



Annual Report and Accounts 2000

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CHAIRMAN'S STATEMENT

30%

15%

2005

2000

By 2005, our target is for at least 30% of profit before tax to be from businesses outside the UK Utility.

Roger Carr, Chairman

At the centre of our strategy for value creation is our expertise in water-related services and products. We are developing our position as a leading competitive force internationally and taking every opportunity to realise the full potential of both our people and assets around the world. We believe this strategy will provide a balanced spread of investments generating earnings and dividend growth for our shareholders.

The financial results for 1999/00 are evidence of the progress we are making. Operating profits increased by 7% to £559m. The non-regulated businesses

contributed £85m, an increase of 47% in the year. It is also pleasing to report that profit before tax and exceptional items, at £420m, was increased by some 2%.

Our sustained programme of investment and commitment to customer service has ensured that the UK Utility business has met or exceeded all its regulatory targets. We continue to provide the lowest average combined water and wastewater bills in England and Wales, which were reduced by a further 10% in April 2000.

The final regulatory price determination in November 1999 proved to be particularly challenging and will result in a reduction in UK Utility earnings in 2000/01 and the prospect of lower returns on the substantial capital employed in this business. However, we remain determined to improve upon the new regulatory targets as we have done successfully for the last ten years.

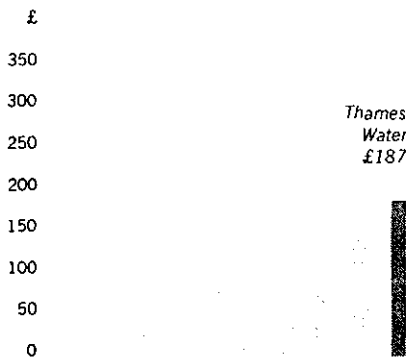
The International business had another excellent year and has quickly established itself as a major force in the growing global water markets. Operating profit increased by 148%. We have continued to develop the International business during

the year with a recommended US\$948m offer for the E'town utility in the USA and the US\$136m acquisition of ESSEL in Chile in partnership with Electricidade de Portugal.

The Products, Services and Property businesses also increased their overall contribution to Group operating profits and, as a result, 15% of the total operating profit in 1999/00 was delivered by businesses outside the UK Utility, up from 11% in the previous year.

Despite the regulatory challenge to the UK Utility, the Board remains committed to a policy of real dividend growth. Accordingly, the Board has recommended a final base dividend per ordinary share of 31.2p, making a total base dividend of 46.5p for the year – an increase of 9%.

Shareholders will be aware that there have been changes to Advance Corporation Tax (ACT) in recent years. The Group's historically high levels of capital expenditure and the reduction in Utility profits from the beginning of the new regulatory period, have meant that the Board has been considering ways to mitigate the effect of these tax changes.



Average combined household bills 2000/01 for the ten UK water and wastewater companies

WE ARE COMMITTED TO CREATING VALUE FOR OUR
SHAREHOLDERS THROUGH THE DEVELOPMENT OF A HIGH-
QUALITY PORTFOLIO OF BUSINESSES IN WATER-RELATED
SERVICES AND PRODUCTS AROUND THE WORLD.

After careful consideration, the Board has decided to propose to shareholders for their approval at the Annual General Meeting a resolution deferring the payment of the final dividend until 2 April 2001. Shareholders will be compensated for the effects of the delay by receiving, in addition to the base final dividend of 31.2p, a further one-off enhancement of 1.5p per ordinary share making a total of 32.7p payable to shareholders on the register at 4 August 2000. The 1.5p enhancement represents an attractive annualised interest rate of 8% on the base dividend of 31.2p over the period of deferment. It is proposed to follow a similar approach in respect of the payment of the 2001 interim dividend which will be deferred from February 2001 to 2 April 2001.

Further details of the Board's dividend proposals are set out in the Financial Review on page 20.

This year we are holding a shareholder event on 25-27 September 2000 at the new Wetland Centre at Barn Elms in west London. This unique environmental development has been built on a former Thames Water reservoir for the Wildfowl

& Wetlands Trust through a joint venture with Berkeley Homes. The centre opened in May 2000, and we look forward to seeing you there.

Our people are our key resource. We are a substantial employer in many of the countries in which we operate, and are increasingly able to attract new talent to take forward the exciting opportunities that we have across the Group. In April, we were pleased to welcome Chris Bunker as Group Finance Director, following the retirement of David Luffrum, and look forward to his contribution as a member of our executive team.

In conclusion, I would like to extend my thanks for the enthusiastic and loyal support of all our employees. We have some exciting and challenging times ahead. We are committed to delivering high standards of customer service in all our businesses and to the creation of real value for our shareholders.



Roger Carr, Chairman

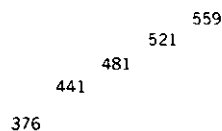
CHIEF EXECUTIVE'S REVIEW

New technology, illustrated in the picture opposite, has improved our mobile communications systems. We can respond even faster to operational emergencies.

Bill Alexander, Chief Executive

With the rapidly increasing global demand for improved water supplies and services, I believe that shareholder value will be maximised by a positive strategy of international business development and growth. We are actively creating a balanced portfolio of high quality, internationally competitive businesses, dedicated to the continuous improvement of customer service and value for money through a focused programme of innovation and investment.

Clear evidence of the success of this approach can be seen in our 1999/00 results. Operating profit, at £559m, was



95/96 96/97 97/98 98/99 99/00
Group operating profit £m

up 7% with a 47% increase in the contribution from the non-regulated businesses. Profit before tax and exceptional items was increased by 2% to £420m.

UK UTILITY

Operating profit in the UK Utility increased by 3% to £488m (1999 £474m) on turnover of £1,126m (1999 £1,092m). £435m of capital investment was made during the year bringing the total to nearly £4bn since privatisation. This represents a total of £1,150 for each of the households we serve.

Against a background of continuing real growth in activity, operating costs, at £454m (1999 £458m), were again reduced in the year. The substantial capital investment programme is reflected in an increased depreciation charge of £186m (1999 £169m).

We remain committed to further improving efficiency and the provision of excellent customer service while, at the same time, taking maximum advantage of opportunities to create value provided by competition in the UK.

The latest five-year review of prices was completed in 1999 and, although Thames had met or exceeded all relevant operational targets, the Regulator elected to reduce prices by some 10%. This will produce a reduction in earnings from the UK Utility in 2000/01, which we will seek to offset progressively through continuous productivity improvement.

A reliable and high quality water supply is one of the highest priorities for our customers. We are now in our tenth year without water restrictions, having halved leakage since 1995 as we promised. We achieved this by developing innovative ways of maximising the resources we have available. Our water efficiency programme and development of a solution to central London's rising groundwater are examples of our effective water supply strategy. Not only have we made sure there is sufficient water, it is also at the highest quality we have ever achieved, 99.87% compliance with all water quality standards.

Thames' wastewater discharges are required to meet the highest standards in the UK. Our investment programme has ensured that we meet all current standards,

WE REMAIN COMMITTED TO IMPROVING OUR OPERATING
EFFICIENCY THROUGH CONTINUOUS INNOVATION.

Our international business grew strongly during the year. The picture opposite illustrates our team testing mains pressure in Jakarta.

whether for a major works like Mogden in Twickenham, serving 1.8 million people, or small rural works which make a significant contribution to river flows and to improving the quality of the environment.

It is also important that we are responsive to service requests, particularly in emergencies. We have therefore installed new systems this year to provide our Customer Service Centre and our operational teams in the field with state-of-the-art communications so that we can respond much faster to operational emergencies and customer enquiries. Our customer centre won *Utility Week's*

customer service award for the second year running.

The UK Utility business remains the largest such water company in the UK, serving London and the South East. We expect to continue to deliver real growth in its earnings from the new baseline set by the Regulator, and to maximise the value obtained from its unrivalled customer and asset base.

INTERNATIONAL

The growth of our International business was accelerated in 1999/00 with operating profit up 148% to £44m on turnover of £151m (1999 £129m).

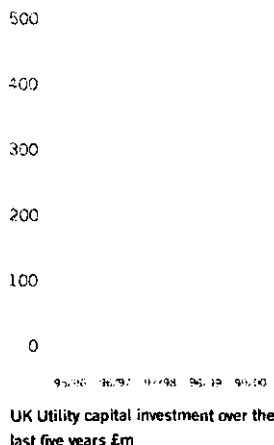
Good progress has been made on all our projects and significant new contracts were secured in Australia, Chile, Malaysia, Scotland and Thailand. During the year a number of large projects, having completed their construction phase, were transferred to joint venture companies for long-term operation.

This year we entered the Latin American market with the US\$136m acquisition of ESSEL in Chile through a joint venture

with the Portuguese electricity company Electricidade de Portugal (EDP). ESSEL, a water company serving 600,000 customers, is situated in an excellent region for growth to the south of the capital city, Santiago.

In November 1999 we announced a recommended offer to acquire the New Jersey-based water company E'town for US\$948m. It is one of the largest investor-owned water utilities in the USA and provides an excellent growth opportunity in the rapidly expanding North American marketplace. Subject to the necessary regulatory approvals, we expect the acquisition to be completed this Autumn.

Sadly, two of our Turkish employees lost their lives when their homes were destroyed in the devastating earthquake which hit the Izmit region on 17 August 1999. Our facilities suffered only superficial damage and we were able to provide a great deal of support to the people affected. Water was kept in constant supply and, with the help of the British Government, we were able to airlift people and equipment to support the relief effort. This was a major disaster handled with great courage and fortitude



THE FOCUSED DEVELOPMENT OF OUR INTERNATIONAL
BUSINESSES ILLUSTRATES OUR COMMITMENT TO
LONG-TERM EARNINGS GROWTH.

We consistently meet quality and service standards as shown in the picture opposite, taken at our Fobney water treatment works.

by our employees and the local authorities, including Izmit Greater Municipality, to whom we are extremely grateful.

The international market for water supply and services is growing strongly through a wide variety of contract types as both political and consumer expectations increase. Business performance in 1999/00 was encouraging and I am confident that, with the substantial opportunities that exist in both developed and developing markets, we have the skills and resources to continue the focused development of the International business to provide reliable long-term earnings growth.

Drinking water quality compliance*	99.87%
Wastewater quality compliance	99.78%
Supply interruptions compliance	99.97%
Avoidance of water use restrictions	100%

UK Utility service standards compliance 1999/00
*Drinking water quality compliance relates to the calendar year

PRODUCTS

The Products business increased operating profit by 37% to £5.6m (1999 £4.1m) on turnover up 16% to £97m (1999 £83m). Operating margins were also increased to 5.8% (1999 4.9%).

As with our water operations, the Products division has demonstrated success both at home and abroad.

PCI Membranes strengthened its leading position in Scotland for the treatment of uplands water with a further seven Fyne organic colour removal membrane plants installed or under construction in the year, bringing the total number of plants to 23. We are currently installing a Fyne plant in Nova Scotia which will be the first in Canada.

Ashbrook and Leopold, our American businesses, are both market leaders in the USA. Ashbrook is developing its Latin American markets and has already achieved a leading market position in Mexico. In partnership with our International business, Pittsburgh-based Leopold continues to strengthen its market share in South-East Asia.

SERVICES

The Services business improved operating profit by 30% to £8.2m (1999 £6.3m) on turnover of £211m (1999 £189m). Operating margins were also increased to 3.9% (1999 3.3%).

The business continued to make strong progress as a service provider in its three key market sectors – Utility Network Services, Management Contracts and Waste Management.

In Utility Network Services, Subterra completed the world's largest close-fit lining in a water transfer pipeline near Amsterdam, the Netherlands, using its own patented technology. It also used its close circuit TV pipeline surveying technology, traditionally used underground, to develop an innovative low-cost solution to repair a pipeline blockage at the Viking B gas platform in the North Sea.

Within Management Contracts, Thames Water Services commenced a 30-year operation and maintenance contract for five wastewater treatment works in Edinburgh, Scotland. Engenica took a significant step forward in its expansion

WE ARE COMMITTED TO EXCELLENCE IN QUALITY

STANDARDS THROUGHOUT OUR WORLDWIDE OPERATIONS.

Our highest ever drinking water quality in the UK, 99.87% compliance with all water quality standards.

by securing a five-year contract to manage pumping stations in south-west Wales. As part of the Metronet consortium, Thames Water Services has pre-qualified to operate, manage and upgrade London Underground's rail network.

During the year, Thames Waste Management's Beddington Landfill site became fully operational and the Rye Meads treatment plant was opened. The business continues to develop the first commercial use of anaerobic digestion in the UK using household waste and sewage sludge at Sandford, Oxford.

	85
	58
	45
	33
	-14
1996 1997 1998 1999 2000	
Non-regulated operating profit £m	

PROPERTY

The Property business increased operating profit by 16% to £21m (1999 £18m) on £52m turnover (1999 £49m). This reflects the growing strength of St James Homes, the important joint venture with Berkeley Group and the continuing successful development of the commercial portfolio through Kennet Properties, our wholly-owned property subsidiary.

Our property assets are continuously reviewed to ensure best use is made of them. Planning consent for 392 new homes was granted at the former Kew treatment works and further consents were secured for a third phase of residential development at New River Head in Islington.

Innova Park, our business and science park in north London, has made good progress. Building on the overall success of the site, Whitbread has contracted to build a 160-bed hotel and restaurant.

INSURANCE

Our Insurance company (Isis) produced an operating profit of £6.5m, down from £11.9m last year, as a result of reduced investment returns and increased claims experience in the year.

RESEARCH AND DEVELOPMENT

We are continually improving services to our customers and are committed to finding new and better ways of delivering value for money to them through our research and development programme. At London's Millennium Dome we installed a water recycling system capturing rain from the 20-acre roof, as well as recycling water from the wash-basins and exploiting rising groundwater from the site.

E-COMMERCE

We are increasingly using the power of the internet to reduce operating costs and improve customer service, and have already cut procurement costs through reverse e-auctions.

YEAR 2000

Following comprehensive system testing, there have been no material customer service interruptions or systems problems relating to the millennium date change. The estimated cost of our compliance programme is £14.6m, most of which has been incurred and capitalised as part of general systems upgrades. Expenditure of £1.2m was charged to the profit and loss account during the year.

WE SEEK TO ADD VALUE TO THE LIVES OF ALL OUR
CUSTOMERS THROUGH OUR COMMITMENT TO SERVICE.

Our employee newsletter captures events from all our operations and is shared by our employees around the world.

EMPLOYEES

I would like to extend my personal thanks to all our employees for their hard work and dedication during the year, and to welcome new employees throughout our worldwide operations.

We recognise the contribution our employees make to the success of the Group. We seek to provide employees with the opportunity to fulfil their potential and contribute fully to the success of the Company. Our training and development strategy reflects this, with a broad range of programmes to suit all needs. We operate a successful graduate recruitment programme, which has been extended to include overseas graduates, attracting and developing specialists and the leaders of the future.

To bring success in the fast changing world in which our business operates, significant investment is also made in keeping managers abreast of current thinking. We use formal programmes at Templeton College, Oxford and less formal networking and exchange opportunities. We also maintain strong links with top-class business schools

including Harvard, IMD in Lausanne and the London Business School.

Employee involvement takes many forms in the Group, ranging from team briefings to formal consultation with recognised trade union representatives. Employees are encouraged to participate in cross-functional project teams and to transfer between business units in order to learn and spread best practice.

Appropriate and competitive reward packages are offered to attract, retain and motivate the high quality staff we need.

The Group recognises the importance of non-discriminatory employment and has strengthened its equal opportunities and disability policies to ensure continued commitment to best practice. The Group's policy is to continue to employ any person who becomes disabled.

The successful management of our employees has been recognised in the Investors in People award, most recently to our water supply operations in the UK Utility. Several other business units are now pursuing the same external accreditation.

THE WAY FORWARD

We are a strong and increasingly well balanced Group and have the resources to win new business in markets that are growing around the world. We will continue to maximise the generation of value from our assets and strong market positions and are creating a platform for sustainable growth through our existing and planned investments in both developed and developing markets.

Although the 1999 regulatory Price Review will result in a substantial reduction in the earnings from the UK Utility this year, I am confident that we can continue to provide high quality earnings growth from our new baseline and deliver increasing value to our shareholders underpinned by the considerable long-term strengths of our business.



Bill Alexander, Chief Executive

WE ARE COMMITTED TO SUSTAINABLE INTERNATIONAL GROWTH
THROUGH OUR EXISTING AND PLANNED INVESTMENTS.

CARING FOR THE COMMUNITY

Students at Abbey School, Reading, following their successful presentation at the World Water Forum. The picture opposite shows the New River Pathway which this year celebrates its 400th anniversary.

Organisations are judged today not just on financial performance but on their environmental and social impact. At Thames Water, we consider our community and environmental investments to be an integral part of our business success – wherever in the world we are operating.

The Charities Committee of the Board continues to take a leadership role in the community investment programme. There has been an increase in the number of our staff who have had their fund-raising efforts matched by the Group. This year the Committee made donations of £126,000 to registered charities including donations to WaterAid, the Group's principal charity. In addition the Committee supported, for the third year, the LINKS project for the homeless in Reading. Charitable donations through payroll have more than doubled, and £10,000 was raised for the Millennium Promise appeal.

A team of community partners support activities at a local level. They establish working relationships with Members of Parliament, local councils and community groups to resolve issues,

support and sponsor community and charitable initiatives and to communicate the Group's vision.

Our Business-Education liaison programme produces educational material for schools focusing on water cycle and conservation messages. Our innovative approach to participating in the National Numeracy strategy has won praise from the Department for Education and Employment. The Network Challenge, an engineering simulation board game where students have to build a water supply network, won us a Millennium Product award, and our exhibition at the Millennium Dome encourages young people to consider careers in water engineering. WaterAid's Youth Challenge was hosted by Thames Water across the Thames Valley region and in Izmit, Turkey. The winning teams from Reading and Izmit attended the World Water Forum in The Hague to present their ideas on sustainable water issues for the future. The Department for International Development praised the quality of their presentations.

In addition, to complement the continued restoration of the New River pathway into

London, we have produced a CD-ROM for schools in the area in conjunction with Enfield Borough Council and Groundwork Hertfordshire. This educational resource includes a digitised map of the restored pathway and pictures of the 400-year-old waterway, past and present.

The communities which we serve overseas are as important to us as those at home. This was most clearly demonstrated in Izmit, Turkey, following the tragic earthquake in August 1999. Immediately staff from across the Group assisted with disaster relief and raised money for the victims. The Group also took the lead in establishing a relief fund to provide new accommodation for local families who lost their homes during the disaster. Thames Water International donated more than £220,000 to the relief fund.

INTEGRAL TO OUR BUSINESS SUCCESS IS OUR

COMMITMENT TO THE WELL-BEING OF THE COMMUNITIES

AND ENVIRONMENTS WE SERVE.

CARING FOR THE ENVIRONMENT

The Group recognises the close relationship that its business has with the environment, and during the current year has made good progress on a wide range of initiatives to improve its performance in this area.

ENVIRONMENTAL COMMITMENT

Our environmental commitment programme continues to be rolled out across all businesses. In Indonesia and Thailand our operations have achieved the international quality standard ISO 9002, and in China, Indonesia, Thailand and Turkey we continue to develop environmental improvement programmes. In the UK, the Utility business has achieved certification to the international environmental management standard ISO 14001 at the sludge-powered generators in Beckton and Crossness, and work is in place to achieve similar certification at Farmoor water treatment works and Deephams sewage treatment works.

ENVIRONMENTAL PERFORMANCE

Our highest ever score of 97% placed us among the top five British businesses for environmental engagement on the

index produced by Business in the Environment. We also won a number of environmental awards including the Chartered Institute of Water and Environmental Management Technical Award for 'Sustainable water use at the Millennium Dome', the water and sewerage operators 'Waste Watchers Award for Water Conservation', and the Mars Berkshire Environmental Challenge Award.

Despite our consistent record on environmental performance, including delivery of our highest ever drinking water quality and continued high levels of effluent compliance, we unfortunately experience occasional prosecutions. We regret all such incidents and always take remedial action.

SUSTAINABLE DEVELOPMENT AND BIODIVERSITY

We recognise the importance of sustainable development and have supported the establishment of indicators for the water sector, which we are integrating into the management of our business.

As a major landowner, the biodiversity of our land holdings is important to us and

An aerial view of the newly opened site at Barn Elms providing a refuge for wildfowl and wildlife.

we have developed a strategy to manage the rich variety of plants and animals for which we are custodians. As part of this programme we have surveyed over 300 sites to date, which will allow us to set objectives to protect and enhance the habitats and species present. In addition, we sponsor three UK Biodiversity Action Plan Priority Species, the otter, water vole and depressed river mussel.

This year the redevelopment of our redundant reservoirs at Barn Elms will be completed. In partnership with the Wildfowl & Wetlands Trust and Berkeley Homes, we have constructed the largest European metropolitan refuge for wildfowl and wildlife, covering an area of 100 acres.

Further information on the environmental performance of our businesses, can be found in our 8th Environmental Review and 10th Conservation Access and Recreation Report. See back cover for details of how to obtain these reports.

THE FUTURE OF THE ENVIRONMENT IS VITAL TO US ALL.

WE ARE COMMITTED TO ITS IMPROVEMENT.

FINANCIAL REVIEW

Chris Bunker, Group Finance Director

Our objective is to create shareholder value by developing and investing in businesses which deliver strong cash flows and are able to provide returns in excess of our cost of capital. We continued to make good progress towards this objective in 1999/00, again raising returns through margin improvements, rigorous financial control and the substantial growth of businesses outside the UK Utility.

FINANCIAL RESULTS

Turnover of £1,484m was 6% higher than last year, while operating profit was increased by 7% to £559m reflecting further improvement in the Group's operating margin from 37.2% to 37.7%.

Profit before tax of £420m was 2% higher after increased interest costs resulting from greater balance sheet efficiency, windfall tax payment and our investment programme.

The tax charge for the year of £76m (1999 £34m) represents an effective tax rate of 18% (1999 8%) resulting in an adjusted earnings per share of 97.6p (1999 104.4p).

In line with the Board's policy to grow dividends in real terms a base dividend

per share of 46.5p is proposed; an increase of 9% on last year's dividend. Earnings cover full year dividends 2.1 times.

INVESTMENTS

In accordance with our business development strategy, the Group made investments in the year totalling £540m including: £435m capital expenditure (excluding infrastructure renewals) in the UK Utility, equity in joint venture companies of £7m and acquisitions in the International division of £57m.

On 1 August 1999, we acquired an additional 11.9% of the equity of Izmit Su, our joint venture project in the province of Izmit in Turkey. On 24 March 2000, our joint venture company Inversiones Andes Sur acquired 51% of the voting stock of ESSEL SA in Chile.

Our US\$948m offer to the shareholders of E'town, a water utility in New Jersey, USA was accepted in May and regulatory approval is anticipated in Autumn 2000, at which time we will assume full ownership of this company. The acquisition will be funded by debt, which will further improve our balance sheet efficiency.

FUNDING AND TREASURY POLICY

Although operating cash inflow increased by 4% to £673m, net debt increased by £218m to £1,810m, primarily as a result of the increased dividend payments, following the deferment from 1999, and our capital investment programme. Balance sheet gearing stands at 79% (1999 76%).

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 movements in interest rates and currency exposures. The current maturity profile of gross debt is shown in the chart opposite. Derivative financial instruments, including cross currency swaps, interest rate swaps and forward contracts are employed to manage the interest rate and currency risk 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. Its objective is to ensure availability of a

WE HAVE MADE GOOD PROGRESS IN 1999/00, GROWING AND
RAISING THE QUALITY OF THE GROUP'S EARNINGS.

timely flow of funds at a cost which reflects the credit standing 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 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 £1,966m comprises long-term bonds, medium-term notes, finance leases and some *short-term borrowings*. An analysis is provided in note 21 to the financial statements, along with the associated interest rate and maturity profiles. At the year end, the Group also had liquid investments of £72m, most of which were held by the Group's captive insurance company.

The Group's policy is to maintain between 50% and 75% of net debt at fixed rates and this governs decisions on borrowings. The percentage of fixed rate net debt at the year end was 73% (1999 70%). During the year, £200m of short-term floating rate debt was refinanced for long-term fixed rate debt by issuing a 32-year MTN Eurobond.

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 business. Periodic reports on the management of key financial and operational risks are made to the Audit Committee and the Plc Board.

UK UTILITY PRICE REVIEW

The latest quinquennial review of prices was undertaken by the UK regulator (Ofwat) during 1999 and prices in the UK Utility have been reduced by approximately 10% with effect from April 2000. This will reduce earnings in both the UK Utility and the Group as a whole in the 2000/01 financial year, although we will maintain our long-established policy of continuous cost reduction to offset progressively the impact of these price reductions on earnings.

TAXATION AND DIVIDENDS

At 31 March 2000 Thames has written off ACT of £159m, derived from dividend payments and share buybacks. The Government announced the abolition of ACT as from 6 April 1999 and the Board is determined to realise value from this asset at the earliest possible opportunity. Under the current legislation the extent to which Thames can utilise this asset is limited by Shadow ACT which is generated whenever a dividend is paid. In order to minimise the generation of Shadow ACT, the Board is therefore proposing that the payment of the final cash dividend for the year ended 2000 and the interim dividend for 2001 is delayed until 2 April 2001. If the final dividend were to be paid as usual in September 2000 the Board would be proposing a payment of 31.2p per share to give a total dividend for the year ended 2000 of 46.5p per share, an increase of 9% over the 1999 dividend. To compensate shareholders for the delay in payment of the final dividend it is proposed that the final cash dividend for 2000 should be 32.7p; the additional 1.5p per share equates to interest at approximately 8% per annum for the seven month deferral period.

It is proposed that a similar approach will be followed in respect of the payment of the 2001 interim dividend, which will be deferred from February 2001 to April 2001.

This action will avoid the creation of Shadow ACT of approximately £41m in 2001. The Company is actively considering options to realise the balance of the ACT asset in the current financial year.

GOING CONCERN

The Group has again demonstrated satisfactory trading in both the UK Utility and its other businesses. The balance sheet remains strong and the Directors believe the Group has adequate resources to continue its operational activities for the foreseeable future. We therefore continue to adopt the going concern basis in preparing the financial statements.

CONCLUSION

We have made good progress in 1999/00 to both grow and raise the quality of the Group's earnings. Despite the substantial regulatory reductions in prices from 2000/01, the UK Utility remains strong with a growing high quality customer base, and provides a solid platform for the vigorous development of our other businesses. We are confident that this will provide substantial value to our shareholders in the longer term.



Chris Bunker, Group Finance Director

BOARD MEMBERS

Key to current Committee membership

- ⊗ Audit
- ⊙ Nomination
- ◆ Remuneration
- ❖ Environmental Review
- ▲ Charities
- Share Dealing

Roger Carr (53), Chairman ⊗ ■
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 Council. Chairman of the Nomination and Share Dealing Committees.

EXECUTIVE DIRECTORS

Bill Alexander (53), 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. He is a non-Executive Director of Laporte Plc.

Chris Bunker (53)
Appointed to the Board of Thames Water Plc as Group Finance Director on 1 April 2000. Formerly Group Finance Director at Tarmac plc and Westland Group plc. He is a non-Executive Director of Baltimore Technologies plc.

David Badcock (55), ▲ ■
Appointed Secretary and Legal Director to Thames Water Plc in October 1995 and to the Board in March 1998. He joined Thames Water Authority as Secretary in 1986 and was appointed Secretary and Legal Director to Thames Water Utilities in 1989.

NON-EXECUTIVE DIRECTORS

Tony Hobson (52), ⊗ ◆ ■
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 (46), ⊗ ◆ ❖
Appointed to the Board of Thames Water Plc in March 1998. She is a Founding Director of British Linen Advisers and formerly Group Director of Kleinwort Benson Group Plc. She is also a non-Executive Director of Bank of Scotland, Scottish Provident, Dawson International Plc and Glenmorangie plc. Chairman of the Remuneration Committee.

Andrew Longhurst (60), ⊗ ◆ ❖ ▲
Appointed to the Board of Thames Water Plc in September 1998. Formerly Chairman of Cheltenham & Gloucester Plc and Group Director, Customer Finance at Lloyds TSB Group Plc. He is Deputy Chairman of The Royal London Mutual Insurance Society Ltd and a Director of Hermes Lens Asset Management Ltd. Chairman of the Charities and the Environmental Review Committees.

CORPORATE GOVERNANCE

The Company is committed to high standards of corporate governance. The Board is pleased to report that it has again complied throughout the year with the Principles of Good Governance and Code of Best Practice (the Combined Code) which is annexed to the UK 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 26.

The Board

The principal responsibility of the Board is to determine the strategic direction of the Group and oversee its implementation. It meets each month (except August) to monitor executive management and 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

Brief biographical details of the current Directors of the Company are set out on page 21. All of the Directors served on the Board throughout the year, with the exception of Chris Bunker, who was appointed a Director on 1 April 2000. In addition, two Directors have retired: Sir Christopher Leaver on 31 March 2000, and David Luffrum on 30 April 2000. In accordance with the Company's Articles of Association, Roger Carr and Tony Hobson will retire by rotation at the Annual General Meeting and offer themselves for re-election. As a Director appointed since the last Annual General Meeting, Chris Bunker will also retire at the Annual General

Meeting and offer himself for re-election. Roger Carr and Chris Bunker have service contracts subject to termination by one year's notice. Tony Hobson does not have a service contract.

There is a clear division of responsibility between the Chairman and Chief Executive of the Company. 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. Tony Hobson 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 varying locations within the Thames Water region.

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 21. All the Board Committees have specific terms of reference which establish their authority and duties.

The Nomination Committee

The Nomination Committee, of which Roger Carr is Chairman, 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 Lesley Knox, following the retirement of Sir Christopher Leaver. Its role is described in the report on Directors' Remuneration which follows on page 24. The report 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 4 to the financial statements on pages 37 to 39.

The Environmental Review Committee

During the year, Andrew Longhurst succeeded Lesley Knox 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 page 16.

The Share Dealing Committee

The Share Dealing Committee, 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 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
- to review the Group's accounting policies adopted in the financial statements
- to review and advise the Board on the adequacy and effectiveness of the Group's system of internal control and risk management; and
- to review the Group's compliance with its statutory tax obligations and the requirements of UK competition legislation.

Internal Control

The Board is responsible for the Group's system of internal controls. During 1999, a review of this system was conducted, in the light of the Turnbull Committee recommendations. In January 2000 a process for the identification, evaluation and management of the Group's significant risks was implemented. The procedures adopted by the Group entail risk management reviews in the operating divisions and corporate units and regular reporting of risk management issues to the Audit Committee. The Board has chosen to continue to report on the effectiveness of internal financial control for the year ended 31 March 2000.

The framework of internal financial control 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.

It 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 appraisals and review, according to approval levels set by the Board
- an established internal audit department which carries out reviews of information systems, 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 mis-statement 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 financial statements.

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.

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

Remuneration Committee

The Committee is chaired by Lesley Knox and comprises the non-Executive Directors of the Board. It determines the Executive Directors' contracts of service and remuneration.

The Board has delegated responsibility for the determination of non-Executive Directors' fees to the Chairman and the Executive Directors (see note 4 to the financial statements on pages 37 to 39). 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 confirm that the Company has complied throughout the year with the provisions of the Combined Code relating to Directors' remuneration.

Remuneration Policy

The Company aims to attract, develop and retain high quality employees at all levels. 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, at Executive Director level, it aims to:

- reward accountability and performance
- align remuneration packages with the Company's business objectives
- encourage the creation of shareholder value

- stimulate continuing improvement in customer service and efficiency in the regulated business.

Remuneration packages are intended to be competitive, but not excessive, in relation to those provided by comparable companies. They are normally reviewed annually, and independent advice is sought from external consultants. The use of the Hay method of job evaluation supports these reviews. This approach enables comparisons to be made with jobs of similar size in companies in the FTSE 100 and industrial/services sector. The analysis takes into account not only the size of the companies, but also their diversity, complexity and international dimensions. In addition, these reviews take particular note of the comparative position of other companies in the UK water and wider utility sectors.

For a number of years the Board has advocated the need to link reward and customer service performance. This philosophy underpins the Remuneration Committee's general approach to executive reward and, in particular, the design of the Company's incentive schemes. A quarter of the Annual Cash/Share Bonus Plan is dependent on the achievement of specific customer service performance targets. These targets also influence the scale of awards made under the Long-Term Restricted Share Plan.

The remuneration of the Executive Directors comprises salary, the possibility of an annual bonus based upon performance, participation in long-term incentive plans with returns based upon share performance, together with a pension and other benefits.

Salary

As reported last year, revised salaries were agreed with effect from 1 April 1999 to take account of structural changes made at Board level at that time. This review took the place of the annual pay review in July 1999, and is detailed in note 4 to the financial statements on pages 37 to 39.

Variable Remuneration

The Annual Cash/Share Bonus Plan for 1999/00 provides for a maximum award of 40% 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. The non-financial performance measures include:

- water supply targets eg, interruptions to supply, water use restrictions, drinking water quality compliance and leakage control
- sewerage measures eg, sewer flooding incidents and effluent quality
- customer service performance eg, speed of response to billing enquiries and written complaints.

Total awards to Executive Directors under the 1999/00 Cash/Share Bonus Plan were 23.6% of basic salary.

Of the bonus, which is non-pensionable, two-thirds is awarded in cash and one-third in conditional rights to shares. The Executive Directors are not normally entitled to these shares until three years after the award.

Long-Term Incentives

The Group's share schemes have been developed to reflect market practice and to provide long-term management focus and motivation.

The Long-Term Restricted Share Plan 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. At the start of each period, the Committee considers whether or not to make a conditional award of shares and, if so, the number of shares. A key factor informing that decision is the Company's underlying financial performance, coupled with the progress made in improving customer service and operational performance. Directors are not entitled to receive any of these shares until the end of the four-year period, depending on performance. 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. For the four-year period ended 31 March 2000, the Company achieved first place in the comparative rankings, entitling Bill Alexander and David Luffrum to the full number of shares awarded in 1996, as detailed in note 4 to the financial statements on page 38.

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 and these are explained in note 4 to the financial statements on page 37.

The Executive Directors' benefits arrangements include the provision of a fully expensed car, membership of a private medical insurance plan and a financial advisory service.

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 remuneration.

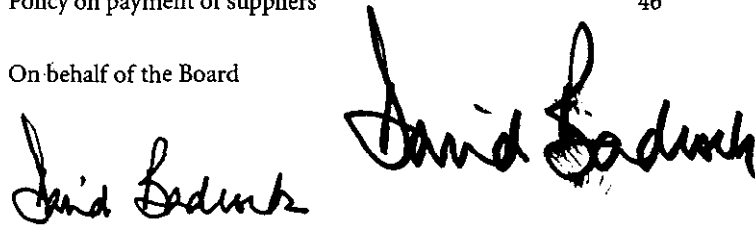
Full details of the Executive Directors' remuneration, pension arrangements and interests in shares in 1999/00 are shown in note 4 to the financial statements on pages 37 to 39.

DIRECTORS' REPORT

The information required to be included in the Directors' Report can be found on the following pages:

Principal activities	4–10	Donations for charitable purposes	14
Principal subsidiaries	54–55	(There were no donations for political purposes)	
Developments during the year	2–10	Employment policies	12
Likely future developments	6	Policy on payment of suppliers	46
Recommended dividend	2, 3, 18, 20, 42		
Acquisition of own shares	52	On behalf of the Board	
Substantial shareholdings	57		
Directors during the year	21, 22		
Directors' interests in shares	38, 39		
Research and development activities	10		

David Badcock, Company Secretary and Legal Director
7 June 2000



AUDITORS' REPORT TO THE SHAREHOLDERS OF THAMES WATER PLC

We have audited the financial statements on pages 27 to 55.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing the Annual Report. As described on page 23, this includes responsibility for preparing the financial statements, in accordance with applicable UK accounting standards. Our responsibilities, as independent auditors, are established in the UK by statute, the Auditing Practices Board, the Listing Rules of the Financial Services Authority and 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 UK 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 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 mis-statements or material inconsistencies with the financial statements.

We review whether the statement on pages 22–23 reflects the Company's compliance with the seven provisions of the Combined Code specified for our review by the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or to form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

Basis of Audit Opinion

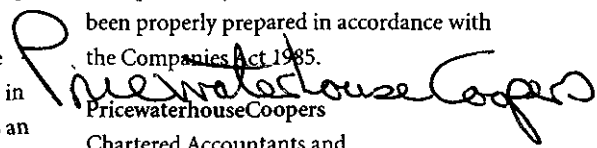
We conducted our audit in accordance with Auditing Standards issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements 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 mis-statement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion the financial statements give a true and fair view of the state of affairs of the Company and the Group at 31 March 2000 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
Chartered Accountants and
Registered Auditors
London
7 June 2000

CONSOLIDATED PROFIT AND LOSS ACCOUNT

Year ended 31 March

	Note	2000		1999		
		Continuing operations £m	Continuing operations £m	Continuing operations £m	Discontinued operations £m	Total £m
Turnover						
– Group and share of joint ventures			1,483.7	1,402.8	–	1,402.8
– Share of joint ventures turnover			(115.9)	(77.3)	–	(77.3)
– Group turnover	2		1,367.8	1,325.5	–	1,325.5
Operating costs	3		(860.1)	(825.3)	(0.3)	(825.6)
Other operating income	6		7.9	12.7	–	12.7
Utilisation of discontinued business provision	32		–	–	1.4	1.4
Group operating profit			515.6	512.9	1.1	514.0
Share of operating profit in:						
– Joint ventures			43.4	8.1	–	8.1
– Associates			0.4	(0.8)	–	(0.8)
Operating profit			559.4	520.2	1.1	521.3
Non-operating exceptional item:						
– Release of discontinued business provision	32		–	–	7.0	7.0
Profit on ordinary activities before interest and taxation	2		559.4	520.2	8.1	528.3
Net interest expense:						
– Group	7	(121.5)		(106.0)		
– Share of joint ventures		(16.3)		(2.9)		
– Share of associates		(2.0)	(139.8)	(0.8)		(109.7)
Profit on ordinary activities before taxation	2		419.6			418.6
Taxation on profit on ordinary activities	8		(76.4)			(34.2)
			343.2			384.4
Non-equity dividend	11		(1.0)			(0.9)
Profit for the financial year	24		342.2			383.5
Ordinary dividends	11/24		(168.4)			(148.8)
Retained profit transferred to reserves			173.8			234.7
Earnings per ordinary share	12					
– Adjusted			97.6p			104.4p
– Non-operating exceptional item			–			1.9p
Basic earnings per ordinary share	12		97.6p			106.3p
Diluted earnings per ordinary share	12		97.2p			105.5p

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

STATEMENT OF RECOGNISED GAINS AND LOSSES

Year ended 31 March

	2000 £m	1999 £m
Profit for the financial year	342.2	383.5
Adjustments for qualifying employee share trust	(5.3)	(1.7)
Share capital related costs	–	(5.4)
Foreign exchange adjustments	(2.4)	(1.3)
Advance Corporation Tax on the repurchase of shares	–	(0.7)
Total recognised gains for the financial year	334.5	374.4

CONSOLIDATED AND COMPANY BALANCE SHEETS

At 31 March	Note	2000		1999	Group	Company	
		£m	£m	£m	1999*	2000	1999
					£m	£m	£m
Fixed assets							
Intangible assets	13		27.1		27.4	–	–
Tangible assets	14		4,297.2		4,023.3	0.2	0.3
Investments in joint ventures:							
– Share of gross assets		481.8		298.9			
– Share of gross liabilities		(370.4)		(250.0)			
– Net assets		111.4		48.9			
– Goodwill		15.0		–			
Investments in associates		3.4		5.8			
Fixed asset investments	15		129.8		54.7	1,805.6	1,994.1
			4,454.1		4,105.4	1,805.8	1,994.4
Current assets							
Stocks and work in progress	16		39.5		32.1	–	–
Debtors	17		362.9		315.6	22.7	69.4
Investments	18		72.1		85.5	–	19.8
Cash at bank and in hand			83.6		95.5	29.4	33.6
			558.1		528.7	52.1	122.8
Creditors: amounts falling due within one year	19		(940.3)		(1,029.4)	(322.6)	(487.0)
Net current liabilities			(382.2)		(500.7)	(270.5)	(364.2)
Total assets less current liabilities			4,071.9		3,604.7	1,535.3	1,630.2
Creditors: amounts falling due after more than one year	20		(1,729.8)		(1,449.1)	(168.8)	(207.6)
Provisions for liabilities and charges	22		(59.9)		(51.7)	–	–
Net assets			2,282.2		2,103.9	1,366.5	1,422.6
Capital and reserves							
Called up share capital	23/24		102.9		105.0	102.9	105.0
Share premium	24		69.9		55.6	69.9	55.6
Capital redemption reserve	24		319.9		317.5	319.9	317.5
Profit and loss account	24		1,789.5		1,625.8	873.8	944.5
Shareholders' funds			2,282.2		2,103.9	1,366.5	1,422.6
of which – equity shareholders' funds			2,260.1		2,079.4	1,344.4	1,398.1
– non-equity shareholders' funds			22.1		24.5	22.1	24.5
			2,282.2		2,103.9	1,366.5	1,422.6

*Restated (see note 1)

The notes on pages 31 to 55 form part of these financial statements.

The financial statements were approved by the Board on 7 June 2000.

Roger Carr, Chairman

Chris Bunker, Group Finance Director

CONSOLIDATED CASH FLOW STATEMENT

Year ended 31 March	2000 £m	2000 £m	1999* £m	1999* £m
Cash inflow from operating activities (note a)		673.3		647.2
Returns on investment and servicing of finance				
Interest received	14.8		19.0	
Interest paid	(113.0)		(98.0)	
Interest element of finance lease rental payments	(16.8)		(17.2)	
Net cash outflow for returns on investment and servicing of finance		(115.0)		(96.2)
Taxation				
Windfall tax	–		(115.3)	
UK corporation tax paid	(46.7)		(55.7)	
Advance Corporation Tax on the purchase of shares	–		(0.7)	
Overseas tax paid	(3.4)		(0.3)	
Net cash outflow for taxation		(50.1)		(172.0)
Capital expenditure and financial investment				
Purchase of tangible/intangible fixed assets	(469.8)		(488.4)	
Infrastructure renewals expenditure	(47.4)		(44.7)	
Capital contributions received	39.6		39.9	
Proceeds on sale of tangible fixed assets	3.9		12.4	
Net cash outflow for capital expenditure and financial investment		(473.7)		(480.8)
Acquisitions and disposals				
Purchase of fixed asset investments	(64.0)		(9.5)	
Acquisition of new businesses (note b)	–		(19.6)	
Sale of business (note c)	13.3		–	
Net cash outflow for acquisitions and disposals		(50.7)		(29.1)
Equity dividends paid to shareholders		(204.3)		(98.4)
Cash outflow before management of liquid resources and financing		(220.5)		(229.3)
Management of liquid resources		13.4		14.9
Financing				
Issue of shares	14.6		7.0	
Purchase of own shares	(2.4)		(276.1)	
Payments under qualifying employee share trust	(7.6)		(1.7)	
Share capital related costs	–		(5.4)	
Cash inflow from increase in debt and lease financing	225.7		501.1	
		230.3		224.9
Increase in cash during period		23.2		10.5

*Restated (see note 1)

RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2000 £m	1999 £m
Increase in cash during period	23.2	10.5
Cash (inflow)/outflow from increase in debt and lease financing:		
– loans due within one year	51.4	(43.0)
– loans due after more than one year	(281.6)	(464.5)
– capital repayment of finance leases	4.5	6.4
Cash inflow from decrease in liquid resources	(13.4)	(14.9)
Change in net debt resulting from cash flows	(215.9)	(505.5)
Other non-cash movements:		
– new finance leases	(3.7)	(7.4)
– foreign exchange translation differences	1.6	5.3
	(218.0)	(507.6)
Net debt at 1 April	(1,592.2)	(1,084.6)
Net debt at 31 March	(1,810.2)	(1,592.2)

NOTES TO THE CASH FLOW STATEMENT

	2000 £m	1999 £m	1999 £m
a Reconciliation of operating profit to operating cash flow			
Operating profit	559.4		528.3
Depreciation:			
– previously reported		137.8	
– restatement for FRS 15 on infrastructure renewals		40.7	
	197.4		178.5
(Increase)/decrease in stocks	(10.8)		4.0
(Increase) in debtors:			
– previously reported		(48.1)	
– restatement for FRS 15 on infrastructure renewals		4.0	
	(57.9)		(44.1)
Increase/(decrease) in creditors	15.1		(19.7)
Increase/(decrease) in long-term provisions	8.5		(6.6)
Other	(38.4)		6.8
Net cash inflow from operating activities	673.3		647.2

Depreciation includes maintenance expenditure on infrastructure assets in accordance with FRS 15.

	Book value 2000 £m	Book value 1999 £m
b Acquisitions of new subsidiaries		
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 outflow in respect of acquisitions	–	19.6

	2000 £m	1999 £m
c Sale of businesses		
Tangible fixed assets	3.0	–
Debtors	10.0	–
Creditors	(5.9)	–
Net assets	7.1	–
Gain on disposal	1.2	–
Satisfied by cash	8.3	–
Net debt disposed	5.0	–
Net inflow in respect of disposals	13.3	–

In April 1999, the subsidiary Thames Water Overseas Ltd disposed of its subsidiary Kelantan Water (Malaysia) Sdn.Bhd.

	at 31 March 1999 £m	Cash flow £m	Other non-cash movements £m	Exchange movements £m	at 31 March 2000 £m
d Analysis of net debt					
Cash at bank and in hand	95.5	(11.9)			83.6
Bank overdraft	(81.7)	35.1			(46.6)
Net cash	13.8	23.2			37.0
Loans due within one year	(304.5)	51.4			(253.1)
Loans due after more than one year	(1,119.6)	(281.6)		1.6	(1,399.6)
Finance leases	(267.4)	4.5	(3.7)		(266.6)
Liquid resources	85.5	(13.4)			72.1
	(1,592.2)	(215.9)	(3.7)	1.6	(1,810.2)

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

During the year, the Group raised finance leases amounting to £3.7m (1999 £7.4m) to fund capital plant, equipment and vehicles.

NOTES TO THE FINANCIAL STATEMENTS

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 policy

The Group has adopted the requirements of Financial Reporting Standards (FRS) 15 and 16 issued by the Accounting Standards Board during the year ended 31 March 2000. FRS 15 (Tangible Fixed Assets) has led to a revision of the Group's accounting policy on infrastructure assets (see (d) below) and a reclassification of £9.5m to tangible fixed assets (see note 14) from debtors (see note 17).

Balances of depreciation and operating cash inflows are also re-presented in the cashflow statement. FRS 16 (Current Tax) has not had a significant effect on the financial statements.

a Basis of preparation

The financial statements 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 notes 1(e) and (j) below.

b Basis of consolidation

The consolidated financial statements include the financial statements 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 financial statements of undertakings are drawn up to a year end different from that of the parent company, appropriate adjustments are made to the Group financial statements 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; landfill sites; and other assets (including properties, overground plant and equipment). The carrying values of tangible fixed assets are reviewed for impairment if circumstances dictate that they may not be recoverable.

- Infrastructure assets comprise a network of systems (including mains and sewers, impounding and pumped raw water storage reservoirs and sludge pipelines). All expenditure on infrastructure assets is now capitalised at cost, while the planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is now expensed as depreciation.
- 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 FINANCIAL STATEMENTS

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 financial statements to give a true and fair view as, while a provision is made for depreciation of infrastructure assets, these assets have no finite economic life and hence no basis exists on which to recognise such contributions as deferred income. The effect of this departure on the value of tangible fixed assets is disclosed in note 14. 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 financial statements of the Company investments held as fixed assets are stated at cost less provisions for impairment in value.

In the Group financial statements 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. The consolidated balance sheet includes the Group's share of the net assets and 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 FINANCIAL STATEMENTS

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 SSAP 20 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 revaluation is disclosed in note 3. 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 using the straight line method over its estimated useful economic life. Where goodwill has a useful life up to 20 years, impairment tests on the carrying value are undertaken at the end of the first full financial year following acquisition and in other periods if events or changes in circumstances indicate that the carrying values may not be recoverable. Where goodwill is amortised over a period in excess of 20 years the carrying value of goodwill is reviewed annually by reference to the expected future cashflows. 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 that relating to monies borrowed to finance:-

- specific long-term contracts which is included in the cost of long-term contract work in progress; interest receivable from the temporary investment of these monies is credited to the cost of long-term contract work in progress;
- the up-front construction element of Build, Operate and Transfer schemes.

NOTES TO THE FINANCIAL STATEMENTS

1 Principal accounting policies (continued)

p Derivative financial instruments

Interest rate and cross currency swaps are used to manage interest rate profiles and mitigate exchange risks. When matched with primary financial instruments, the net position is measured at the hedge rate and presented within creditors on the balance sheet. Incomes, costs, gains, losses and expenses are recognised within net interest payable in the profit and loss account over the life of the instruments.

2 Segmental analysis

The segments by class of business are:

UK Utility: 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,

Property: land and property development,

Insurance: captive insurer to the Group,

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

TURNOVER

By class of business	2000			1999		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK Utility	1,125.9	(13.6)	1,112.3	1,092.1	(6.2)	1,085.9
International operations	150.6	(7.1)	143.5	129.4	(13.4)	116.0
Products	96.6	(8.6)	88.0	83.1	(8.6)	74.5
Services	210.6	(116.9)	93.7	188.7	(105.0)	83.7
Property	52.4	(6.2)	46.2	48.6	(5.9)	42.7
Insurance	13.0	(13.0)	–	13.4	(13.4)	–
Group and joint ventures	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>	<u>1,555.3</u>	<u>(152.5)</u>	<u>1,402.8</u>
Joint ventures (included above)			(115.9)			(77.3)
Group			<u>1,367.8</u>			<u>1,325.5</u>

Geographical segment by origin	2000			1999		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK	1,481.8	(159.5)	1,322.3	1,428.5	(146.7)	1,281.8
Europe	62.9	(4.3)	58.6	11.5	(3.4)	8.1
Americas	44.8	(1.6)	43.2	67.3	(0.7)	66.6
Asia Pacific	59.6	–	59.6	48.0	(1.7)	46.3
Group and joint ventures	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>	<u>1,555.3</u>	<u>(152.5)</u>	<u>1,402.8</u>
Joint ventures (included above)			(115.9)			(77.3)
Group			<u>1,367.8</u>			<u>1,325.5</u>

Geographical segment by destination	2000			1999		
	Total £m	Inter-segment £m	External £m	Total £m	Inter-segment £m	External £m
UK	1,483.0	(160.6)	1,322.4	1,402.3	(150.2)	1,252.1
Europe	58.6	–	58.6	28.8	–	28.8
Americas	44.2	(1.0)	43.2	67.0	(0.7)	66.3
Africa	–	–	–	1.2	–	1.2
Asia Pacific	63.3	(3.8)	59.5	56.0	(1.6)	54.4
Group and joint ventures	<u>1,649.1</u>	<u>(165.4)</u>	<u>1,483.7</u>	<u>1,555.3</u>	<u>(152.5)</u>	<u>1,402.8</u>
Joint ventures (included above)			(115.9)			(77.3)
Group			<u>1,367.8</u>			<u>1,325.5</u>

NOTES TO THE FINANCIAL STATEMENTS

2 Segmental analysis (continued)

PROFIT

By class of business

UK Utility

International operations

– continuing

– discontinued

Products

Services

Property

Insurance

Other activities

Inter-segment trading

Operating profit

Non-operating exceptional item (note 32)

Profit on ordinary activities before interest and taxation

Interest

Profit on ordinary activities before taxation

By geographical segment

UK

Europe

Americas

Asia Pacific

Non-operating exceptional item (note 32)

Net interest

Profit on ordinary activities before taxation

	2000 £m	1999 £m	1999 £m
UK Utility	487.7		473.7
International operations			
– continuing	43.7	16.5	
– discontinued	–	<u>1.1</u>	17.6
Products	5.6		4.1
Services	8.2		6.3
Property	20.9		18.0
Insurance	6.5		11.9
Other activities	(11.6)		(7.7)
Inter-segment trading	<u>(1.6)</u>		<u>(2.6)</u>
Operating profit	559.4		521.3
Non-operating exceptional item (note 32)	<u>–</u>		<u>7.0</u>
Profit on ordinary activities before interest and taxation	559.4		528.3
Interest	<u>(139.8)</u>		<u>(109.7)</u>
Profit on ordinary activities before taxation	<u>419.6</u>		<u>418.6</u>
	2000 £m		1999 £m
UK	518.3		515.3
Europe	35.5		4.9
Americas	2.2		1.9
Asia Pacific	<u>3.4</u>		<u>(0.8)</u>
	559.4		521.3
Non-operating exceptional item (note 32)	<u>–</u>		<u>7.0</u>
	559.4		528.3
Net interest	<u>(139.8)</u>		<u>(109.7)</u>
Profit on ordinary activities before taxation	<u>419.6</u>		<u>418.6</u>

NOTES TO THE FINANCIAL STATEMENTS

2 Segmental analysis (continued)

NET ASSETS

By class of business

	2000 £m	1999 £m	1999 £m
UK Utility	3,995.4		3,682.7
International operations			
– continuing	139.8	10.8	
– discontinued	–	(0.1)	10.7
Products	33.9		38.0
Services	(13.1)		4.4
Property	67.7		45.9
Insurance	(38.2)		(37.6)
Other activities	(93.1)		(48.0)
	<u>4,092.4</u>		<u>3,696.1</u>
Net debt	<u>(1,810.2)</u>		<u>(1,592.2)</u>
Net assets	<u>2,282.2</u>		<u>2,103.9</u>

By geographical segment

	2000 £m	1999 £m
UK	3,919.3	3,626.2
Europe	55.2	3.9
Americas	71.5	29.6
Asia Pacific	46.4	36.4
	<u>4,092.4</u>	<u>3,696.1</u>
Net debt	<u>(1,810.2)</u>	<u>(1,592.2)</u>
Net assets	<u>2,282.2</u>	<u>2,103.9</u>

3 Operating costs

Analysis of operating costs by type of expense

	2000 £m	2000 £m	1999 £m	1999 £m
Manpower		260.5		249.1
Materials and consumables		138.1		123.8
Other operating charges		280.3		283.4
Depreciation:				
– other owned assets	140.1		130.1	
– owned infrastructure assets	43.0		40.7	
– assets held under finance leases	14.3	197.4	7.7	178.5
Rentals under operating leases:				
– hire of plant and machinery	5.9		6.6	
– other	8.4	14.3	5.8	12.4
Research and development		9.0		8.8
Auditors' remuneration in respect of:				
– audit work and other statutory and regulatory requirements	0.8		0.6	
– non-audit work worldwide (including £0.2m in the UK)	0.3	1.1	0.2	0.8
Foreign currency (gains)/losses		(1.2)		1.9
		<u>899.5</u>		<u>858.7</u>
Own work capitalised		(39.4)		(33.1)
		<u>860.1</u>		<u>825.6</u>

Included in auditors' remuneration is £93,000 (1999 £90,000) in respect of audit fees incurred by the Company for the year to March 2000. £0.8m (1999 £nil) was paid in respect of information systems consultancy which has been capitalised.

Other operating charges and manpower costs for 1999 included £1.8m which was offset by the utilisation of the discontinued business provision.

NOTES TO THE FINANCIAL STATEMENTS

4 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 24 and 25.

Executive Directors – remuneration statement

Executive Director	Salary £000	Bonus		Benefits £000	2000 Total £000	Salary £000	Bonus		Benefits £000	1999 Total £000
		Cash £000	Deferred £000				Cash £000	Deferred £000		
Sir Robert Clarke (retired 28.3.99)	–	–	–	–	–	244	–	–	14	258
Bill Alexander	310	49	24	13	396	258	20	10	9	297
David Luffrum	195	46	*	14	255	170	13	7	13	203
David Badcock	150	23	12	15	200	119	9	5	15	148
TOTALS	655	118	36	42	851	791	42	22	51	906

*Under the terms of the Annual Cash/Share Bonus Plan none of David Luffrum's bonus was deferred, due to his retirement.

Chris Bunker was appointed Group Finance Director after the year end, on 1 April 2000. His salary is £230,000.

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 31.3.00	Pensionable service at 31.3.00	Executive Directors' contributions in year to 31.3.00 £000	Increase in accrued pension during the year to 31.3.00 £000	Accumulated total accrued pension at 31.3.00 £000
Bill Alexander	53	10 years	9	2	17
David Luffrum	55	37 years	6	17	121
David Badcock	55	32 years	4	19	88

The pension entitlement shown is that which would be paid annually on retirement, based on pensionable service to 31 March 2000 and the contributions shown are those paid by the Executive Directors under the terms of the main scheme in the year to 31 March 2000. The increase in accrued pension during the year to 31 March 2000 excludes any increase for inflation. Pension increases are pre-funded in line with inflation.

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 2000, this amounted to £217,000 (1999 £207,000). The total provision at 31 March 2000 was £837,000. David Badcock is entitled to a pension on retirement at age 60 of two-thirds of pensionable salary in the last fiscal year prior to retirement.

NOTES TO THE FINANCIAL STATEMENTS

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

Shareholdings

The holdings of the Executive Directors in office at the end of the year in the issued share capital of the Company, excluding conditional awards under the incentive plans, are shown below.

Executive Director	Ordinary shares held at 31 March	
	2000	1999
Bill Alexander	13,545	13,523
David Luffrum	35,882	33,655
David Badcock	6,484	6,441

As at 7 June 2000, Bill Alexander held 17,702 ordinary shares.

There were no other changes in the Directors' share interests between 31 March and 7 June 2000.

In addition to the shares noted above, the Executive Directors each have 40 B shares held in trust under the Thames Water Profit Sharing Scheme.

Incentive Plans

The tables below show the Directors' conditional awards of ordinary shares under the incentive plans which are explained in further detail within the Report on Directors' Remuneration on pages 24 and 25.

1 Long-Term Restricted Share Plan

Executive Director	Plan	Date of award	Number of shares (maximum)	End of performance period
Bill Alexander	1996	2.8.96	6,941	31.3.2000
	1997	9.7.97	6,525	31.3.2001
	1998	11.8.98	7,003	31.3.2002
	1999	4.8.99	10,108	31.3.2003
David Luffrum	1996	2.8.96	5,628	31.3.2000
	1997	9.7.97	5,288	31.3.2001
	1998	11.8.98	4,695	31.3.2002
	1999	4.8.99	6,358	31.3.2003
David Badcock	1997	9.7.97	1,932	31.3.2001
	1998	11.8.98	3,220	31.3.2002
	1999	4.8.99	4,891	31.3.2003

Under the terms of the Long-Term Restricted Share Plan 13,873 of the 21,969 shares conditionally awarded to David Luffrum were released from trust after his retirement. Rights to the remaining 8,096 shares have lapsed.

2 Cash/Share Bonus Plan

Executive Director	Date of award	Number of shares	Notional value* £000	Earliest vesting date
Bill Alexander	9.7.97	2,237	18	9.7.2000
	11.8.98	1,478	12	11.8.2001
	4.8.99	1,065	8	4.8.2002
David Luffrum	9.7.97	1,815	14	9.7.2000
	11.8.98	1,041	8	11.8.2001
	4.8.99	707	6	4.8.2002
David Badcock	11.8.98	634	5	11.8.2001
	4.8.99	478	4	4.8.2002

*The notional value of the shares is based upon the market price (795.5p) of the Company's shares at the close of business on 23 May 2000.

Under the terms of the Thames Water Cash/Share Bonus Plan, 3,563 shares were released from trust to David Luffrum after his retirement.

NOTES TO THE FINANCIAL STATEMENTS

4 Directors' remuneration and share interests (continued)

Share options

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

1 Executive share options at 31 March 2000

	2000 Number	1999 Number	Notional value* £000	Exercise price	Date when exercisable	Expiry date
Bill Alexander	18,000	18,000	81	347p	2.7.1994	2.7.2001
	31,000	31,000	117	418p	24.6.1995	24.6.2002
	22,000	22,000	75	453p	8.12.1997	8.12.2004
David Luffrum	–	–	–	–	–	–
David Badcock	10,000	10,000	34	453p	8.12.1997	8.12.2004
	14,000	14,000	33	560p	8.12.1998	8.12.2005

*The notional value of the shares is the difference between the exercise price and the market price (795.5p) of the Company's shares at the close of business on 23 May 2000.

Bill Alexander exercised 49,000 share options on 23 May 2000.

2 Sharesave scheme at 31 March 2000

	Share Options 1.4.99	Options granted	Options exercised	Share Options 31.3.00	Exercise price	Date when exercisable	Expiry date
Bill Alexander	2,071	–	–	2,071	887p	1.2.2006	31.7.2006
David Luffrum	2,205	–	2,205	–	442p	2.2.2000	n/a
David Badcock	1,092	–	–	1,092	887p	1.2.2002	31.7.2002

Chairman and non-Executive Directors

Roger Carr, a non-Executive Director, was appointed Chairman with effect from 28 March 1999, in succession to Sir Robert Clarke, Executive Chairman. Roger Carr's fees were determined by the Board at £100,000 per annum.

The remuneration of 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 the Executive Directors. Using comparative data from companies in the UK utility and industrial/services sectors the fees have been reviewed in two stages. On 1 July 1999 the fees were increased to £23,000 and on 1 October 1999 to £25,000. In the case of Sir Christopher Leaver, fees receivable in his role as Vice Chairman increased from £49,600 to £53,100 (1 July 1999) and to £55,100 (1 October 1999). With effect from 1 October 1999 an additional fee of £2,500 is paid for chairmanship of a Board Committee.

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	
	2000	1999	2000 £000	1999 £000
Non-Executive Directors				
Roger Carr (Chairman from 28 March 1999)	2,750	2,750	100	22
Sir Christopher Leaver (retired 31 March 2000)	4,158	4,158	53	50
Tony Hobson	916	916	25	21
Lesley Knox	335	311	25	21
Andrew Longhurst	2,500	2,500	25	13
Directors' Remuneration in Total			2000 £000	1999 £000
Fees for non-Executive Directors			228	127
Remuneration of Executive Directors (see page 37)			851	906
Gains on the exercise of share options to 31 March (see table 2 above)			7	129
Company pension contributions to money purchase schemes			–	18

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 FINANCIAL STATEMENTS

5 Employees

	2000 £m	1999 £m
Group employment costs including Executive Directors' remuneration were:		
– Salaries and wages	239.5	225.3
– Social security costs	20.2	19.3
– Pension costs (note 27)	3.1	10.3
	<u>262.8</u>	<u>254.9</u>

Total employment costs contain £nil (1999 £3.8m) and £2.3m (1999 £2.0m) which are included in infrastructure assets expenditure and research and development costs respectively, in note 3.

	2000 number	1999 number
Average monthly number of persons employed by the Group, including Executive Directors		
UK Utility	5,268	5,527
International operations	2,043	2,240
Products	871	810
Services	3,773	3,593
Property	83	76
Other activities	36	41
	<u>12,074</u>	<u>12,287</u>

6 Other operating income

	2000 £m	1999 £m
Gains and losses on fixed interest short-term investments	1.3	4.1
Other investment income	3.4	4.6
Miscellaneous	3.2	4.0
	<u>7.9</u>	<u>12.7</u>

7 Interest

	2000 £m	1999 £m
Bank loans, overdrafts and other loans:		
– Repayable within five years otherwise than by instalments	66.1	64.3
– Repayable within five years by instalments	0.7	1.7
– Not wholly repayable within five years	51.3	37.2
Finance charges in respect of finance leases	16.8	17.2
Other finance charges	1.4	1.0
Interest payable and similar charges	136.3	121.4
Interest receivable	(14.8)	(15.4)
	<u>121.5</u>	<u>106.0</u>

NOTES TO THE FINANCIAL STATEMENTS

8 Taxation on profit on ordinary activities

	2000 £m	2000 £m	1999 £m	1999 £m
UK corporation tax on income at 30% (1999 31%)				
– current year	76.4		93.9	
– prior year	<u>(29.7)</u>		<u>(11.1)</u>	
		46.7		82.8
Overseas taxation		1.9		3.3
Advance corporation tax (relieved)/charged				
– current year	(0.4)		(60.7)	
– prior year	<u>20.1</u>		<u>7.5</u>	
		19.7		(53.2)
Share of associates/joint venture tax		<u>8.1</u>		<u>1.3</u>
		<u>76.4</u>		<u>34.2</u>

9 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 financial statements. If a provision for deferred tax had been made on the full liability method, there would have been a corporate tax charge of £136.5m (1999 £96.0m).

	Group	
	2000 £m	1999 £m
An analysis of amounts unprovided is as follows:		
Accelerated capital allowances:		
– Infrastructure assets	344.5	316.6
– Other assets	420.0	372.3
Other timing differences	(10.6)	(14.8)
Advance corporation tax	<u>(158.8)</u>	<u>(139.1)</u>
	<u>595.1</u>	<u>535.0</u>

10 Profit for the financial year

Profit attributable to shareholders of £105.4m (1999 £958.5m) has been dealt with in the financial statements of the Company. A separate profit and loss account for the Company has not been presented as permitted by Section 230 of the Companies Act 1985.

NOTES TO THE FINANCIAL STATEMENTS

11 Dividends

	2000		1999	
	Pence per share	£m	Pence per share	£m
Equity – ordinary 23p				
Interim	15.3	53.5	14.0	48.8
Final proposed base	<u>31.2</u>	<u>109.6</u>	<u>28.6</u>	<u>100.0</u>
	46.5	163.1	42.6	148.8
Compensation for deferred payment	<u>1.5</u>	<u>5.3</u>	–	–
	<u>48.0</u>	<u>168.4</u>	<u>42.6</u>	<u>148.8</u>
Non-equity – B shares 79p	<u>3.4</u>	<u>1.0</u>	<u>2.9</u>	<u>0.9</u>

It is proposed that payment of the final dividend on ordinary shares is deferred until 2 April 2001 and, at the same date, that shareholders are paid 1.5p per ordinary share in compensation for the delayed payment.

12 Earnings per ordinary share

Basic earnings per ordinary share of 97.6p (1999 106.3p) 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 350.5m (1999 360.6m).

Diluted earnings per share of 97.2p (1999 105.5p) 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:

	2000 £m	1999 £m
Profit for the financial year	342.2	383.5
Weighted average number of shares*	million	million
Basic EPS calculation	350.5	360.6
Effect of dilutive ordinary shares	<u>1.5</u>	<u>2.9</u>
Diluted EPS calculation	<u>352.0</u>	<u>363.5</u>

*Attributable to ordinary shareholders.

For 1999/00, adjusted earnings per ordinary share is the same as basic earnings per ordinary share. In 1999, adjusted earnings per share of 104.4p was based on earnings before the inclusion of non-operating exceptional items.

13 Intangible assets

	Goodwill	Aggregate amortisation	Net goodwill	Other intangibles	Group Total
	£m	£m	£m	£m	£m
At 1 April 1999	17.0	(0.5)	16.5	10.9	27.4
Amortisation	–	(0.7)	(0.7)	(1.8)	(2.5)
Exchange movements	–	–	–	2.2	2.2
At 31 March 2000	<u>17.0</u>	<u>(1.2)</u>	<u>15.8</u>	<u>11.3</u>	<u>27.1</u>

Goodwill arising on prior year acquisitions is being amortised on a straight-line basis over a period of 15 years.

Other intangibles relate to start-up charges on concession contracts which are being amortised over a remaining life of nine years.

NOTES TO THE FINANCIAL STATEMENTS

14 Tangible fixed assets

	Group			Company
	Land and buildings £m	Infrastructure assets £m	Plant and equipment £m	Plant and equipment £m
Net cost at 1 April 1999				
Previously reported	1,582.7	1,464.4	1,806.9	1.1
Adjust for change in accounting policy (see note 1)	—	539.0	—	—
Restated as	1,582.7	2,003.4	1,806.9	1.1
Foreign exchange adjustments	(0.6)	—	0.3	—
Additions at cost	69.3	211.7	238.0	—
Disposals	(7.3)	(0.6)	(27.0)	—
Cost at 31 March 2000	1,644.1	2,214.5	2,018.2	1.1
Capital contributions at 1 April 1999	—	216.7	—	—
Additions	—	35.3	—	—
Capital contributions at 31 March 2000	—	252.0	—	—
Depreciation at 1 April 1999				
Previously reported	320.4	—	519.8	0.8
Adjust for change in accounting policy (see note 1)	—	312.8	—	—
Restated as	320.4	312.8	519.8	0.8
Foreign exchange adjustments	(0.3)	—	0.1	—
Provided during the year	34.5	43.0	119.9	0.1
Disposals	(1.9)	(0.6)	(20.1)	—
Depreciation at 31 March 2000	352.7	355.2	619.7	0.9
Net book value				
At 31 March 2000	1,291.4	1,607.3	1,398.5	0.2
At 31 March 1999 as restated	1,262.3	1,473.9	1,287.1	0.3

Infrastructure assets are restated following the publication of FRS 15 (note 1). The net effect is to increase net book values by £9.5m.

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

	Group	
	2000 £m	1999 £m
Freehold land and buildings	1,243.8	1,221.4
Leaseholds: over 50 years	33.5	28.1
under 50 years	14.1	12.8
	1,291.4	1,262.3

No depreciation has been charged on freehold land included at a cost of £12.3m (1999 £12.8m).

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

	Cost		Net book value	
	2000 £m	1999 £m	2000 £m	1999 £m
Plant and equipment	277.7	274.0	239.7	237.7

Tangible fixed assets at 31 March 2000 include £467.1m (1999 £310.2m) of assets in the course of construction.

NOTES TO THE FINANCIAL STATEMENTS

15 Fixed asset investments

	Group	Company	
	Interests in associated undertakings and joint ventures £m	Investment in undertakings subsidiary £m	joint venture £m
Value at 1 April 1999	54.7	1,963.9	30.2
Foreign exchange adjustments	(0.8)	0.2	–
Additions	50.1	7.4	13.0
Share of retained profits for the year	10.8	–	–
Goodwill – additions	15.0	–	–
Repayments	–	(209.1)	–
Value at 31 March 2000	129.8	1,762.4	43.2

Group

On 1 August 1999, the Group increased its investment in Izmit Su by 11.9% for a consideration of £13.1m, including goodwill of £1.1m which will be written off over 15 years. Izmit Su remains a joint venture undertaking for accounting purposes.

On 24 March 2000, the Group acquired an effective 25.5% of the voting stock of ESSEL SA in Chile through its joint venture company Inversiones Andes Sur for a consideration of £44.6m. Goodwill is estimated to be £13.9m and will be amortised over its useful economic life.

Consideration, fair values and goodwill arise as follows:

	Group		
	Cash consideration £m	Book and fair value £m	Goodwill £m
ESSEL SA	44.6	30.7	13.9
Izmit Su	13.1	12.0	1.1
	57.7	42.7	15.0

The cost of the Group's interests in associated undertakings and joint ventures at 31 March 2000 amounted to £126.9m (1999 £61.8m). The Group's share of accumulated profits at 31 March 2000 was £14.2m (1999 £3.4m). The associated undertakings and joint ventures are all unlisted.

Company

Investments amounting to £20.4m (1999 £79.7m) 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.

NOTES TO THE FINANCIAL STATEMENTS

16 Stocks and work in progress

	Group	
	2000 £m	1999 £m
Raw materials and consumables	20.3	19.5
Work in progress	10.5	3.5
Finished goods and goods for resale	8.7	9.1
	<u>39.5</u>	<u>32.1</u>
Work in progress includes long-term contract balances as follows:		
Net cost less foreseeable losses	300.0	283.7
Applicable payments on account	(296.6)	(284.1)
	<u>3.4</u>	<u>(0.4)</u>

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.

17 Debtors

	Group		Company	
	2000 £m	1999* £m	2000 £m	1999 £m
Due within one year:				
Trade debtors	171.0	176.0	-	-
Amounts recoverable on contracts	1.1	0.6	-	-
Amounts owed by subsidiary undertakings	-	-	20.2	68.5
Other debtors	50.5	25.2	1.6	0.8
Prepayments and accrued income	138.5	112.0	0.9	0.1
	<u>361.1</u>	<u>313.8</u>	<u>22.7</u>	<u>69.4</u>
Due after more than one year:				
Trade debtors	0.8	0.4	-	-
Prepayments and accrued income	0.1	0.3	-	-
Other debtors	0.9	1.1	-	-
	<u>362.9</u>	<u>315.6</u>	<u>22.7</u>	<u>69.4</u>

*Infrastructure renewals prepayments of £9.5m previously classified within debtors – due within one year have now been included in tangible fixed assets (see note 14).

18 Current asset investments

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Fixed term deposits and certificates of deposit	14.4	18.0	-	4.9
Fixed and floating interest rate securities	57.7	67.5	-	14.9
	<u>72.1</u>	<u>85.5</u>	<u>-</u>	<u>19.8</u>

NOTES TO THE FINANCIAL STATEMENTS

19 Creditors: amounts falling due within one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans	40.2	121.0	-	-
Bank overdrafts	46.6	81.7	18.5	47.1
Other loans	212.9	183.5	111.5	183.0
Obligations under finance leases	6.4	3.6	-	-
Progress claims and advance payments	77.3	86.8	-	-
Trade creditors:				
- operating	78.4	54.1	-	-
- capital	109.2	109.9	-	-
Amounts owed to subsidiary undertakings	-	-	72.9	102.1
Taxation and social security	64.4	51.5	-	-
Accruals and deferred income	172.6	176.7	1.1	2.3
Other creditors	17.4	10.9	3.7	2.8
Proposed dividend	114.9	149.7	114.9	149.7
	<u>940.3</u>	<u>1,029.4</u>	<u>322.6</u>	<u>487.0</u>

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 2000 represents 55 days (UK Utility 41 days) purchases received from those creditors.

20 Creditors: amounts falling due after more than one year

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Bank loans	410.3	369.3	-	-
Other loans	989.3	750.3	71.9	104.9
Obligations under finance leases	260.2	263.8	-	-
Amounts owed to subsidiary undertakings	-	-	96.9	102.7
Deferred income	63.5	56.9	-	-
Other creditors	6.5	8.8	-	-
	<u>1,729.8</u>	<u>1,449.1</u>	<u>168.8</u>	<u>207.6</u>

NOTES TO THE FINANCIAL STATEMENTS

21 Financial instruments

Short-term debtors and creditors have been excluded from financial instruments' disclosures, other than the currency risk disclosures. Provisions for liabilities and charges of £59.9m (1999 £51.7m) (note 22) are payable within one year and are also excluded.

Financial assets

	Group											
	Total at floating rates		Total at fixed rates		No interest		Total book value		For fixed rate assets only			
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 %	1999 %	2000 years	1999 years
Interest rate risk profile												
Current asset investment												
– £ Sterling	–	8.4	11.8	8.4	12.4	–	24.2	16.8	5.9	6.0	6.3	2.0
– \$ US	–	14.9	15.7	25.9	–	–	15.7	40.8	6.5	6.0	9.7	9.0
– Others	4.2	3.0	28.0	24.9	–	–	32.2	27.9	4.3	6.0	7.4	13.0
	<u>4.2</u>	<u>26.3</u>	<u>55.5</u>	<u>59.2</u>	<u>12.4</u>	<u>–</u>	<u>72.1</u>	<u>85.5</u>	<u>5.2</u>	<u>6.0</u>	<u>7.9</u>	<u>9.7</u>
Cash at bank/hand												
– £ Sterling	68.3	74.2	–	–	–	–	68.3	74.2	–	–	–	–
– \$ US	4.0	13.1	–	–	–	–	4.0	13.1	–	–	–	–
– Others	11.3	8.2	–	–	–	–	11.3	8.2	–	–	–	–
	<u>83.6</u>	<u>95.5</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>83.6</u>	<u>95.5</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Debtors > 1 year	–	–	–	–	1.8	1.8	1.8	1.8	–	–	–	–
Totals	<u>87.8</u>	<u>121.8</u>	<u>55.5</u>	<u>59.2</u>	<u>14.2</u>	<u>1.8</u>	<u>157.5</u>	<u>182.8</u>	<u>5.2</u>	<u>6.0</u>	<u>7.9</u>	<u>9.7</u>

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.

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

Non-interest assets of £12.4m are held as units in investment and unit trusts and have no maturity period.

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

Financial liabilities

	Group											
	Total at floating rates		Total at fixed rates		No interest		Total book value		For fixed rate liabilities only			
	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 £m	1999 £m	2000 %	1999 %	2000 years	1999 years
Interest rate risk profile												
Bank loans and overdraft												
– £ Sterling	59.5	171.1	376.9	343.0	–	–	436.4	514.1	7.6	8.0	7.7	8.4
– \$ US	34.8	30.3	–	–	–	–	34.8	30.3	–	–	–	–
– Others	25.9	27.6	–	–	–	–	25.9	27.6	–	–	–	–
	<u>120.2</u>	<u>229.0</u>	<u>376.9</u>	<u>343.0</u>	<u>–</u>	<u>–</u>	<u>497.1</u>	<u>572.0</u>	<u>7.6</u>	<u>8.0</u>	<u>7.7</u>	<u>8.4</u>
Other loans and finance leases												
– £ Sterling	518.6	430.7	950.2	770.5	–	–	1,468.8	1,201.2	7.1	7.3	18.7	17.0
Non-equity shares												
– £ Sterling	–	–	–	–	22.1	24.5	22.1	24.5	–	–	–	–
Creditors > 1 year												
– Others	6.5	8.8	–	–	–	–	6.5	8.8	–	–	–	–
Totals	<u>645.3</u>	<u>668.5</u>	<u>1,327.1</u>	<u>1,113.5</u>	<u>22.1</u>	<u>24.5</u>	<u>1,994.5</u>	<u>1,806.5</u>	<u>7.2</u>	<u>7.5</u>	<u>15.6</u>	<u>14.4</u>

NOTES TO THE FINANCIAL STATEMENTS

21 Financial instruments (continued)

The Group's interest rate and cross currency swaps convert £109m (1999 £106m) of floating rate borrowings to fixed rate and £86m (1999 £10m) of fixed rate borrowings to floating rate. Cross currency swaps hedge currency risk on £334m (1999 £142m) of foreign currency borrowings.

Included in these amounts are £47m (1999 £43m) of floating to fixed rate swaps, £41m (1999 nil) of fixed to floating rate swaps, and £150m (1999 £131m) of foreign currency to sterling swaps for the Company.

Short-term borrowings bear interest at rates linked to LIBOR.

Fixed rate borrowings of £1,327m (1999 £1,114m) equate to 68% (1999 63%) of gross borrowings and 73% (1999 70%) of net debt and conforms with the funding and treasury policy set out in the financial review on pages 18 to 20.

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			
	Book value 2000 £m	Book value 1999 £m	Fair value 2000 £m	Fair value 1999 £m
Primary financial instruments				
– Financial assets				
Current asset investments	72.1	85.5	73.4	90.4
Cash at bank/hand	83.6	95.5	83.6	95.5
Debtors > 1 year	1.8	1.8	1.8	1.8
– Financial liabilities				
Bank loans and overdrafts	(497.1)	(572.0)	(515.9)	(616.8)
Other loans and finance leases	(1,468.8)	(1,201.2)	(1,468.1)	(1,232.8)
Non-equity shares	(22.1)	(24.5)	(22.1)	(24.5)
Creditors > 1 year	(6.5)	(8.8)	(6.5)	(8.8)
Derivative financial instruments				
Interest rate and cross currency swaps	–	–	(7.1)	(12.1)
	<u>(1,837.0)</u>	<u>(1,623.7)</u>	<u>(1,860.9)</u>	<u>(1,707.3)</u>

Primary financial instruments include bonds which are traded on a public market. Fair values for these have been calculated using the 31 March 2000 quoted prices. Mark to market techniques (discounting expected cashflows 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 are included in the fair valuation.

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Maturities				
Bank loans and overdrafts				
– Within one year	86.8	202.7	18.5	47.1
– Between one and two years	17.5	16.8	–	–
– Between two and five years	111.9	80.2	–	–
– After more than five years	280.9	272.3	–	–
	<u>497.1</u>	<u>572.0</u>	<u>18.5</u>	<u>47.1</u>

NOTES TO THE FINANCIAL STATEMENTS

21 Financial instruments (continued)

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Maturities continued				
Other loans and finance leases				
– Within one year	219.3	187.1	111.5	183.0
– Between one and two years	176.5	46.9	–	32.6
– Between two and five years	210.0	340.5	24.1	24.5
– After more than five years	863.0	626.7	47.8	47.8
	<u>1,468.8</u>	<u>1,201.2</u>	<u>183.4</u>	<u>287.9</u>
Total borrowings	<u>1,965.9</u>	<u>1,773.2</u>	<u>201.9</u>	<u>335.0</u>

- Loans are repayable between 2000 and 2032.
- Loans wholly repayable after more than five years hence are:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
– Bank loans	225.0	200.0	–	–
– Other loans	631.0	377.8	47.8	47.8
	<u>856.0</u>	<u>577.8</u>	<u>47.8</u>	<u>47.8</u>

- Other loans include:
 - £150m 10% Guaranteed Bonds due 2001
 - \$150m 6% Notes due 2004
 - £330m 6% MTN Eurobond due 2028
 - £200m 6% MTN Eurobond due 2032
 - Loans totalling £32.4m (1999 £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		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
– Bank Loans			55.9	72.3
– Finance Leases			232.0	248.9
			<u>287.9</u>	<u>321.2</u>

- The range of interest rates on outstanding bank loans are 5.9% to 11.5% (1999 5.9% to 11.5%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate derivatives.

Borrowing facilities

At 31 March 2000, the Group had unused committed borrowing facilities with a range of financial institutions totalling £420m (1999 £410m) expiring as follows:

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Within one year	320	310	–	–
Between one and two years	100	–	–	–
After more than two years	–	100	–	–
	<u>420</u>	<u>410</u>	<u>–</u>	<u>–</u>

The Group also has a US\$3bn 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 2000, £903m (1999 £471m) had been borrowed in total with a weighted average term of 18.3 years (1999 22.3 years) at a weighted average rate of 6.5% (1999 6.7%).

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

NOTES TO THE FINANCIAL STATEMENTS

22 Provisions for liabilities and charges

	Group		
	Insurance liabilities £m	Other £m	Total £m
Balance at 1 April 1999	40.3	11.4	51.7
Foreign exchange adjustments	–	0.2	0.2
Provided during the year	16.5	9.9	26.4
Utilised during the year	(8.6)	(1.3)	(9.9)
Released during the year	(8.1)	(0.4)	(8.5)
Balance at 31 March 2000	40.1	19.8	59.9

23 Share capital

	Group and Company	
	2000 £m	1999 £m
Authorised		
976,128,916 ordinary shares of 23p each and 380,367,532 B shares of 79p each	<u>525.0</u>	<u>525.0</u>
Allotted, called up and fully paid		
351,419,736 ordinary shares of 23p each (1999 349,817,845 of 23p each) 28,050,782 B shares of 79p each (1999 31,061,472 B shares of 79p each)	<u>80.8</u> <u>22.1</u>	<u>80.5</u> <u>24.5</u>
	<u>102.9</u>	<u>105.0</u>

The B shares were issued on 10 August 1998 as part of a capital reorganisation. They 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.

	Number of shares allotted		Consideration	
	2000 000	1999 000	2000 £m	1999 £m
Details of ordinary shares allotted during the year are as follows:				
Employee share schemes:				
– Sharesave Scheme	1,518	896	14.0	4.8
– Executive Share Option Scheme	22	252	0.1	1.3
– Profit Sharing Scheme	62	80	0.5	0.9
	<u>1,602</u>	<u>1,228</u>	<u>14.6</u>	<u>7.0</u>

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.

NOTES TO THE FINANCIAL STATEMENTS

23 Share capital (continued)

Options granted and outstanding at 31 March 2000

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	51,164	442p	Feb 2000 – Jul 2000
3 December 1997	394,626	685p	Feb 2001 – Jul 2001
3 December 1998	259,632	887p	Feb 2002 – Jul 2002
2 December 1999	598,174	734p	Feb 2003 – Jul 2003
Five-year scheme			
1 December 1994	111,447	421p	Feb 2000 – Jul 2000
30 November 1995	687,325	420p	Feb 2001 – Jul 2001
28 November 1996	432,286	442p	Feb 2002 – Jul 2002
3 December 1997	482,784	685p	Feb 2003 – Jul 2003
3 December 1998	284,078	887p	Feb 2004 – Jul 2004
2 December 1999	507,414	734p	Feb 2005 – Jul 2005
Seven-year scheme			
9 July 1993	105,283	372p	Oct 2000 – Mar 2001
1 December 1994	250,206	421p	Feb 2002 – Jul 2002
30 November 1995	200,116	420p	Feb 2003 – Jul 2003
28 November 1996	153,607	442p	Feb 2004 – Jul 2004
3 December 1997	162,296	685p	Feb 2005 – Jul 2005
3 December 1998	77,133	887p	Feb 2006 – Jul 2006
2 December 1999	141,234	734p	Feb 2007 – Jul 2007
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	82,600	453p	1997 – 2004
8 December 1995	85,410	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	End of performance period
2 August 1996	12,569	1 April 2000
9 July 1997	24,959	1 April 2001
11 August 1998 and 9 November 1998	28,981	1 April 2002
4 August 1999	80,295	1 April 2003

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 24 and 25).

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	15,848	11 August 2001
4 August 1999	17,252	4 August 2002

NOTES TO THE FINANCIAL STATEMENTS

24 Movement in equity shareholders' funds

	Share capital £m	Share premium £m	Capital redemption reserve £m	Profit and loss account £m	2000 Total £m	1999 Total £m
The Group						
Balance at 1 April	105.0	55.6	317.5	1,625.8	2,103.9	2,147.4
Foreign exchange adjustments	–	–	–	(2.4)	(2.4)	(1.3)
Profit for the financial year	–	–	–	342.2	342.2	383.5
Dividends	–	–	–	(168.4)	(168.4)	(148.8)
New share capital subscribed (see note 23)	0.3	14.3	–	–	14.6	7.0
Purchase of own shares	(2.4)	–	2.4	(2.4)	(2.4)	(276.1)
Advance corporation tax on the purchase of shares	–	–	–	–	–	(0.7)
Adjustments for qualifying employee share trust	–	–	–	(5.3)	(5.3)	(1.7)
Share capital related costs	–	–	–	–	–	(5.4)
Balance at 31 March	102.9	69.9	319.9	1,789.5	2,282.2	2,103.9
The Company						
Balance at 1 April	105.0	55.6	317.5	944.5	1,422.6	889.8
Profit for the financial year	–	–	–	105.4	105.4	958.5
Dividends	–	–	–	(168.4)	(168.4)	(148.8)
New share capital subscribed (see note 23)	0.3	14.3	–	–	14.6	7.0
Purchase of own shares	(2.4)	–	2.4	(2.4)	(2.4)	(276.1)
Advance corporation tax on the purchase of shares	–	–	–	–	–	(0.7)
Adjustments for qualifying employee share trust	–	–	–	(5.3)	(5.3)	(1.7)
Share capital related costs	–	–	–	–	–	(5.4)
Balance at 31 March	102.9	69.9	319.9	873.8	1,366.5	1,422.6

The cumulative goodwill of £71.5m relating to acquisitions made to 31 March 1997 is deducted from Group reserves.

During the year 3,010,690 B shares were repurchased by the Company for total consideration of £2.4m.

25 Operating leases

At 31 March 2000, the Group was committed to making the following payments in respect of non-cancellable operating leases.

	Group		Company	
	2000 £m	1999 £m	2000 £m	1999 £m
Land and buildings				
Leases which expire:				
– Within one year	0.2	0.4	–	–
– Between one and two years	0.2	0.3	–	–
– Between two and five years	0.5	0.4	–	–
– After more than five years	1.6	1.9	0.4	0.4
	<u>2.5</u>	<u>3.0</u>	<u>0.4</u>	<u>0.4</u>
Other				
Leases which expire:				
– Within one year	1.9	1.9	–	–
– Between one and two years	1.6	1.8	–	–
– Between two and five years	2.4	2.4	–	–
– After more than five years	0.1	0.1	–	–
	<u>6.0</u>	<u>6.2</u>	<u>–</u>	<u>–</u>

NOTES TO THE FINANCIAL STATEMENTS

26 Capital commitments

	Group	
	2000	1999
	£m	£m
Contracted for but not provided in the financial statements	109	108

- In addition to these commitments, the Group has long-term capital investment plans to meet shortfalls in performance and asset condition and to provide for new demand and growth
- 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.

27 Pension schemes

Pension arrangements for the majority of the Group's UK employees are of the defined benefit type. They are funded through pension schemes whose assets are held separately from Group assets in independently administered funds. In addition, there is an unfunded defined benefit provided for the Chief Executive; details are included on pages 25 and 37. 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 2000 was £3.1m (1999 £10.3m) of which £0.5m (1999 £0.5m) 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.

For accounting purposes, any surplus of pension fund assets in excess of pension liabilities is being recognised as a percentage of pensionable salaries spread over the average future working lifetime 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 4% per annum and that the rate of return on investments would amount to 6% per annum. Pension increases are pre-funded in line with inflation (assumed to be at a rate of 3% 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 3% per annum. All pension fund assets are valued at market prices.

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.

In relation to the three main UK schemes, the regular cost of benefits amounted to £19.6m (1999 £18.8m) and surpluses resulted in a variation amounting to a reduction in the pension cost of £19.6m (1999 £9.2m). This reflects the increased surplus disclosed by the valuation at 6 April 1999.

Contributions to these schemes for the year ended 31 March 2000 are based on actuarial reviews of the individual schemes as at 6 April 1996. Following the April 1999 actuarial review, from January 2000 employer's contributions to the largest scheme were suspended; employer's contributions to the second largest were increased and employer's contribution to the smallest scheme remain unaltered.

These three schemes cover the majority of UK employees. The total market value of assets as at the last valuation date was £955m and the actuarial value of these assets represented 135% of the value of the benefits that had accrued to members after allowing for expected future salary increases.

As at 31 March 2000, accruals of £0.3m (1999 £5.3m) and £0.8m (1999 £0.7m) were included in creditors (note 19) in relation to the funded UK and unfunded schemes respectively.

NOTES TO THE FINANCIAL STATEMENTS

28 Related parties

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

Related party	Status	Sale value £m	Balance £m
Izmit Su As	Joint venture	11.5	0.8
Pathum Thani Water Company Limited	Associate	0.1	–
United Water International Pty Limited	Joint venture	0.6	–
Thames Dick Superaqueduct Partners Inc	Joint venture	0.1	3.4
St James Homes Limited	Joint venture	11.9	4.9
Bovis Thames Shanghai	Joint venture	0.3	–
Stirling Water Seafield Limited	Joint venture	6.4	0.1

At 31 March 2000, the following balances were owed to the Group: St James Homes Ltd £10.8m (1999 £nil), Stirling Water Seafield Ltd £4.5m (1999 £nil), Pathum Thani Water Company Ltd £6.2m (1999 £5.5m) and TWCK £1.6m (1999 £2.8m).

29 Guarantees

The Company has guaranteed the overdrafts and loans of certain subsidiaries up to a maximum of £578.9m (1999 £538.0m). The Company has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £68.5m at 31 March 2000 (1999 £83.5m). In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations which have been entered into in the normal course of business. No loss is expected to arise under these arrangements.

30 Thames Water Utilities Limited

Condition F of the Instrument of Appointment under which Thames Water Utilities Limited operates requires specified accounting statements to be published with its annual accounts or those of its parent company. Anyone requiring a copy of these accounts including the specified statements for the year ended 31 March 2000 should apply to: The Company Secretary's Office, Thames Water Plc, Blake House (RBHG), Manor Farm Road, Reading RG2 0JN. Tel 0845 741 4140 (calls within the UK will be charged at the local rate).

31 Group undertakings

At 31 March 2000, the Group held more than 10% of the allotted share capital of the following principal trading undertakings.

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

31 Group undertakings (continued)

International operations continued:	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held		Nature of business
			Directly	Indirectly	
Thames Water (Malaysia) Sdn.Bhd	Malaysia	Ordinary		100%	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
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%	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
Insurance:					
Isis Insurance Company Limited	Isle of Man	Ordinary	100%		Insurance
Property:					
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
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 Superaqueduct Partners Inc	USA	Ordinary		50%	Water operations and maintenance
Izmit Su As	Turkey	Ordinary	47%		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
Thames Water International (Thailand) & Ch. Karnchang Public Limited Company Limited (TWCK)	Thailand	Ordinary		50%	Water operations and maintenance
Bovis Thames (Shanghai) Limited	British Virgin Islands	Ordinary		50%	Management company
Stirling Water Seafeld Limited	Great Britain	Ordinary		49%	Water operations and maintenance
Inversiones Andes Sur	Chile	Ordinary		50%	Management company
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

32 Discontinued operations/non-operating exceptional item

There was a final release in the year ended 31 March 1999 of £7m to the profit and loss account, from the provision of £95m made in 1996 relating to discontinued operations. There have been no discontinued operations in the year to 31 March 2000.

GROUP FIVE YEAR SUMMARY

Profit and loss account

Year ended 31 March	2000 £m	1999 £m	1998 £m	1997 £m	1996 £m
Turnover:					
– Group	1,367.8	1,325.5	1,389.0	1,287.4	1,193.6
– Joint ventures	115.9	77.3	27.2	11.3	–
– Group and share of joint ventures	<u>1,483.7</u>	<u>1,402.8</u>	<u>1,416.2</u>	<u>1,298.7</u>	<u>1,193.6</u>
Operating profit:					
– Group	515.6	514.0	477.3	440.0	376.1
– Joint ventures	43.4	8.1	3.3	0.7	–
– Associates	0.4	(0.8)	–	–	–
	<u>559.4</u>	<u>521.3</u>	<u>480.6</u>	<u>440.7</u>	<u>376.1</u>
Non-operating exceptional items	–	7.0	11.7	(12.2)	(95.0)
Interest	<u>(139.8)</u>	<u>(109.7)</u>	<u>(73.7)</u>	<u>(56.7)</u>	<u>(52.4)</u>
Profit on ordinary activities before taxation	419.6	418.6	418.6	371.8	228.7
Taxation on profit on ordinary activities	(76.4)	(34.2)	(62.2)	(51.4)	(25.2)
Windfall tax	–	–	(230.7)	–	–
Non-equity dividend	(1.0)	(0.9)	–	–	–
Profit for the financial year	<u>342.2</u>	<u>383.5</u>	<u>125.7</u>	<u>320.4</u>	<u>203.5</u>
Capital investment	476.3	485.4	485.3	409.7	349.0
Earnings per share	97.6p	106.3p	33.1p	82.8p	50.7p
Adjusted earnings per share	97.6p	104.4p	90.7p	85.5p	74.3p
Base dividend per share	46.5p	42.6p	38.4p	34.4p	28.3p

Balance sheet

Year ended 31 March	2000 £m	1999* £m	1998 £m	1997 £m	1996 £m
Fixed assets	4,454.1	4,105.4	3,763.2	3,430.5	3,142.7
Net current (liabilities)/assets	(382.2)	(500.7)	(577.9)	(338.5)	6.9
Creditors: amounts falling due after more than one year	(1,729.8)	(1,449.1)	(979.6)	(839.5)	(773.6)
Convertible debt	–	–	–	–	(81.8)
Provisions for liabilities and charges	<u>(59.9)</u>	<u>(51.7)</u>	<u>(58.3)</u>	<u>(87.0)</u>	<u>(123.9)</u>
Net assets	<u>2,282.2</u>	<u>2,103.9</u>	<u>2,147.4</u>	<u>2,165.5</u>	<u>2,170.3</u>
Share capital	102.9	105.0	380.5	379.4	404.0
Share premium	69.9	55.6	52.1	48.6	8.2
Capital redemption reserve	319.9	317.5	41.4	41.4	–
Reserves and retained profits	<u>1,789.5</u>	<u>1,625.8</u>	<u>1,673.4</u>	<u>1,696.1</u>	<u>1,758.1</u>
Shareholders' funds	<u>2,282.2</u>	<u>2,103.9</u>	<u>2,147.4</u>	<u>2,165.5</u>	<u>2,170.3</u>

*Restated in respect of FRS 15 (see note 1).

SHAREHOLDER INFORMATION AND SERVICES

Category	Number of holders	%	Holding	%
Individuals	183,891	94.97	57,609,501	16.40
Banks or nominees	7,569	3.91	270,853,897	77.07
Investment trust	189	0.10	384,543	0.11
Insurance company	215	0.11	8,437,803	2.40
Other company	1,650	0.85	7,402,374	2.11
Pension trust	39	0.02	3,212,018	0.91
Other corporate body	71	0.04	3,519,600	1.00
Total	193,624	100.00	351,419,736	100.00
Band analysis as at 31 March 2000				
1-500	169,152	87.36	39,113,890	11.13
501-1,000	16,151	8.34	11,075,225	3.15
1,001-5,000	6,780	3.50	12,631,148	3.59
5,001-50,000	1,026	0.53	16,098,915	4.58
50,001-100,000	168	0.09	12,058,692	3.43
100,001-1,000,000	301	0.16	94,432,457	26.88
1,000,000 +	46	0.02	166,009,409	47.24
Total	193,624	100.00	351,419,736	100.00

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. A £15 minimum charge applies per transaction. In addition, a special facility has been arranged with Cazenove & Co. for shareholders who own up to 150 ordinary shares to sell them free of dealing charges or commissions. This facility is only available until 29 September 2000. There will be a further opportunity for shareholders to sell their B shares free of charge on 15 September 2000. Full details of this offer and the action required can be found in the Notice of Annual General Meeting or by contacting the Registrar who will also provide full details of the other services mentioned above.

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 Registrar.

THAMES WATER CORPORATE ISA

The Company has introduced a corporate Individual Savings Account (ISA) administered by The Share Centre. If you would like further information please contact The Share Centre by writing to Thames Water Corporate ISA, PO Box 1000, Freepost HH787, Tring, Herts HP23 5BR or the following email address: thameswater@share.co.uk

INTERNET ENQUIRIES

It is now possible to use the internet to enquire about your shareholding. The Registrar's site can be visited on www.computershare.com. To obtain information about your own personal holding you will need to know the reference number that is individual to you. This personal number can be found on the card attached to your AGM voting card or on your share certificate.

SHARE PRICE INFORMATION LINE (CITYCALL)

You can obtain the current share price by calling 0891 222302. Calls cost 50p per minute at all times.

SUBSTANTIAL SHAREHOLDINGS

At 7 June 2000, the Directors had been advised of the following notifiable interests in the Company's share capital:

Franklin Resources, Inc and its affiliates	9.02%
The Capital Group of Companies	4.03%
AXA SA and its subsidiaries	3.78%
Standard Life Group	3.00%

FINANCIAL CALENDAR

23 May 2000	Preliminary announcement of final results
25 July 2000	Annual General Meeting, The Barbican Centre, London
31 July 2000	Ex-dividend date for final dividend (ordinary shares)
4 August 2000	Record date for 2000 final dividend (ordinary shares)
29 August 2000	Ex-dividend date for half yearly dividend (B shares)
4 September 2000	Record date for half yearly dividend (B shares)
6 October 2000	Half yearly dividend payable (B shares)
31 October 2000	Announcement of half yearly results for six months to September 2000
2 April 2001	Final dividend payable (ordinary shares)
2 April 2001	Interim dividend payable.
6 April 2001	Dividend payable (B shares).

SHAREHOLDER ENQUIRIES

The Company's share register is maintained by Computershare Services PLC. Their address is: The Registrar, 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 0870 702 0124.

Shareholders with enquiries about Thames Water Plc or other shareholder matters can write to The Company Secretary's Office, Blake House (RBHG), Manor Farm Road, Reading, Berkshire RG2 0JN or telephone 0845 741 4140 (local call rates apply within the UK).

CUSTOMER ENQUIRIES

0845 9200 800 (local call rates apply within the UK).

DIVIDEND REINVESTMENT PLAN

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

Living our Values and Principles

Environmental Review 2000

Conservation, Access and Recreation 2000

Thames Water Plc produces a number of publications providing detailed information on its operations and activities. If you would like to receive a copy of any of the reports shown above, please contact us indicating which reports you require. Either send an e-mail to investor.relations@thameswater.co.uk or write to the Investor Relations Department, Thames Water Plc, 14 Cavendish Place, London W1M 0NU. The Thames Water Plc Annual Report and Accounts 2000 is also available on our website www.thames-water.com.



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