in 1986, and was appointed Secretary and Legal Director, Thames Water Utilities Limited in 1989. He became Secretary and Legal Director to Thames Water Plc in October 1995 and was appointed to the Board of Thames Water Plc in March 1998.

Non-Executive Directors

Sir Christopher Leaver GBE (61) ✪ ◆ ❖ ▲
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. He is a Director of Pathfinder Properties Plc. Chairman of Remuneration and Charities Committees.

Tony Hobson (51) ✻ ◆ ■
Appointed to the Board of Thames Water Plc in November 1994. He is Group Director (Finance) of Legal & General Group Plc. Chairman of the Audit Committee.

Lesley Knox (45) ✻ ◆ ❖
Appointed to the Board of Thames Water Plc in March 1998. She is Deputy Governor of British Linen Bank and formerly Group Director of Kleinwort Benson Group Plc. She is also a non-Executive Director of Bank of Scotland, Scottish Provident and Dawson International Plc. Chairman of the Environmental Review Committee.

Andrew Longhurst (59) ✻ ◆ ❖
Appointed to the Board in September 1998. Formerly Chairman of Cheltenham & Gloucester Plc and Group Director, Customer Finance at Lloyds TSB Group Plc. Currently Chairman of United Assurance Group plc and a Director of Hermes Lens Asset Management Ltd.

Key to current Committee membership

✪ *Nomination* ✻ *Audit* ◆ *Remuneration* ❖ *Environmental Review* ▲ *Charities* ■ *Share Dealing*

Corporate governance

The Directors are pleased to report that the Company has complied throughout the year with the Principles of Good Governance and Code of Best Practice (the Combined Code) which is annexed to the London Stock Exchange Listing Rules. This statement indicates how those principles have been applied. The Company's Auditors have reviewed those provisions of the Combined Code specified for their review and their report is included in their statement on page 23.

The Board

The primary responsibility of the Board is to determine the strategic direction of the Group and to oversee its implementation. It meets monthly to monitor executive management and to review the operating and financial performance of the major business units within the Group. Appropriate management information is put to each meeting in a systematic manner. There is a formal schedule of matters specifically reserved to the Board for its decision including overall strategy, business planning, material acquisitions and disposals, and approval of major projects. This enables the Directors to exercise control over all significant aspects of the Company's business.

Directors

There is a clear division of responsibility between the Chairman and Chief Executive of the Company. With the appointment of Roger Carr as Chairman on 28 March 1999, a non-executive role, the Company has taken the opportunity to review the responsibilities of the Chairman and Chief Executive. In broad terms, the Chairman is responsible for the effective running of the Board and ensuring that all Directors, Executive and non-Executive, are consulted to enable them to play their full part in the Company's activities. The Chief Executive is responsible for the day-to-day management of the Company and the implementation of the policies and strategies adopted by the Board.

The Board has a majority of independent non-Executive Directors, all with wide business experience. Sir Christopher Leaver is the senior non-Executive Director. New Directors undertake a programme of meetings with key senior management within the Company, to facilitate their familiarisation with its business. All non-Executive Directors are independent of management and free from any relationship which could materially interfere with their judgement. They have access to all information and, if required, external advice at the expense of the Company. All Directors are required to stand for re-election at least every three years.

Relations with Shareholders

The Directors have a full programme of meetings and consultations with institutional shareholders. The Company's Annual General Meeting provides a good opportunity for Directors, including Committee Chairmen, to report to shareholders on the Company's business activities and to answer questions. Open days for shareholders are held at the Company's works at varying locations.

Board Committees

There are six formal Committees of the Board: the Nomination Committee, the Audit Committee, the Remuneration Committee, the Environmental Review Committee, the Charities Committee and the Share Dealing Committee. Directors' membership of the various committees is set out on page 17. All the Board Committees have specific terms of reference which establish their authority and duties.

The Nomination Committee

Upon the retirement of Sir Robert Clarke, Roger Carr became the Chairman of the Nomination Committee. The Committee keeps the balance of Board membership under review and makes recommendations to the Board on the appointment of new Directors.

The Remuneration Committee

The Remuneration Committee is chaired by Sir Christopher Leaver. Its role is described in the report on Directors' remuneration on page 20, which includes a statement of the Board's policy on the remuneration of Executive Directors. Details of the remuneration of each Director are set out in note 5 to the Accounts on pages 34 to 36.

The Environmental Review Committee

During the year, Mrs Lesley Knox succeeded Bill Harper as Chairman of the Environmental Review Committee. Its role is to keep under review the Company's environmental strategy, performance and reporting systems. Many of the issues considered are summarised on pages 12 and 13.

The Charities Committee

The Charities Committee is chaired by Sir Christopher Leaver, and makes charitable donations from a budget allocated by the Board.

The Share Dealing Committee

The Share Dealing Committee, now chaired by Roger Carr, considers requests for dealing in shares from Directors and employees, and authorises the implementation of the Company's employee share schemes.

The Audit Committee

The Audit Committee consists only of non-Executive Directors and is chaired by Tony Hobson. The Committee normally meets four times per year, and has an agenda linked to events in the Company's financial calendar. Its main terms of reference are:

- to review the Group's accounting policies adopted in the Accounts
- to consider the results of external auditors' examination of the interim and annual financial statements and advise the Board accordingly
- to review the nature and scope of the work to be performed by internal and external auditors, the results of that work and management's response
- to monitor the independence and objectivity of the external auditors, to make recommendations on their appointment and remuneration and to review the nature and extent of non-audit services provided by them to the Group, and
- to review and advise the Board on the adequacy and effectiveness of the Group's financial controls.

Internal Financial Control

The Board of Directors has overall responsibility for the framework of internal financial control throughout the Group, which is designed to provide assurance that:

- business is conducted with appropriate management authority
- risks are identified and safeguarded against wherever practicable
- financial reporting is efficient and effective.

The framework of financial control includes the following key features:

- an organisation structure with clearly defined lines of authority and accountability, supported by a manual of corporate policies and procedures. This is reviewed and updated annually and covers business planning, capital expenditure approval, sales tenders, treasury management, insurance and risk management, authorisation, segregation of duties, recording of data and physical security
- regular reviews of risk areas by executive management and reports to the Board on key risks and risk management programmes
- a comprehensive annual budget and financial reporting system which compares profit 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
- clear policies for the approval and control of expenditure. Capital and revenue expenditure are subject to detailed appraisal and review, according to approval levels set by the Board
- an established internal audit department which carries out reviews of business and control procedures with a broadly based programme of work. This 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 reviews are considered by the Audit Committee on a regular basis.

This framework is designed to provide reasonable, if not absolute, assurance against material misstatement or loss.

The Directors have carried out a review of the effectiveness of the Group's system of internal financial control for the period up to the date of signature of the Accounts. This included a process of self-assessment by all business units, supervised by the internal audit department, through which they are required to confirm compliance with control objectives. The review was conducted with regard to materiality. In the opinion of the Directors, the system of internal financial control provides reasonable assurance that the objectives listed above were satisfied.

The Group's general system of internal control is being reviewed in the light of the draft proposals issued by the Turnbull Committee, which gives guidance on the reporting of the effectiveness of internal controls, a requirement of the Combined Code.

Directors' Responsibility for the Preparation of the 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.

Report on Directors' remuneration

The Remuneration Committee

The Committee comprises all the non-Executive Directors of the Board. It determines the contracts of service and remuneration of the Executive Directors.

The Board has delegated responsibility for the determination of non-Executive Director fees (see note 5 to the Accounts on pages 34 to 36) to the Chairman and the Executive Directors. The Chairman's fees are determined by the full Board. No Director has any part in determining his or her own remuneration.

Compliance

The Directors can confirm that the Company has complied with the provisions of the Combined Code relating to directors' remuneration.

Remuneration Policy

The Company's executive remuneration policy seeks to ensure that it can attract and retain high quality Executive Directors who are critical to its future success and growth. It recognises the need for the Company to achieve performance which exceeds that of our competitors, both at home and increasingly in the international market. In particular, it aims to reward continuing improvement in customer service and relative efficiency in the regulated business.

The remuneration packages of the Executive Directors are reviewed each year to ensure that they are supportive of the Company's business objectives and the creation of shareholder value. The Company uses the Hay method of job evaluation to enable comparisons to be made with jobs of similar size in other companies in the FTSE 100 and industrial and service sector. The evaluation process takes into account not only the size of the companies but also their diversity, complexity and international dimension. In addition, we take particular note of the comparative position of other companies in the water and wider utility sectors.

Basic Salary

Revised salaries (an average increase of 4%) were determined for the Executive Directors with effect from the annual pay review on 1 July 1998. The increase acknowledged the contribution by each Executive Director to the Company's performance in the year. In accordance with his wishes, Sir Robert Clarke's salary remained unchanged. In the case of David Luffrum, the Committee took into account the additional responsibilities he assumed following the retirement of Bill Harper (Strategy Director).

In January 1999, the Company announced the appointment of Roger Carr as Chairman, in succession to Sir Robert Clarke upon his retirement as Executive Chairman at the end of March 1999. In the light of the structural changes at Board level, the Committee met in March to review the remuneration of the Executive Directors, having taken advice on prevailing remuneration levels. Details of the revised salaries operative from 1 April 1999 and subsuming the annual pay review in July, are shown in note 5 to the Accounts on pages 34 to 36.

Incentive Plans

The Company's policy is to provide a mixture of short term and longer term incentives to align the Executive Directors with its strategic plans and the interests of its shareholders and customers. The performance criteria adopted are intended to be easy to understand and subject to external validation wherever possible. A key feature of the design of the Incentive Plans is that achievement of the targets would represent a significant improvement in the Company's performance.

The Annual Cash/Share Bonus Plan for 1998/99 provides for a maximum award of 30% of basic salary. The targets for the bonus plan are set by the Committee by reference to financial performance criteria and customer service performance measures which are monitored by external agencies. Of the bonus, which is non-pensionable, two-thirds is awarded in cash and one-third in conditional rights to shares, which will not normally vest until three years after the award.

Awards to Executive Directors under the 1998/99 Cash/Share Bonus Plan were 11.5% of basic salary, particularly reflecting significant improvements in customer service performance.

The Long-Term Restricted Share Plan replaced the Executive Share Option Scheme and has operated since 1996. Performance is measured by reference to total shareholder return over a four year period against a comparator group comprising seven water and wastewater companies. For the 1998 Plan, the award was increased from 25% to 30% of basic salary (the maximum award under the scheme) in recognition of the Company's improving financial and operational performance. An award of 30% is at the lower end of Plans adopted by companies in the comparator group.

The Company's underlying financial performance is one of the key factors that the Committee has regard to, in deciding whether or not to make a conditional award of shares and, if so, its size. Other key factors taken into account at that stage include the Company's physical performance and the progress made in achieving improvements in customer service. Beneficial vesting of the shares is conditional upon comparative performance over the four year period. The maximum award is payable should the Company achieve first or second place in the comparative ranking. Achievement of third or fourth place would qualify for one-half and one-quarter of the award respectively. No award would be made for fifth place or below.

Pensions and Other Benefits

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, has the following features applicable to Executive Directors:

- a normal retirement age of 60
- an accrual rate of 1/30th per year of pensionable service subject to an overall pension at normal retirement age of two-thirds of final pensionable salary
- life cover of four times pensionable salary
- pensions payable in the event of ill health
- 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 arrangements are in place. Separate unfunded arrangements exist for Bill Alexander.

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

Service contracts for the Executive Directors are subject to one year's notice. In the event of termination without due notice, a payment of compensation will be made representing one year's total remuneration.

Full details of the Executive Directors' remuneration, pension arrangements and interests in shares in 1998/99 compared with the previous year's figures are shown in note 5 to the Accounts on pages 34 to 36.

Directors' report

Principal Activities

The main activities of Thames Water Plc and its subsidiaries (the Group) are set out in the Chief Executive's review on pages 4 to 11. A list of the principal subsidiaries is set out on pages 50 and 51.

Profit and Dividend

The Group profit for the year was £419m. A review of financial performance is set out in the Financial Review on pages 14 to 16 and details are set out in the Accounts on pages 24 to 51.

The Directors recommend payment of a final dividend of 28.6p per ordinary share, making a total dividend for 1998/99 of 42.6p (1997/98: 38.4p) amounting to £149m (1997/98: £146m). The interim dividend of 14p per ordinary share was paid on 6 April 1999 and was set at a level which recognised its delayed payment to shareholders. This enabled the Company to take advantage of the abolition of advance corporation tax, of which the Company had accumulated, but not used, £139.1m as at 31 March 1999. The interim dividend for the year 1999/2000 will revert to being paid in February.

Capital

The Financial Review on pages 14 to 16 gives details of the capital reorganisation approved by shareholders at the 1998 Annual General Meeting.

Details of the repurchase of the B Shares are set out on page 15 and of ordinary shares allotted during the year are set out in note 25 to the Accounts on page 46.

Substantial Shareholdings

At 10 June 1999, the Directors had been advised of the following notifiable interests in its share capital:

Franklin Resources, Inc and its affiliates	5.98%
The Capital Group Companies, Inc	3.37%
AXA S.A. and its subsidiaries	3.09%
Standard Life Group	3.00%

Directors

Brief biographical details of the current Directors of the Company are set out on page 17. Sir Robert Clarke was a Director until his retirement as Chairman on 28 March 1999. Andrew Longhurst was appointed a Director on 1 September 1998. All the other Directors served on the Board throughout the year. In accordance with the Company's Articles of Association, Andrew Longhurst will retire at the Annual General Meeting and offer himself for re-election. The Directors retiring by rotation at the Annual General Meeting are Sir Christopher Leaver and Bill Alexander. Neither Sir Christopher Leaver nor Andrew Longhurst has a service contract with the Company. Bill Alexander has a service contract subject to termination by one year's notice.

Details of the Directors' interests in the share capital of the Company and of their share options and other long term incentives are set out in the Report on Directors' Remuneration on pages 20 to 21 and are quantified in note 5 to the Accounts on pages 34 to 36. There have been no changes in the Directors' share interests between 31 March and 10 June 1999.

Employees

The involvement of our employees in the development of the business is a high priority. Keeping them informed about performance is achieved through a company newspaper, numerous divisional newsletters, employee bulletins, team briefings and conferences. Appropriate consultative arrangements are in place to ensure effective communication with employee representatives. The three main UK pension schemes all have member trustees on their Boards. Linking performance to reward is a key feature of the relationship with employees and the majority of the Group companies operate profit sharing bonus schemes. The Company also operates a share save scheme for all UK employees.

The Group recognises the importance of non-discriminatory employment practice and has an Equal Opportunities Policy that includes the employment of people with disabilities. The Group endeavours to continue to employ those employees that have become disabled during the course of their employment.

Health and Safety

Effective health, safety and risk management is recognised throughout the Group as a key element of our commitment to efficient commercial operation. Appropriate policies and procedures are in place to protect employees and members of the public from workplace hazards.

Research and Development

The main areas of research and development activity are highlighted on page 11 of the Chief Executive's Review.

Political and Charitable Donations

No donation was made for any political purpose. Details of charitable donations are set out on page 12.

Policy on Payment of Suppliers

As a signatory to the Construction Round Table's *Commitment to Fair Construction Contracts*, Thames Water's policy in respect of all its suppliers and contractors is to make payments in accordance with mutually agreed payment terms which are established as part of the purchase contract. Working practices incorporate the recommendations set out in BS7890: 1996 *Achieving good payment performance in commercial transactions.* The amount due to trade creditors at 31 March 1999 represented 48 days' purchases received from those creditors.

On behalf of the Board

David Badcock

David Badcock, Secretary and Legal Director

10 June 1999

David Badcock

Auditors' report to the shareholders of Thames Water Plc

We have audited the financial statements on pages 24 to 51.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report including, as described on page 19, the financial statements. Our responsibilities, as independent Auditors, are established by statute, the Auditing Practices Board, the Listing Rules of the London Stock Exchange, and by our profession's ethical guidance.

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Companies Act. We also report to you if, in our opinion, the Directors' report is not consistent with the financial statements, if the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law or the Listing Rules regarding Directors' remuneration and transactions with the Company is not disclosed.

We read the other information contained in the Annual Report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements.

We review whether the statement on pages 18 and 19 reflects the Company's compliance with those provisions of the Combined Code specified for our review by the London Stock Exchange, and we report if it does not. We are not required to form an opinion on the effectiveness of the Company's corporate governance procedures or its internal controls.

Basis of Audit Opinion

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

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall 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 as at 31 March 1999 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the Companies Act 1985.

PricewaterhouseCoopers

PricewaterhouseCoopers
Chartered Accountants and
Registered Auditors
London
10 June 1999

Consolidated profit and loss account

Year ending 31 March	Note	1999 Continuing operations £m	1999 Discontinued operations £m	1999 Total £m	1998 Continuing operations £m	1998 Discontinued operations £m	1998 Total £m
Turnover							
– Group and share of joint ventures		1,402.8	–	1,402.8	1,410.3	5.9	1,416.2
– Share of joint ventures		(77.3)	–	(77.3)	(27.2)	–	(27.2)
– Group	3	1,325.5	–	1,325.5	1,383.1	5.9	1,389.0
Operating costs	4	(825.3)	(0.3)	(825.6)	(916.5)	(14.8)	(931.3)
Other operating income	7	12.7	–	12.7	10.8	3.3	14.1
Utilisation of discontinued business provision	2	–	1.4	1.4	–	5.5	5.5
Group operating profit		512.9	1.1	514.0	477.4	(0.1)	477.3
Share of operating profit in:							
– joint ventures		8.1	–	8.1	3.3	–	3.3
– associates		(0.8)	–	(0.8)	–	–	–
Operating profit		520.2	1.1	521.3	480.7	(0.1)	480.6
Non-operating exceptional items:							
– Business centre redevelopment		–	–	–	(8.3)	–	(8.3)
– Loss on closure of discontinued operations	2	–	–	–	–	(0.7)	(0.7)
– Release/utilisation of discontinued business provision	2	–	7.0	7.0	–	20.7	20.7
Profit on ordinary activities before interest and taxation	3	520.2	8.1	528.3	472.4	19.9	492.3
Net interest expense							
Group	8	(106.0)			(73.7)		
Share of joint ventures		(2.9)			–		
Share of associates		(0.8)		(109.7)	–		(73.7)
Profit on ordinary activities before taxation	3			418.6			418.6
Taxation on profit on ordinary activities	9			(34.2)			(62.2)
Windfall tax	10			–			(230.7)
				384.4			125.7
Non-equity dividend	13			(0.9)			–
Profit for the financial year	26			383.5			125.7
Ordinary dividends	13/26			(148.8)			(146.2)
Retained profit/(deficit) transferred to/(from) reserves				234.7			(20.5)
Earnings per ordinary share – basic	14			*106.3p*			33.1p
Non-operating exceptional items				(1.9p)			(3.1p)
Windfall tax				–			60.7p
Adjusted earnings per ordinary share	14			104.4p			90.7p
Earnings per ordinary share – diluted	14			105.5p			32.8p

There is no difference between the profit on ordinary activities before taxation and the retained profit/(deficit) transferred to/(from) reserves for the year stated above and their historical cost equivalents.

Statement of recognised gains and losses

Year ending 31 March	1999 £m	1998 £m
Profit for the financial year	383.5	125.7
Share capital related costs	(7.1)	–
Foreign exchange adjustments	(1.3)	(2.2)
Advance corporation tax on the repurchase of shares	(0.7)	–
Total recognised gains for the financial year	374.4	123.5

Consolidated and Company balance sheets

At 31 March	Note	Group 1999 £m	Group 1999 £m	Group 1998 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Fixed assets							
Intangible assets	15		27.4		–	–	–
Tangible assets	16		4,013.8		3,710.4	0.3	0.3
Investments in joint ventures:							
– Share of gross assets		298.9		178.3			
– Share of gross liabilities		(250.0)		(137.8)			
		48.9		40.5			
Investments in associates		5.8		6.8			
Fixed asset investments	17		54.7		47.3	1,994.1	1,291.9
			4,095.9		3,757.7	1,994.4	1,292.2
Current assets							
Stocks and work in progress	18		32.1		34.4	–	–
Debtors	19		325.1		285.2	69.4	294.9
Investments	20		85.5		100.4	19.8	23.2
Cash at bank and in hand			95.5		74.8	33.6	25.1
			538.2		494.8	122.8	343.2
Creditors: amounts falling due within one year	21		(1,029.4)		(1,067.2)	(487.0)	(562.6)
Net current liabilities			(491.2)		(572.4)	(364.2)	(219.4)
Total assets less current liabilities			3,604.7		3,185.3	1,630.2	1,072.8
Creditors: amounts falling due after more than one year	22		(1,449.1)		(979.6)	(207.6)	(182.9)
Provisions for liabilities and charges	24		(51.7)		(58.3)	–	(0.1)
Net assets			2,103.9		2,147.4	1,422.6	889.8
Capital and reserves							
Called up share capital	25/26		105.0		380.5	105.0	380.5
Share premium	26		55.6		52.1	55.6	52.1
Capital redemption reserve	26		317.5		41.4	317.5	41.4
Profit and loss account	26		1,625.8		1,673.4	944.5	415.8
Shareholders' funds			2,103.9		2,147.4	1,422.6	889.8
of which – equity shareholders' funds			2,079.4		2,147.4	1,398.1	889.8
– non-equity shareholders' funds			24.5		–	24.5	–
			2,103.9		2,147.4	1,422.6	889.8

The notes on pages 28 to 51 form part of these accounts.

The accounts were approved by the Board on 10 June 1999.

Roger Carr, Chairman

David Luffrum, Finance and Planning Director

Consolidated cash flow statement

Year ended 31 March	1999 £m	1999 £m	1998 £m	1998 £m
Cash inflow from operating activities (note a)		602.5		591.5
Returns on investment and servicing of finance				
Interest received	19.0		5.9	
Interest paid	(98.0)		(54.0)	
Interest element of finance lease rental payments	(17.2)		(15.4)	
Net cash outflow for returns on investment and servicing of finance		(96.2)		(63.5)
Taxation				
Windfall tax	(115.3)		(115.4)	
UK corporation tax paid	(56.4)		(39.9)	
Overseas tax paid	(0.3)		(1.7)	
Net cash outflow for taxation		(172.0)		(157.0)
Capital expenditure and financial investment				
Purchase of tangible/intangible fixed assets	(488.4)		(458.3)	
Capital contributions received	39.9		41.6	
Sale of tangible assets	12.4		10.5	
Net cash outflow for capital expenditure and financial investment		(436.1)		(406.2)
Acquisitions and disposals				
Purchase of fixed asset investments	(9.5)		(14.0)	
Acquisition of new businesses (note b)	(19.6)		–	
Sale of business (note c)	–		0.9	
Net cash outflow for acquisitions and disposals		(29.1)		(13.1)
Equity dividends paid to shareholders		(98.4)		(135.6)
Cash outflow before management of liquid resources and financing		(229.3)		(183.9)
Management of liquid resources		14.9		33.7
Financing				
Issue of shares	7.0		4.7	
Purchase of own shares	(276.1)		–	
Share capital related costs	(7.1)		–	
Cash inflow from increase in debt and lease financing	501.1		129.2	
		224.9		133.9
Increase/(decrease) in cash during period		10.5		(16.3)

Reconciliation of net cash flow to movement in net debt

	1999 £m	1998 £m
Increase/(decrease) in cash during period	10.5	(16.3)
Cash inflow from increase in debt and lease financing:		
– loans due within one year	(43.0)	(12.1)
– loans due after more than one year	(464.5)	(120.2)
– capital repayment of finance leases	6.4	3.1
Cash inflow from decrease in liquid resources	(14.9)	(33.7)
Change in net debt resulting from cash flows	(505.5)	(179.2)
Other non-cash movements:		
– new finance leases	(7.4)	(18.1)
– foreign exchange translation differences	5.3	2.2
	(507.6)	(195.1)
Net debt at 1 April	(1,084.6)	(889.5)
Net debt at 31 March	(1,592.2)	(1,084.6)

Notes to the cash flow statement

a Reconciliation of operating profit to operating cash flow	1999 £m	1998 £m
Operating profit (after exceptional items)	528.3	492.3
Depreciation	137.8	117.4
Decrease/(increase) in stocks	4.0	(9.2)
(Increase)/decrease in debtors	(48.1)	27.9
(Decrease) in creditors	(19.7)	(6.2)
(Decrease) in long-term provisions	(6.6)	(28.7)
Other	6.8	(2.0)
Net cash inflow from operating activities	602.5	591.5

Of the net cash inflow from operating activities, £1.4m (1998: £5.7m) is in respect of cash outflows from non-operating exceptional items.

b Acquisitions of new businesses	Book value £m
Tangible fixed assets	1.3
Debtors/stock	4.5
Current liabilities	(2.0)
Cash at bank and in hand	0.8
Net assets acquired	4.6
Goodwill	17.0
	21.6
Consideration satisfied by: cash	20.4
: deferred	1.2
	21.6
Cash consideration	20.4
Cash acquired	(0.8)
Net cash outflow in respect of acquisitions	19.6

Ham Baker, Underpressure Engineering plc, Memtech (UK) Ltd and the minority interest in PT Kekar Thames Arindo were acquired by the Group during the year. The book values were extracted from management accounts of the entities at their respective acquisition dates.

c Sale of businesses	1999 £m	1998 £m
Tangible fixed assets	–	0.2
Stocks	–	0.1
Debtors	–	0.2
Net assets	–	0.5
Gain on disposal	–	0.4
Satisfied by cash	–	0.9

d Analysis of net debt	at 1 April 1998 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	at 31 March 1999 £m
Cash in hand	74.8	20.7	–	–	95.5
Bank overdraft	(71.5)	(10.2)	–	–	(81.7)
Net cash	3.3	10.5	–	–	13.8
Loans due within one year	(261.5)	(43.0)	–	–	(304.5)
Loans due after more than one year	(660.4)	(464.5)	–	5.3	(1,119.6)
Finance leases	(266.4)	6.4	(7.4)	–	(267.4)
Liquid resources	100.4	(14.9)	–	–	85.5
	(1,084.6)	(505.5)	(7.4)	5.3	(1,592.2)

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

e Major non-cash transactions

During the year, the Group raised finance leases amounting to £7.4m (1998: £18.1m) to fund capital plant, equipment and vehicles.

Notes to the Accounts

1 Principal accounting policies

A summary of the more important Group accounting policies, together with an explanation of where they have not been applied consistently, is set out below:

Change in accounting policies and presentation of financial information

The Group has adopted the requirements of FRS11, 12, 13 and 14 issued by the Accounting Standards Board during year ended 31 March 1999. FRS11 (impairment of fixed assets and goodwill) and FRS12 (provisions and contingencies) have not had a significant effect on the accounts. FRS13 (derivatives and other financial instruments) has required further disclosure of the Group's financial instruments; narrative disclosures are included in the Financial Review on pages 14 to 16, the numerical disclosures are set out in note 23 to the Accounts. FRS14 (earnings per share) requires disclosure of diluted earnings per share on the face of the consolidated profit and loss account. The comparative has also been disclosed.

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.

b Basis of consolidation

The consolidated accounts include the accounts of the Company and all of its subsidiaries, associate undertakings and joint ventures. The results of undertakings 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 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.

The Group's relationships are defined as follows:

- subsidiary: the Group controls the financial and operating policies of the undertaking
- joint venture: the Group holds a long term interest and shares control under a contractual agreement
- associate: the Group has a participating interest and exercises significant influence

c Turnover which excludes value added tax or equivalent sales tax, trade discounts and sales between Group companies, 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).

- **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 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.
- **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. Restoration and after-care costs are estimated in full at commencement of operations and recognised in the financial statements at discounted values. A corresponding asset is created within fixed assets which represents access to future economic benefits. The asset is amortised over the expected life of the site.
- **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:

Notes to the Accounts

1 Principal accounting policies *(continued)*

Buildings:

• Operational structures	40–80 years
• Other	30–60 years
Fixed and mobile plant	20–40 years
Vehicles, computers, fixtures and fittings	3–10 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 that requires fixed assets to be stated at their purchase price without deduction of contributions, which should be 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 16.

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 depreciated over the shorter of their estimated useful lives and the lease period.

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

g Investments

Fixed asset investments

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

Current asset investments 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.

Notes to the Accounts

1 Principal accounting policies *(continued)*

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 transaction. Assets and liabilities in foreign currencies including long term liabilities, 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 SSAP20 overrides Schedule 4 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 appropriate foreseeable rate, and applied when the liability or asset is expected to crystallise.

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, where there is a present obligation that will result in transfer of economic benefits.

n Goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of subsidiary, joint venture and associated undertakings acquired, is capitalised and amortised on the straight line method over its estimated useful economic life. Impairment tests on the carrying value of goodwill are undertaken:

- at the end of the first full financial year following acquisition;
- in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable.

Profit or loss on disposal of a previously acquired subsidiary, joint venture or associated undertaking is determined after including the attributable amount of purchased goodwill. For accounting periods to 31 March 1997 the accounting policy for goodwill arising on acquisition was to write off against reserves in the year in which it arose. The Group has not reinstated goodwill written off in prior periods.

o Interest

Interest payable is written off to the profit and loss account as it is incurred except those relating to monies borrowed to finance:

- specific long term contracts which are 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 Discontinued operations/non-operating exceptional items

Following the release of £20m in the year ended 31 March 1998, there has been a final release of £7m to the profit and loss account, from the provision of £95m made in 1996 relating to discontinued operations.

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,

Insurance and Property

Other activities: those carried out by the Company in managing the Group, including development of new business opportunities.

Turnover

By class of business	1999 Intra-segment £m	1999 Inter-segment £m	1999 Third parties £m	1998 Intra-segment £m	1998 Inter-segment £m	1998 Third parties £m
Utilities	–	6.2	1,085.9	–	2.9	1,030.4
International operations:						
– continuing	13.4	–	58.3	4.3	0.1	171.9
– discontinued	–	–	–	–	–	5.9
Products	–	8.6	74.5	1.4	5.8	73.7
Services	–	105.0	83.7	0.1	104.0	82.3
Insurance and Property	0.2	19.1	23.1	0.8	18.3	24.8
	13.6	138.9	1,325.5	6.6	131.1	1,389.0

Geographical segment by origin	1999 Intra-segment £m	1999 Inter-segment £m	1999 Third parties £m	1998 Intra-segment £m	1998 Inter-segment £m	1998 Third parties £m
UK	131.6	15.1	1,261.6	131.8	4.0	1,318.8
Continental Europe	–	3.4	–	–	–	2.3
Americas	0.7	–	34.3	1.0	–	39.8
Asia Pacific	0.8	0.9	29.6	0.8	0.1	28.1
	133.1	19.4	1,325.5	133.6	4.1	1,389.0

Geographical segment by destination	1999 Intra-segment £m	1999 Inter-segment £m	1999 Third parties £m	1998 Intra-segment £m	1998 Inter-segment £m	1998 Third parties £m
UK	131.5	18.7	1,231.9	131.9	4.0	1,148.2
Continental Europe	–	–	20.7	–	–	159.1
Americas	0.7	–	34.0	1.0	–	44.3
Africa	–	–	1.2	–	–	0.9
Asia Pacific	0.9	0.7	37.7	0.7	0.1	36.5
	133.1	19.4	1,325.5	133.6	4.1	1,389.0

Notes to the Accounts

3 Segmental analysis *(continued)*

Profit before tax	1999 £m	1999 £m	1998 £m	1998 £m
Utilities		473.7		441.5
International operations				
– continuing	16.5		6.1	
– discontinued	1.1	17.6	(0.1)	6.0
Products		4.1		5.6
Services		6.3		6.4
Insurance and Property		29.9		27.0
Other activities		(7.7)		(3.6)
		523.9		482.9
Inter-segment trading		(2.6)		(2.3)
Operating profit		521.3		480.6
Non-operating exceptional items:				
– Utilities		–		(8.3)
– International operations (net)		7.0		20.0
Profit on ordinary activities before interest and taxation		528.3		492.3
Interest		(109.7)		(73.7)
Profit on ordinary activities before taxation		418.6		418.6

Net assets	1999 £m	1999 £m	1998 £m	1998 £m
Utilities		3,682.7		3,458.2
International operations				
– continuing	10.8		31.2	
– discontinued	(0.1)	10.7	(30.6)	0.6
Products		38.0		15.0
Services		4.4		17.4
Insurance and Property		8.3		4.0
Other activities		(48.0)		(263.2)
		3,696.1		3,232.0
Net debt		(1,592.2)		(1,084.6)
Net assets		2,103.9		2,147.4

3 Segmental analysis *(continued)*

By geographical segment	Profit/(loss) before tax 1999 £m	Profit/(loss) before tax 1998 £m	Net assets/(liabilities) 1999 £m	Net assets/(liabilities) 1998 £m
UK	515.3	474.6	3,626.2	3,198.2
Continental Europe	4.9	(0.2)	3.9	(3.0)
Americas	1.9	3.0	29.6	10.7
Asia Pacific	(0.8)	3.2	36.4	26.1
	521.3	480.6	3,696.1	3,232.0
Non-operating exceptional items:				
UK	7.0	11.7		
	528.3	492.3		
Interest	(109.7)	(73.7)		
Net debt			(1,592.2)	(1,084.6)
	418.6	418.6	2,103.9	2,147.4

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

4 Operating costs

Analysis of operating costs by type of expense	1999 £m	1999 £m	1998 £m	1998 £m
Manpower		249.1		239.1
Materials and consumables		123.8		215.6
Other operating charges		283.4		330.0
Infrastructure renewals charge		40.7		39.4
Depreciation:				
– owned assets	130.1		106.5	
– assets held under finance leases	7.7	137.8	10.9	117.4
Rentals under operating leases:				
– hire of plant and machinery	6.6		5.3	
– other	5.8	12.4	4.8	10.1
Research and development		8.8		9.0
Auditors' remuneration in respect of:				
– audit and other statutory and regulatory requirements	0.6		0.7	
– non-audit: UK	0.2		0.2	
		0.8		0.9
Foreign currency losses		1.9		1.6
		858.7		963.1
Own work capitalised		(33.1)		(31.8)
		825.6		931.3

Notes to the Accounts

4 Operating costs *(continued)*

- Included in other operating charges and manpower are costs of £1.8m (1998: £14.8m) which have been offset by the utilisation of the discontinued business provision made in 1996 (see note 2).
- Nil (1998: £0.9m) was paid to PricewaterhouseCoopers during the year in respect of information systems consultancy which has been capitalised.
- Included in auditors' remuneration is £90,000 in respect of audit fees incurred by the Company in 1999 (1998: £85,000).

5 Directors' remuneration and share interests

The report on Directors' remuneration, which explains the approach to the remuneration of Executive Directors, is set out on pages 20 and 21.

Executive Directors – remuneration statement

Executive Director	Salary £000	Bonus Cash £000	Bonus Deferred £000	Benefits £000	1999 Total £000	Salary £000	Bonus Cash £000	Bonus Deferred £000	Benefits £000	1998 Total £000
Sir Robert Clarke (retired 28.3.99)	244	–	–	14	258	241	–	–	14	255
Bill Alexander	258	20	10	9	297	219	33	16	9	277
David Luffrum	170	13	7	13	203	170	23	12	15	220
David Badcock (appointed 1.3.98)	119	9	5	15	148	10	1	1	2	14
Bill Harper (left 31.12.97)	–	–	–	–	–	85	19	–	10	114
TOTALS	791	42	22	51	906	725	76	29	50	880

Current salaries (from 1 April 1999) are Bill Alexander £310,000, David Luffrum £195,000, and David Badcock £150,000.

Pensions

All Executive Directors 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 Executive Director's pensionable service to date, current pensionable salary and any benefits transferred in from previous employers.

Executive Director	Age at 31.3.99	Pensionable service at 31.3.99	Executive Directors' contributions in year to 31.3.99 £000	Increase in accrued pension during the year to 31.3.99 £000	Accumulated total accrued pension at 31.3.99 £000
Bill Alexander	52	9 years	8	2	14
David Luffrum	54	36 years	5	9	102
David Badcock	54	31 years	3	14	67

The pension entitlement shown is that which would be paid annually on retirement, based on pensionable service to 31 March 1999 and the contributions shown are those paid by the Executive Directors under the terms of the main Scheme in the year to 31 March 1999. The increase in accrued pension during the year to 31 March 1999 excludes any increase for inflation. Pension increases are pre-funded in line with inflation.

5 Directors' remuneration and share interests *(continued)*

Sir Robert Clarke had an executive pension plan, to which a contribution of £18,000 pa was made through a salary sacrifice arrangement. The pension plan matured on 28 March 1999 and the benefits provided were determined by the value of the fund at that time. Bill 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, the Senior Executive Pension Scheme and an arrangement provided by an annual charge to the profit and loss account. For the year to 31 March 1999, this amounted to £207,000 (1998: £208,000). The total provision at 31 March 1999 was £620,000. David Luffrum and David Badcock 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 the year ended 31 March 1999, the Company made an unfunded pension payment of £1,248 (1998: £14,942) to Mr Hoffman, a former Executive Director. Mr Hoffman died on 17 April 1998 and his widow received an unfunded lump sum payment of £43,668.

Shareholdings

The holdings of the Executive Directors in office at the end of the year in the issued share capital of the Company, excluding shares issued under the Share Bonus Plan, are shown below.

Executive Director	Ordinary shares held at 31 March 1999	1998
Sir Robert Clarke (retired 28.3.99)	**7,116**	7,088
Bill Alexander	**13,523**	14,722
David Luffrum	**33,655**	36,683
David Badcock	**6,441**	1,936

In addition to the shares noted above, the following Executive Directors also have B shares held in trust under the Thames Water Profit Sharing Scheme: Bill Alexander and David Badcock have 127 B shares each and David Luffrum has 40 B shares.

Incentive Plans

The tables below show the Directors' conditional awards of shares under the incentive plans which are explained in further detail within the Report on Directors' Remuneration on pages 20 and 21.

Long-Term Restricted Share Plan

Executive Director	Plan	Date of award	Number of shares (maximum)	Earliest vesting date
Bill Alexander	1996	2.8.96	6,941	1.4.2000
	1997	9.7.97	6,525	1.4.2001
	1998	11.8.98	7,003	1.4.2002
David Luffrum	1996	2.8.96	5,628	1.4.2000
	1997	9.7.97	5,288	1.4.2001
	1998	11.8.98	4,695	1.4.2002
David Badcock	1997	9.7.97	1,932	1.4.2001
	1998	11.8.98	3,220	1.4.2002

Share Bonus Plan

Executive Director	Date of award	Number of shares	Notional value* £000	Earliest vesting date
Bill Alexander	9.7.97	2,237	22.9	9.7.2000
	11.8.98	1,478	15.1	11.8.2001
David Luffrum	9.7.97	1,815	18.6	9.7.2000
	11.8.98	1,041	10.7	11.8.2001
David Badcock	11.8.98	634	6.5	11.8.2001

*The notional value of the shares is based upon the market price (1,025p) of the Company's shares at the close of business on 9 June 1999.

Notes to the Accounts

5 Directors' remuneration and share interests *(continued)*

Share Options

No options have been granted to Executive Directors under the Executive Directors Share Option Scheme since 1994. Outstanding options under that Scheme are set out below, together with options under the Thames Water Sharesave Scheme.

	Executive Share Options at 31 March					
	1998 Number	1999 Number	Notional value £000*	Exercise price	Date when exercisable	Expiry date
Bill Alexander	18,000	18,000	122.0	347p	2.7.94	2.7.2001
	31,000	31,000	188.2	418p	24.6.95	24.6.2002
	22,000	22,000	125.8	453p	8.12.97	8.12.2004
David Luffrum	18,000	–	–	453p	Exercised 21.12.98	–
David Badcock	10,000	10,000	57.2	453p	8.12.97	8.12.2004
	14,000	14,000	65.1	560p	8.12.98	8.12.2005

*The notional value of the shares is based upon the market price (1,025p) of the Company's shares at the close of business on 9 June 1999.

	Save As You Earn (SAYE) Share Options						
	Share Options 1.4.98	Options granted	Options exercised	Share Options 31.3.99	Exercise price	Date when exercisable	Expiry date
Sir Robert Clarke (retired 28.3.99)	4,097	–	–	4,097	421p	29.3.1999	28.9.1999
Bill Alexander	–	2,071	–	2,071	887p	1.2.2006	31.7.2006
David Luffrum	2,205	–	–	2,205	442p	2.2.2000	1.8.2000
David Badcock	4,637	1,092	4,637	1,092	887p	1.2.2002	31.7.2002

Chairman and non-Executive Directors

Roger Carr was appointed Chairman with effect from 28 March 1999 and the Board determined his fees at £100,000 per annum.

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 £19,500 to £21,500 from 1 July 1997. In the case of Sir Christopher Leaver, fees receivable in his role as Vice Chairman increased from £45,000 to £49,600 with effect from 1 July 1997. 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.

	Number of shares at 31 March		Fees	
Non-Executive Directors:	**1999**	1998	**1999 £000**	1998 £000
Roger Carr (Chairman from 28.3.99)	**2,750**	3,000	**22**	21
Sir Christopher Leaver	**4,158**	4,537	**50**	48
Tony Hobson	**916**	1,000	**21**	21
Leslie Knox (appointed 1.3.98)	**311**	–	**21**	2
Andrew Longhurst (appointed 1.9.98)	**2,500**	n/a	**13**	–
David Clementi (retired 31.8.97)	–	–	–	8
John Thomson (retired 29.7.97)	–	–	–	7
John Worlidge (retired 29.7.97)	–	–	–	7

Directors' Remuneration in Total	**1999 £000**	1998 £000
Fees for non-Executive Directors	**127**	114
Remuneration of Executive Directors (see page 34)	**906**	880
Gains on the exercise of executive share options (see above)	**129**	220
Company pension contributions to money purchase schemes	**18**	18
Compensation for loss of office	–	185

Transactions with Directors and Officers

There are no transactions or arrangements which are required to be disclosed under the provision of the Companies Act 1985, nor are there any related party transactions with the Directors or connected persons.

Notes to the Accounts

6 Employees

	1999 £m	1998 £m
Group employment costs including Executive Directors' remuneration were:		
– Salaries and wages	225.3	217.1
– Social security costs	19.3	19.7
– Pension contributions (note 29)	10.3	8.8
	254.9	245.6

Total employment costs of £3.8m (1998: £4.7m) and £2.0m (1998: £1.8m) are included in the infrastructure renewals charge and research and development costs respectively in note 4.

	1999 number	1998 number
Average monthly number of persons employed by the Group, including Executive Directors		
Utilities	5,732	5,761
International operations	2,240	968
Products	810	663
Services	3,593	3,487
Property and Insurance	76	76
Other activities	41	40
	12,492	10,995

7 Other operating income

	1999 £m	1998 £m
Gains and losses on fixed interest short-term investments	4.1	4.6
Insurance investment income	4.6	4.4
Net rents receivable	0.2	1.3
Miscellaneous	3.8	3.8
	12.7	14.1

8 Interest

	1999 £m	1998 £m
Bank loans, overdrafts and other loans:		
– Repayable within five years otherwise than by instalments	64.3	22.0
– Repayable within five years by instalments	1.7	2.6
– Not wholly repayable within five years	37.2	45.5
Finance charges in respect of finance leases	17.2	15.4
Other finance charges	1.0	–
Interest payable and similar charges	121.4	85.5
Interest receivable	(15.4)	(11.8)
	106.0	73.7

Notes to the Accounts

9 Taxation on profit on ordinary activities

	1999 £m	1998 £m
UK corporation tax on income at 31% (1998: 31%)	82.8	66.8
Overseas taxation	3.3	1.7
Advance corporation tax written off	–	35.4
Prior years advance corporation tax relieved	(53.2)	(42.8)
Share of tax of joint venture companies	1.3	1.1
	34.2	62.2

10 Windfall tax

In accordance with the Finance (No 2) Act 1997, £230.7m was charged to the profit and loss account in the year ended 31 March 1998 in respect of the windfall tax, of which £115.4m was paid on 1 December 1997 and the balance of £115.3m was paid on 1 December 1998.

11 Deferred taxation

The Group's medium and long-term plans for capital investment 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 £96.0m (1998: £79.5m).

	Group	
An analysis of amounts unprovided is as follows:	1999 £m	1998 £m
Accelerated capital allowances:		
– Infrastructure assets	316.6	305.0
– Other assets	372.3	366.3
Other timing differences	(14.8)	(5.8)
Advance corporation tax	(139.1)	(191.7)
	535.0	473.8

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.

12 Profit for the financial year

Of the consolidated profit attributable to shareholders, £958.5m (1998: £428.2m) 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.

13 Dividends

	1999		1998	
	pence per share	£m	pence per share	£m
Equity – ordinary 23p				
Interim	14.0	48.8	12.5	47.6
Final proposed	28.6	100.0	25.9	98.6
	42.6	148.8	38.4	146.2
Non-equity – B shares 79p				
Final	2.9	0.9	–	–

Notes to the Accounts

14 Earnings per ordinary share

Basic earnings per ordinary share of 106.3p (1998: 33.1p) has been calculated by dividing the profit for the financial year by the weighted average number of ordinary shares in issue during the year of 360.6m (1998: 379.9m).

Diluted earnings per share of 105.5p (1998: 32.8p) is calculated by adjusting the basic weighted average number of shares assuming conversion of all potential ordinary shares which are dilutive of earnings. Currently these are share options granted under the Company's employee sharesave schemes, and unexercised Executive share options.

Reconciliation of earnings and weighted average number of shares used in the computations are set out below:

	1999		1998	
	Earnings £m	**Weighted average number of shares million**	Earnings £m	Weighted average number of shares million
Basic EPS				
Profit for the financial year	**383.5**	**–**	125.7	–
Attributable to ordinary shareholders	**–**	**360.6**	–	379.9
Effect of dilutive ordinary shares	**–**	**2.9**	–	3.1
Diluted EPS				
Profit for the financial year	**383.5**	**–**	125.7	–
Attributable to ordinary shareholders	**–**	**363.5**	–	383.0

Adjusted earnings per share of 104.4p (1998: 90.7p) is based on earnings before the inclusion of non-operating exceptional items and the windfall tax and, in the opinion of the Directors, more appropriately reflects the underlying financial performance of the Group.

In accordance with Financial Reporting Standard 14, no restatement of prior period earnings per share has been made, as the commercial effect of the share recapitalisation is a repurchase at fair value (see note 25).

15 Intangible assets

	Goodwill £m	Aggregate amortisation £m	Net goodwill £m	Other intangibles £m	Total £m
At 1 April 1998	–	–	–	–	–
Additions at cost	17.0	–	17.0	10.2	27.2
Amortisation	–	(0.5)	(0.5)	(0.9)	(1.4)
Exchange movements	–	–	–	1.6	1.6
At 31 March 1999	**17.0**	**(0.5)**	**16.5**	**10.9**	**27.4**

During the year, the Group made three acquisitions – Ham Baker, Underpressure Engineering plc and Memtech (UK) Ltd. It also purchased the minority interest in its subsidiary PT Kekar Thames Arindo. The consideration, fair values and goodwill arising are as follows:

	Consideration £m	Book and fair value £m	Goodwill £m
Ham Baker	6.1	1.8	4.3
Underpressure Engineering plc	8.4	2.4	6.0
Memtech (UK) Ltd	4.8	0.1	4.7
PT Kekar Thames Arindo (minority interest)	2.3	0.3	2.0
	21.6	**4.6**	**17.0**

The trading results of the entities before and after acquisition have not been separately disclosed since they are not material to the Group. All of these purchases have been accounted for as acquisitions.

Goodwill arising on each acquisition is being amortised on a straight line basis over 15 years. These are the periods over which the Directors estimate that the values of the underlying business acquired will exceed the value of the underlying assets.

Other intangibles of £10.9m relate to start-up charges incurred on the concession contract in Jakarta, Indonesia which is being amortised over ten years.

Notes to the Accounts

16 Tangible fixed assets

	Group				Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	**Total £m**	Plant and equipment £m
Net cost at 1 April 1998	1,481.4	1,338.8	1,625.7	**4,445.9**	1.0
Foreign exchange adjustments	1.2	–	0.7	**1.9**	–
Additions at cost	110.3	159.9	215.2	**485.4**	0.1
Disposals	(10.2)	–	(34.7)	**(44.9)**	–
Capital contributions	–	(34.3)	–	**(34.3)**	–
Net cost at 31 March 1999	1,582.7	1,464.4	1,806.9	**4,854.0**	1.1
Depreciation at 1 April 1998	292.7	–	442.8	**735.5**	0.7
Foreign exchange adjustments	0.4	–	0.3	**0.7**	–
Provided during the year	29.8	–	108.0	**137.8**	0.1
Disposals	(2.5)	–	(31.3)	**(33.8)**	–
Depreciation at 31 March 1999	320.4	–	519.8	**840.2**	0.8
Net book value					
At 31 March 1999	1,262.3	1,464.4	1,287.1	**4,013.8**	0.3
At 31 March 1998	1,188.7	1,338.8	1,182.9	3,710.4	0.3

- In order to give a true and fair view (note 1e), the cost of infrastructure assets is stated after the deduction of capital contributions amounting to £216.7m (1998: £182.4m).
- The net book value of land and buildings is analysed as follows:

	Group	
	1999 £m	1998 £m
Freehold land and buildings	**1,221.4**	1,154.3
Leaseholds: over 50 years	**28.1**	28.4
under 50 years	**12.8**	6.0
	1,262.3	1,188.7

- No depreciation has been charged on freehold land included at a cost of £12.8m (1998: £11.6m).
- Details of the Group's tangible fixed assets which are held under finance leases are:

	Cost		Net book value	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Plant and equipment	**274.0**	295.8	**237.7**	242.2

- Tangible fixed assets at 31 March 1999 include £310.2m (1998: £464.8m) of assets in the course of construction.

17 Fixed asset investments

	Group	Company	
	Interests in associated undertakings and joint ventures £m	Investment in undertakings: subsidiaries £m	joint venture £m
Value at 1 April 1998	47.3	1,267.6	24.3
Foreign exchange adjustments	(0.2)	1.2	–
Additions	9.5	695.1	5.9
Reclassification	(2.2)	–	–
Share of retained profits for the year	0.3	–	–
Value at 31 March 1999	54.7	1,963.9	30.2

Notes to the Accounts

17 Fixed asset investments *(continued)*

Group

The cost of the Group's interests in associated undertakings and joint ventures at 31 March 1999 amounted to £61.8m (1998: £52.3m). The Group's share of post-acquisition accumulated profits at 31 March 1999 was £3.4m (1998: £3.1m). The associated undertakings and joint ventures are unlisted.

Company

Investments amounting to £79.7m (1998: £14.7m) 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. It also invested £621.3m in Thames Water Utilities Ltd.

18 Stocks and work in progress

	Group	
	1999 £m	1998 £m
Raw materials and consumables	**19.5**	18.9
Work in progress	**3.5**	9.1
Finished goods and goods for resale	**9.1**	6.4
	32.1	34.4
Work in progress includes long term contract balances as follows:		
Net cost less foreseeable losses	**283.7**	297.2
Applicable payments on account	**(284.1)**	(321.7)
	(0.4)	(24.5)

Applicable payments on account in excess of net costs less foreseeable losses are included in creditors.

The Company has no stocks and work in progress.

19 Debtors

	Group		Company	
	1999 £m	1998 £m	**1999 £m**	1998 £m
Due within one year:				
Trade debtors	**176.0**	160.1	**–**	–
Amounts recoverable on contracts	**0.6**	1.6	**–**	–
Amounts owed by subsidiary undertakings	**–**	–	**8.2**	294.3
Other debtors	**25.2**	20.4	**61.1**	0.5
Prepayments and accrued income	**112.0**	96.0	**0.1**	0.1
Infrastructure renewals expenditure	**9.5**	5.5	**–**	–
	323.3	283.6	**69.4**	294.9
Due after more than one year:				
Trade debtors	**0.4**	0.9	**–**	–
Prepayments and accrued income	**0.3**	0.4	**–**	–
Other debtors	**1.1**	0.3	**–**	–
	325.1	285.2	**69.4**	294.9

Notes to the Accounts

20 Current asset investments

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Fixed term deposits and certificates of deposit	18.0	18.7	4.9	3.9
Fixed and floating interest rate securities	67.5	81.7	14.9	19.3
	85.5	100.4	19.8	23.2

21 Creditors: amounts falling due within one year

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank loans	121.0	74.3	–	–
Bank overdrafts	81.7	71.5	47.1	40.9
Other loans	183.5	185.2	183.0	183.3
Obligations under finance leases	3.6	3.2	–	–
Progress claims and advance payments	86.8	97.0	–	–
Trade creditors:				
– operating	54.1	56.4	–	–
– capital	109.9	108.6	–	–
Bills of exchange payable	–	2.0	–	–
Amounts owed to subsidiary undertakings	–	–	102.1	77.1
Advance corporation tax	–	39.6	–	39.6
Taxation and social security	51.5	35.9	–	1.7
Windfall tax	–	115.3	–	115.3
Accruals and deferred income	176.7	175.0	2.3	4.5
Other creditors	10.9	4.6	2.8	1.6
Proposed dividend	149.7	98.6	149.7	98.6
	1,029.4	1,067.2	487.0	562.6

22 Creditors: amounts falling due after more than one year

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Bank loans	369.3	307.5	–	–
Other loans	750.3	352.9	104.9	82.6
Obligations under finance leases	263.8	263.2	–	–
Amounts owed to subsidiary undertakings	–	–	102.7	100.3
Deferred income	56.9	48.8	–	–
Other creditors	8.8	7.2	–	–
	1,449.1	979.6	207.6	182.9

23 Financial instruments

Short term debtors and creditors have been excluded from financial instruments' disclosures, other than the currency risk disclosures. Most of the provisions for liabilities and charges of £51.7m (note 24) are payable within one year and are also excluded.

Financial assets

	Group 1999				
				Fixed rate assets	
	Total at floating rates	Total at fixed rates	Total book value	Weighted average interest rate	Weighted average period until maturity for which rate is fixed
Interest rate risk profile	(£m)	(£m)	(£m)	(%)	(years)
Current asset investment					
– £ Sterling	8.4	8.4	16.8	6.0	2.0
– $ US	14.9	25.9	40.8	6.0	9.0
– Others	3.0	24.9	27.9	6.0	13.0
	26.3	59.2	85.5	6.0	9.7
Cash at bank/hand					
– £ Sterling	74.2	–	74.2	–	–
– $ US	13.1	–	13.1	–	–
– Others	8.2	–	8.2	–	–
	95.5	–	95.5	–	–

The Group is not exposed to currency risk on non-sterling current asset investments, as they are held within an overall portfolio administered by external fund managers who use the appropriate instruments to manage them. Floating rate balances include £4m investment in equities which are non-interest bearing.

Additionally, non-sterling cash is predominantly held in countries where the currency originates, therefore no exposures to currency risk arise.

LIBID and base rate are the benchmark rates for floating current asset investments and cash at bank respectively.

Financial liabilities

	Group 1999				
				Fixed rate liabilities	
	Total at floating rates	Total at fixed rates	Total book value	Weighted average interest rate	Weighted average period until maturity for which rate is fixed
Interest rate risk profile	(£m)	(£m)	(£m)	(%)	(years)
Banks loans & overdraft					
– £ Sterling	171.1	343.0	514.1	8.0	8.4
– $ US	30.3	–	30.3	–	–
– Others	27.6	–	27.6	–	–
	229.0	343.0	572.0	8.0	8.4
Other loans & finance leases					
– £ Sterling	428.1	700.2	1,128.3	7.3	17.0

Notes to the Accounts

23 Financial instruments *(continued)*

The Group's interest rate and cross currency swaps convert £106m of floating rate borrowings into fixed rate and hedge the sterling value of £142m foreign currency borrowings. Included in this is £43m and £131m respectively relating to the Company. There are no other interest related derivative financial instruments in the Group or Company.

Additionally, interest rate swaps are in place which convert £10m of fixed rate borrowings from an average fixed rate of 10.5% to floating rates (based on LIBOR) for a weighted average remaining term of 2.7 years.

Financial Reporting Standard 13 requires £72.9m of fixed rate foreign currency borrowings, included within Other loans in note 22 and used to finance the Group's net investments outside the United Kingdom, to be excluded from the above interest rate risk profile table. The corresponding net investments amounted to £71m at 31 March 1999.

Short term borrowing bear interest at rates linked to LIBOR.

Currency risk

The Group is not exposed to any significant currency risk after matching foreign currency assets and liabilities, and taking the effects of its hedging instruments into consideration.

Fair values

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than a forced or liquidation sale. The table below sets out a comparison of the book and fair values of the Group's financial instruments.

	Group 1999	
	Total book value £m	Total fair value £m
Primary financial instruments		
– Financial assets	181.0	185.9
– Financial liabilities	(1,700.3)	(1,776.7)
Derivative financial instruments		
– Interest rate and cross currency swaps	–	(12.1)
	(1,519.3)	(1,602.9)

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 1999 quoted prices. Mark to market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowings and all derivative financial instruments. Floating rate liabilities have fair values which approximate to book value.

Book values of primary financial instruments are shown gross of the effect of any hedging instrument. Therefore, the effects of revaluing foreign currency borrowings at closing rates is included in the fair valuation.

	Group		Company	
Maturities	**1999 £m**	1998 £m	**1999 £m**	1998 £m
Bank loans and overdrafts				
– Within one year	**202.7**	145.8	**47.1**	40.9
– Between one and two years	**16.8**	25.6	–	–
– Between two and five years	**80.2**	52.7	–	–
– After more than five years	**272.3**	229.2	–	–
	572.0	453.3	**47.1**	40.9

Notes to the Accounts

23 Financial instruments *(continued)*

Maturities continued	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
Other loans and finance leases				
– Within one year	**187.1**	190.4	**183.0**	183.3
– Between one and two years	**46.9**	4.1	**32.6**	–
– Between two and five years	**340.5**	218.6	**24.5**	57.0
– After more than five years	**626.7**	393.4	**47.8**	25.6
	1,201.2	806.5	**287.9**	265.9
Total borrowings	**1,773.2**	1,259.8	**335.0**	306.8

- Loans are repayable between 1999 and 2030.
- Loans wholly repayable after more than five years hence are:

	Group 1999 £m	Group 1998 £m	Company 1999 £m	Company 1998 £m
– Bank loans	**200.0**	150.0	–	–
– Other loans	**377.8**	145.9	**47.8**	25.6
	577.8	295.9	**47.8**	25.6

- Other loans include:

– £150m 10½% Guaranteed Bonds due 2001
– $150m 6¾% Notes due 2004
– £330m 6¾% MTN Eurobond due 2028
– Loans totalling £32.4m (1998: £32.4m) which are secured on the revenues of Thames Water Utilities Limited.

- Loans repayable by instalments after more than five years hence are:

	Group 1999 £m	Group 1998 £m
– Bank Loans	**72.3**	79.2
– Finance Leases	**248.9**	247.5
	321.2	326.7

- The range of interest rates on outstanding bank loans are 5.92% to 11.5% (1998: 6.25% to 11.5%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.

Borrowing facilities

At 31 March 1999, the Group had unused committed borrowing facilities with a range of financial institutions totalling £410m, expiring as follows:

	Group £m	Company £m
Within one year	**310**	–
Between one and two years	–	–
After more than two years	**100**	–

The Group also has a US$3 billion uncommitted Euro-Medium Term Note programme. This provides for both the Company and Thames Water Utilities Limited to access the capital markets in a range of currencies and maturities. At 31 March 1999, £141m (1998: £82.7m) had been borrowed with a weighted average term of 5.1 years (1998: 5.5 years) at a weighted average fixed rate of 6.6% (1998: 6.8%).

These facilities are required for continuing investment in the Utility and the Directors consider them sufficient for the Group's requirements.

Notes to the Accounts

24 Provisions for liabilities and charges

	Closure and contract provisions £m	Insurance liabilities £m	Other £m	Pensions £m	Group Total £m	Company Other provisions £m
Balance at 1 April 1998	15.4	38.3	3.6	1.0	**58.3**	0.1
Foreign exchange adjustments	–	–	0.2	0.1	**0.3**	–
Provided during the year	1.1	12.2	6.5	0.1	**19.9**	–
Utilised during the year	(2.4)	(5.7)	(1.0)	(0.2)	**(9.3)**	(0.1)
Released during the year	(7.7)	(4.5)	(0.1)	–	**(12.3)**	–
Reclassification	(6.4)	–	1.2	–	**(5.2)**	–
Balance at 31 March 1999	**–**	**40.3**	**10.4**	**1.0**	**51.7**	**–**

The movements on closure and contract provisions are mainly in respect of the discontinued business.

25 Share capital

	Group and Company 1999 £m	1998 £m
Authorised		
976,128,916 ordinary shares of 23p each and		
380,367,532 B shares of 79p each (1998: 525,000,001 of £1 each)	**525.0**	525.0
Allotted, called up and fully paid		
349,817,845 ordinary shares of 23p each (1998: 380,528,871 of £1 each)	**80.5**	380.5
31,061,472 B shares of 79p each	**24.5**	–
	105.0	380.5

The B shares carry a net non-cumulative preferential dividend at a rate linked to LIBOR, payable every six months in arrears. These shares do not carry voting rights.

Details of ordinary shares allotted during the year are as follows:	Number of shares allotted 1999 000	1998 000	Consideration 1999 £m	1998 £m
Employee shares schemes:				
– Sharesave Scheme	**896**	661	**4.8**	2.0
– Executive Share Option Scheme	**252**	394	**1.3**	1.7
– Profit Sharing Scheme	**80**	108	**0.9**	0.9
	1,228	1,163	**7.0**	4.6

Capital Reorganisation

Following the capital reorganisation undertaken on 10 August 1998, shareholders were issued with 11 new ordinary shares and 12 B shares for every existing 12 ordinary shares held on 7 August 1998. The holders of B shares were given the opportunity to sell their B shares to Thames Water Plc by accepting the repurchase offer of 79p per B share. As at 31 March 1999, the Company had paid out £276m in repurchasing 349,306,060 B shares.

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.
- 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.

25 Share capital *(continued)*

Options granted and outstanding at 31 March 1999

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	437,840	442p	Feb 2000 – Jul 2000
3 December 1997	458,925	685p	Feb 2001 – Jul 2001
3 December 1998	355,210	887p	Feb 2002 – Jul 2002
Five-year scheme			
9 July 1993	6,491	372p	Oct 1998 – Mar 1999
1 December 1994	915,777	421p	Feb 2000 – Jul 2000
30 November 1995	797,874	420p	Feb 2001 – Jul 2001
28 November 1996	501,229	442p	Feb 2002 – Jul 2002
3 December 1997	531,920	685p	Feb 2003 – Jul 2003
3 December 1998	377,982	887p	Feb 2004 – Jul 2004
Seven-year scheme			
29 November 1991	4,864	296p	Feb 1999 – Jul 1999
10 July 1992	166,770	349p	Oct 1999 – Mar 2000
9 July 1993	110,417	372p	Oct 2000 – Mar 2001
1 December 1994	285,210	421p	Feb 2002 – Jul 2002
30 November 1995	233,624	420p	Feb 2003 – Jul 2003
28 November 1996	164,013	442p	Feb 2004 – Jul 2004
3 December 1997	184,964	685p	Feb 2005 – Jul 2005
3 December 1998	112,574	887p	Feb 2006 – Jul 2006
Thames Water Executive Share Option Scheme			
2 July 1991	18,000	347p	1994 – 2001
24 June 1992	40,000	418p	1995 – 2002
8 December 1994	91,400	453p	1997 – 2004
8 December 1995	98,310	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	Normal vesting date
2 August 1996	12,569	1 April 2000
9 July 1997	26,484	1 April 2001
11 August and 9 November 1998	34,458	1 April 2002

These shares will only vest in full if the Company's performance ranks first or second in the comparator group over a four year period (see pages 20 and 21).

Thames Water Cash/Share Bonus Plan

Date of award	Number of ordinary shares	Normal vesting date
9 July 1997	4,052	9 July 2000
11 August 1998	17,597	11 August 2001

Notes to the Accounts

26 Movement in Equity Shareholders' Funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	1999 Total £m	1998 Total £m
The Group						
Balance at 1 April	380.5	52.1	41.4	1,673.4	2,147.4	2,165.5
Foreign exchange adjustments	–	–	–	(1.3)	(1.3)	(2.2)
Profit for the financial year	–	–	–	383.5	383.5	125.7
Dividends	–	–	–	(148.8)	(148.8)	(146.2)
New share capital subscribed (see note 25)	0.3	6.7	–	–	7.0	4.6
Purchase of own shares	(276.1)	–	276.1	(276.1)	(276.1)	–
Advance corporation tax on the purchase of shares	–	–	–	(0.7)	(0.7)	–
Bonus issue	0.3	(0.3)	–	–	–	–
Share capital related costs	–	(2.9)	–	(4.2)	(7.1)	–
Balance at 31 March	105.0	55.6	317.5	1,625.8	2,103.9	2,147.4
The Company						
Balance at 1 April	380.5	52.1	41.4	415.8	889.8	603.2
Profit for the financial year	–	–	–	958.5	958.5	428.2
Dividends	–	–	–	(148.8)	(148.8)	(146.2)
New share capital subscribed (see note 25)	0.3	6.7	–	–	7.0	4.6
Purchase of own shares	(276.1)	–	276.1	(276.1)	(276.1)	–
Advance corporation tax on the purchase of shares	–	–	–	(0.7)	(0.7)	–
Bonus issue	0.3	(0.3)	–	–	–	–
Share capital related costs	–	(2.9)	–	(4.2)	(7.1)	–
Balance at 31 March	105.0	55.6	317.5	944.5	1,422.6	889.8

The cumulative goodwill relating to acquisitions made prior to 1998, eliminated against Group reserves as at 31 March 1999 amounts to £71.5m (1998: £71.5m).

Share capital related costs of £7.1m includes:

- The difference between market value and consideration received for shares issued under the Company's qualifying employee share trust scheme. This amounts to £1.7m.
- Prior to the share capital reorganisation, £2.5m of shares were repurchased from the open market, and cancelled.
- Expenses incurred totalled £2.9m.

27 Operating leases

At 31 March 1999, the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group		Company	
	1999 £m	1998 £m	1999 £m	1998 £m
Land and buildings				
Leases which expire:				
– Within one year	0.4	0.2	–	–
– Between one and two years	0.3	0.3	–	–
– Between two and five years	0.4	0.4	–	–
– After more than five years	1.9	4.1	0.4	0.4
	3.0	5.0	0.4	0.4
Other				
Leases which expire:				
– Within one year	1.9	1.3	–	–
– Between one and two years	1.8	2.2	–	–
– Between two and five years	2.4	1.4	–	–
– After more than five years	0.1	–	–	–
	6.2	4.9	–	–

Notes to the Accounts

28 Capital commitments

	Group	
	1999 £m	1998 £m
Contracted for but not provided in the financial statements	108	203

- In addition to these commitments, the Group has long term capital investment plans to provide for replacement of assets and for quality improvements and growth.
- The Company has no capital commitments.
- The Group's share of joint ventures and associated undertakings' capital commitments are not separately disclosed since they are not material to the Group.

29 Pension schemes

Pension arrangements for the majority of the Group's UK 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. In addition, there is an unfunded defined benefit provided for the Chief Executive; details are included on pages 34 to 36. Overseas arrangements are established in accordance with local custom and practice.

The total ongoing pension cost of the Group during the year ended 31 March 1999 was £10.3m (1998: £8.8m) of which £0.5m (1998: £0.6m) 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.

In relation to the three main UK schemes, the regular cost of benefits amounted to £18.8m (1998: £18.3m) and the surplus resulted in a variation amounting to a reduction in the pension cost of £9.2m (1998: £9.5m).

As at 31 March 1999, accruals of £5.3m (1998: prepayment of £0.2m) and £0.7m (1998: accrual of £0.7m) were included in creditors (note 21) in relation to the funded UK and unfunded schemes respectively.

Contributions to the three main UK schemes for the year ended 31 March 1999 are based on actuarial reviews of the various schemes as at 6 April 1996. Contributions by the employer were reduced from 1 April 1997 for the two largest schemes and from 1 April 1998 for the third scheme. The pension charge for the year ended 31 March 1999 reflects the surplus disclosed by these valuations and a subsequent review in light of the changes to the tax treatment of pension schemes introduced in the July 1997 Budget.

For accounting purposes, any surplus is being recognised as a percentage of pensionable salaries spread over the average future working life time of the members. For funding purposes, more conservative actuarial assumptions have been used and any surplus, or deficit, may be recognised more quickly.

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 8.75% per annum. Pension increases are pre-funded in line with inflation (assumed to be at a rate of 5% per annum) for three of the UK pension schemes and are granted in line with the rules of each scheme and any statutory requirements. For the fourth UK scheme, pension increases are at the rate of 5% per annum or the annual movement in the Retail Prices Index if less. The assumed rate of increases is 4.5% per annum. Dividend growth is assumed to be 5% per annum.

The actuarial methods used were the Projected Unit method for those schemes which remain open to new members and the Attained Age method for the scheme which no longer allows future entrants.

For the three largest schemes of the Group, which cover the majority of UK employees, the total market value of assets as at the last valuation date was £696m and the actuarial value of these assets represented 120% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

Notes to the Accounts

30 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 £m	Balance £m
Izmit Su As	Joint venture	22.7	–
TWCK	Joint venture	0.3	0.6 (debtor)
United Water International Pty Limited	Joint venture	0.6	–
Thames Dick Superaquaduct Partners Inc	Joint venture	0.1	0.4 (creditor)
Binnie Thames Water Limited	Joint venture	0.1	–
St James Homes Limited	Joint venture	6.1	–
BJT Water Limited	Joint venture	0.2	0.3 (debtor)
Stirling Water Seafield Limited	Joint venture	1.7	

At 31 March 1999, loan balances of £5.5m and £2.8m were owed to the Group by Pathum Thani Water Company and TWCK respectively.

31 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £538.0m (1998: £507.3m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £83.5m at 31 March 1999 (1998: £79.6m). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations which have been entered into in the normal course of business. No loss is expected to arise under these arrangements.

32 Thames Water Utilities Limited

Condition F of the Instrument of Appointment under which Thames Water Utilities Limited operates requires specified accounting statements to be published with its annual accounts or those of its parent company. Anyone requiring a copy of these accounts including the specified statements for the year ended 31 March 1999 should apply to: The Company Secretary, Thames Water Plc, Blake House, Manor Farm Road, Reading RG2 0JN. Tel 0345 414140 (calls from the UK will be charged at the local rate).

33 Group undertakings

At 31 March 1999, the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

			Proportion of shares held		
Subsidiary undertakings:	Country of incorporation registration and operation	Class of share capital held	Directly	Indirectly	Nature of business
Thames Water Utilities Limited	Great Britain	Ordinary	100%		Water and wastewater services
CONNECT 2020 Limited	Great Britain	Ordinary		100%	Procurement logistics
International operations:					
Thames Water International Services Holdings Limited	Great Britain	Ordinary	100%		Management company
Thames Water International Services Limited	Great Britain	Ordinary		100%	Marketing of technical managerial services
Thames Water Overseas Limited	Great Britain	Ordinary		100%	Management company
Thames Water Overseas Consultancy Limited	Great Britain	Ordinary		100%	Marketing of technical managerial services
PWT Projects Limited	Great Britain	Ordinary		100%	Process engineering
Water Projects International Limited	Great Britain	Ordinary		100%	Process engineering
Thames Pam Jaya	Indonesia	Ordinary		100%	Water operations and maintenance
Thames Water Asia/Pacific Pty Limited	Australia	Ordinary		100%	Process engineering
Thames Water International (Singapore) Pty Limited	Singapore	Ordinary		100%	Process engineering
Thames Water Engineering (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	Process engineering

Notes to the Accounts

33 Group undertakings *(continued)*

International operations continued:	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held Directly	Indirectly	Nature of business
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		90%	Water operations and maintenance
Kelantan Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		70%	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%	Process engineering
Simon Hartley (Hong Kong) Limited	Hong Kong	Ordinary		100%	Wastewater projects
Products:					
Thames Water Products Limited	Great Britain	Ordinary	100%		Water and wastewater equipment, industrial membrane filtration, pipeline products and water disinfection, product technology
Thames Water Holdings Inc	USA	Common Convertible		100% 100%	Management company
Ashbrook Corporation Inc	USA	Ordinary		100%	Water and wastewater equipment
Hydro-Aerobics Inc	USA	Ordinary		100%	Packaged water treatment systems
F B Leopold Company Inc	USA	Ordinary		100%	Water and wastewater treatment equipment
Services:					
Thames Water Services Limited	Great Britain	Ordinary	100%		Drain and pipe cleaning and rehabilitation, sewerage, waste and incineration facilities management, grounds maintenance
Property and Insurance:					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Kennet Properties Limited	Great Britain	Ordinary	100%		Property
Thames Water Investments Limited	Great Britain	Ordinary	100%		Property
Thames Water Property Limited	Great Britain	Ordinary	100%		Property
Thames Water Developments Limited	Great Britain	Ordinary	100%		Property

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

Joint ventures:					
Binnie Thames Water Limited	Great Britain	Ordinary		50%	International consultancy
Gemwel Limited	Great Britain	Ordinary		50%	Water and sewerage services
St James Homes Limited	Great Britain	Ordinary		50%	Property
Thames Dick Superaquaduct Partners Inc	USA	Ordinary		50%	Water operations and maintenance
Izmit Su As	Turkey	Ordinary	35%		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
Thames Water International (Thailand) & Ch. Karnchang Public Limited Company Limited (TWCK)	Thailand	Ordinary		50%	Water operations and maintenance
Stirling Water Seafield Limited	Great Britain	Ordinary		49%	Water operations and maintenance
Associate undertakings:					
Pathum Thani Water Company Limited	Thailand	Ordinary		31%	Water operations and maintenance
Pathum Thani Water Ops Company Limited	Thailand	Ordinary		36%	Water operations and maintenance
JNPA Company Ltd	Thailand	Ordinary		32.8%	Water operations and maintenance

Group five year summary

Profit and loss account

Year ended 31 March	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Turnover:					
– continuing	**1,402.8**	1,410.3	1,264.9	1,193.6	1,173.6
– discontinued	–	5.9	33.8	–	–
– joint ventures	**(77.3)**	(27.2)	(11.3)	–	–
	1,325.5	1,389.0	1,287.4	1,193.6	1,173.6
Operating profit					
– continuing	**512.9**	477.4	440.4	376.1	360.0
– discontinued	**1.1**	(0.1)	(0.4)	–	–
– joint ventures	**8.1**	3.3	0.7	–	–
– associates	**(0.8)**	–	–	–	–
	521.3	480.6	440.7	376.1	360.0
Non-operating exceptional items	**7.0**	11.7	(12.2)	(95.0)	–
Interest	**(109.7)**	(73.7)	(56.7)	(52.4)	(56.3)
Profit on ordinary activities before taxation	**418.6**	418.6	371.8	228.7	303.7
Taxation on profit on ordinary activities	**(34.2)**	(62.2)	(51.4)	(25.2)	(21.5)
Windfall tax	–	(230.7)	–	–	–
Non-equity dividend	**(0.9)**	–	–	–	–
Profit for the financial year	**383.5**	125.7	320.4	203.5	282.2
Capital Investment	**485.4**	485.3	409.7	349.0	314.0
Earnings per share	**106.3p**	33.1p	82.8p	50.7p	71.3p
Adjusted earnings per share (see note 14)	**104.4p**	90.7p	85.5p	74.3p	71.3p
Dividend per share	**42.6p**	38.4p	34.4p	28.3p	25.3p

Balance sheet

As at 31 March	1999 £m	1998 £m	1997 £m	1996 £m	1995 £m
Fixed assets	**4,095.9**	3,757.7	3,422.2	3,140.9	2,900.9
Net current (liabilities)/assets	**(491.2)**	(572.4)	(330.2)	8.7	(22.8)
Creditors: amounts falling due after more than one year	**(1,449.1)**	(979.6)	(839.5)	(773.6)	(718.5)
Convertible debt	–	–	–	(81.8)	(81.4)
Provisions for liabilities and charges	**(51.7)**	(58.3)	(87.0)	(123.9)	(43.0)
Net assets	**2,103.9**	2,147.4	2,165.5	2,170.3	2,035.2
Share capital	**105.0**	380.5	379.4	404.0	399.7
Share premium	**55.6**	52.1	48.6	8.2	6.2
Capital redemption reserve	**317.5**	41.4	41.4	–	–
Reserves and retained profits	**1,625.8**	1,673.4	1,696.1	1,758.1	1,629.3
Shareholders' funds	**2,103.9**	2,147.4	2,165.5	2,170.3	2,035.2

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Design Boo Mitford Design **Photography** Larry Bray, Paul Cordwell, Graeme Harris and Fritz Hoffman **Typesetting** Real Time Studio **Printing** Westerham Press **Printed in England**

Shareholder information and services

	Number of holders	%	Holding	%
Category				
Individuals	185,151	95.62	54,619,320	15.61
Banks or nominees	7,434	3.84	280,875,639	80.29
Investment trust	133	0.07	137,089	0.04
Insurance company	14	0.01	1,162,385	0.34
Other company	423	0.22	2,779,717	0.79
Pension trust	38	0.02	2,874,654	0.82
Other corporate body	427	0.22	7,369,041	2.11
Total	193,620	100.00	349,817,845	100.00
Band analysis as at 31 March 1999				
1–500	170,163	87.89	39,631,596	11.33
501–1,000	16,537	8.54	11,352,157	3.25
1,001–5,000	5,455	2.81	8,064,129	2.30
5,001–50,000	943	0.49	15,572,870	4.45
50,001–100,000	170	0.09	12,325,961	3.52
100,001–1,000,000	304	0.16	90,979,782	26.01
1,000,000 +	48	0.02	171,891,350	49.14
Total	193,620	100.00	349,817,845	100.00

Financial Calendar

Financial year ended 31 March 1999

25 May 1999 Preliminary announcement of final results

27 July 1999 Annual General Meeting, The Barbican Centre, London

2 August 1999 Ex-Dividend date for 1999 final dividend (ordinary shares)

6 August 1999 Record date for 1999 final dividend (ordinary shares)

31 August 1999 Ex-Dividend date for October 1999 dividend (B shares)

1 September 1999 Final dividend payable (ordinary shares)

6 September 1999 Record date for October 1999 final dividend (B shares)

6 October 1999 Dividend payable (B shares).

Financial year ending 31 March 2000

2 November 1999 Announcement of half-yearly results for six months to 30 September 1999

February 2000 Interim dividend payable.

Shareholder Enquiries

The Company's share register is maintained by Computershare Services PLC. Their address is: The Registrar for Thames Water Plc, Computershare Services 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 Company Secretary's Office, Blake House, Manor Farm Road, Reading, Berkshire RG2 0JN or telephone 0345 414140 – local rates apply from the UK.

Customer Enquiries

0645 200 800 (local call rates).

Share Price Information Line (CityCall)

You can obtain the current share price by calling 0891 222302. Calls cost 55p per minute at all times.

Payment Direct to Bank

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

Dividend Reinvestment Plan

A dividend reinvestment plan was introduced in January 1999. If you would like to receive your ordinary dividend in the form of shares rather than cash, an explanatory booklet and mandate form can be obtained from the Registrars.

To receive the 1999 final ordinary dividend in the form of shares, mandate forms from new participants should be received by the Registrars by 10 August 1999.

Share Dealing Services

Shareholders are able to use a low cost postal dealing service operated for Thames Water by Cazenove & Co. A £10 minimum charge applies per transaction. A telephone dealing service operated by Stocktrade is also available for which a £15 minimum charge applies per transaction. Please contact the Registrars for further details.

Thames Water Nominee Service

A Nominee Service is available for shareholders who wish their shareholding to be maintained in CREST. Information about this service can be obtained from the Registrars.

Capital Gains Tax Calculation

For capital gains tax purposes, the amount of your original share cost attributable to the B shares is 6.83506%. Any calculation should be based on the aggregate value of your old shares.

Internet Enquiries

It is now possible to use the internet to enquire about your shareholding. The Registrars' site can be visited on www.cshare.co.uk. To obtain information about your own personal holding, you will need to know the reference number that is individual to you. Attached to your AGM voting card is a card showing this personal number.