

Annual report and financial statements 2014/15



TUESDAY



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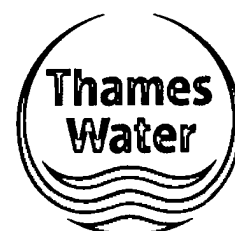
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09/06/2015

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COMPANIES HOUSE

At the heart of daily life



Our £1 billion annual investment programme is the biggest in the UK water industry

We manage and maintain 31,100km of water pipes and 109,400km of sewers across London and the Thames Valley

Our drinking water continues to be ranked among the best in the world

Customer bills remain amongst the lowest in England and Wales

We continue delivering enhancements to our health and safety performance, with workforce injuries at their lowest ever level



Treat and supply
2.6bn
litres of water per day for
9m
customers

100
water treatment
works



348
sewage
treatment works

Transport and treat
4.4bn
litres of sewage per day for
15m
customers



5,000
staff, with many
more contractors



Promptly and
accurately issue
6.8m
bills

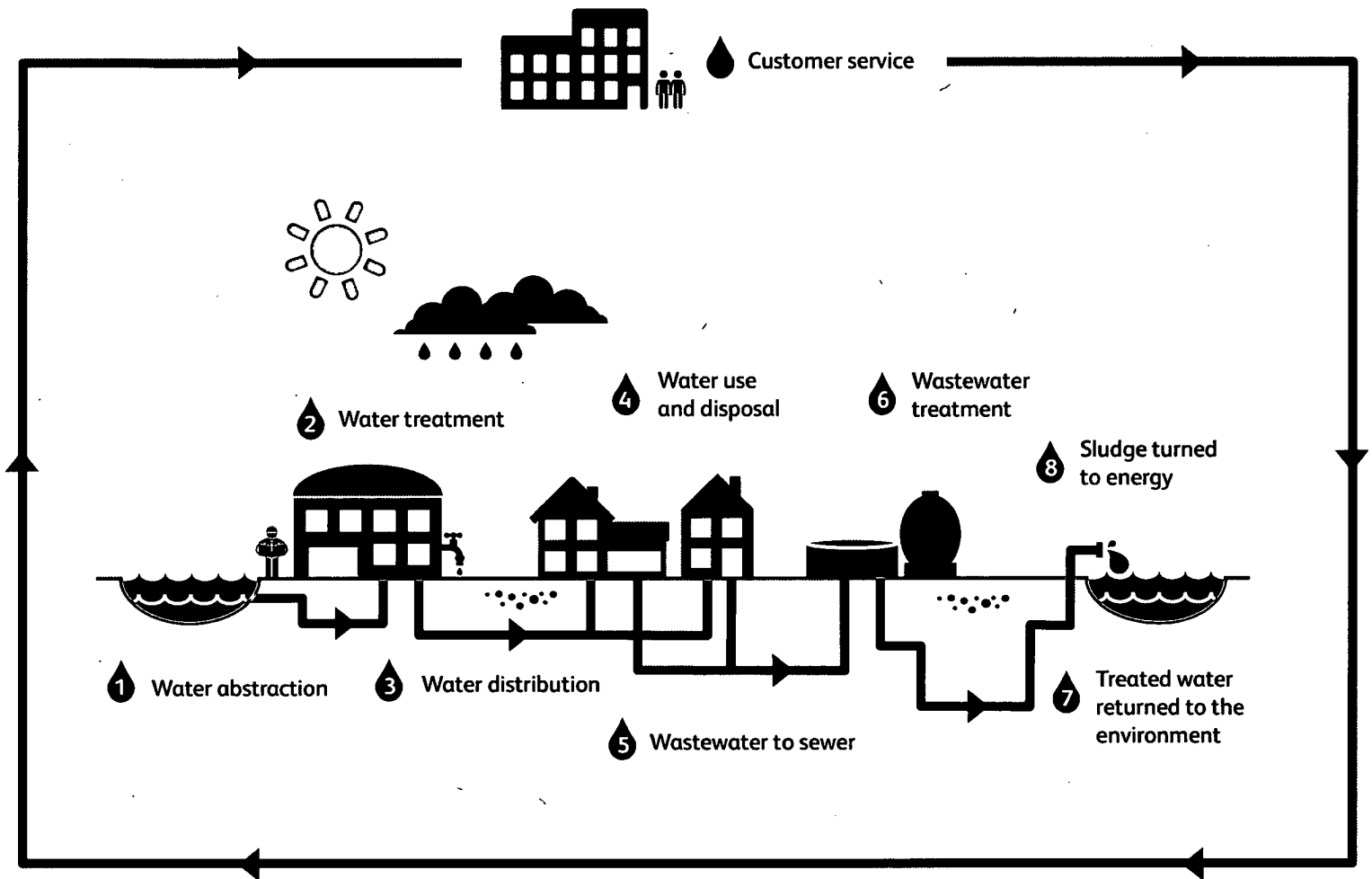


Receive
5m
visits to our
online platform



Handle
3.3m
customer queries

Our operations



We provide a safe, reliable and affordable water supply across London and the Thames Valley.

We do so by abstracting, treating and distributing high quality drinking water that customers can depend on.

Our wastewater service encompasses collection, treatment and safe disposal of wastewater whilst protecting public health and the environment.

Our sewage treatment processes are highly reliable; we utilise part of the sewage waste to generate power and safely dispose the rest for beneficial use.

2014/15 Highlights

Operational & Investment

- ❖ Invested **£1.4bn enhancing our infrastructure** with forecast £5bn capital investment over the next five years
- ❖ Firm commitment to **customer service improvements** continues, with written complaints down below industry average and customer satisfaction scores up from 4.20 (out of 5) in the first quarter to 4.40 by the final quarter
- ❖ Development Consent Order allowing **construction of the Thames Tideway Tunnel** received from the Secretaries of State. Robust, cost-efficient procurement process to select the company to finance and build the tunnel at best value now in final stages
- ❖ Established two **industry leading alliances** to deliver major capital projects and improve network service levels over the next five years and beyond
- ❖ Outperformed regulatory targets for **leakage reduction** for ninth year in a row. Leakage down a third since 2004

People & Community

- ❖ Providing a **safer place to work** with workforce injuries at their lowest ever level and finalist for the Health and Safety Initiative Award at the 2015 Water Industry Achievement Awards
- ❖ **Nurturing talent growth** by kick starting the careers of over 90 people through our apprenticeship, traineeship and Give Someone a Start initiatives
- ❖ **Empowering and supporting communities** – raising over £2m for WaterAid since 2011 in addition to our community projects and charitable donations

Financial

- ❖ Challenging **Final Determination** for 2015-20 agreed with regulator with plans well in hand to deliver financial and operational commitments
- ❖ **Pre-tax profits** recovered to £335.8m (2013/14: £259.3m) due to stable weather conditions, allowed price increases, operational efficiencies and lower finance costs
- ❖ Key **credit ratings** affirmed as **stable** by Moody's following acceptance of Ofwat's final determination for the price review period 2015-20
- ❖ Total **dividends paid of £169.9m** (2013/14: £208.5m) to the immediate parent company

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Chairman's overview



"We have delivered another year of improved performance; our aspiration of operational excellence is being delivered through continuous improvements that generate sustainable long-term results."

In an historic year, in which we celebrated the 150th anniversary of the opening of our London sewer network, we continue to prepare for the spectrum of changes about to take place in the water industry including the introduction of competition into sections of the retail market from 2017. Amidst this, we have delivered improvements to our core services including health and safety and customer service.

Review of the year ended 31 March 2015

The health, safety and wellbeing of our people and the public remains the Board's highest priority and we have delivered excellent progress towards achieving our aspirational target of zero harm. After several years of decreasing work related injuries, 2014/15 marks the lowest level on record. We remain determined to build on this momentum.

In conjunction with creating a safer working environment, we have focused on delivering better service which has yielded improvements in customer satisfaction scores rising from 4.20 (out of a maximum of 5.00) in the first quarter of 2014/15 to 4.40 by the final quarter. Our progress was also reflected in a report by the Consumer Council for Water (dated September 2014) which highlighted a fall in written complaints to below industry average levels. We remain committed to further improvements to deliver a robust long-term sustainable customer experience.

Amongst this progress, we have not compromised on our commitment to provide a safe and reliable water and wastewater service at an affordable cost. We have implemented targeted improvements at local water and waste treatment sites to improve capacity, efficiency, performance and the overall quality of service.

Alongside these initiatives, we have improved our financial performance. Total revenues have grown by 4.3% to over £2 billion, primarily driven by the annual allowed price increase and a slight rise in water consumption attributable to population growth. Profit before tax has recovered to £335.8 million due to increased revenue, stable weather conditions, operational efficiency improvements and lower financing costs.

Total dividend distributions during the year were £169.9 million, of which £69.9 million was utilised to service the Group's debt obligations and £100 million to compensate Thames Water's shareholders for their capital investment.

The results that we achieve are important, but so is the way in which we do business. We remain committed to being straightforward, transparent and communicating information clearly that our stakeholders may require to better understand the business.

Sustainable investment

Thames Water is at the heart of the communities it serves, and we embrace our commitment to the economy and quality of life. We directly employ over 5,000 people in the area and during the year we have taken on 847 new employees, 28 new apprentices, 22 graduate trainees and provided work experience for 43 people on our 'Give Someone a Start' programme.

We are custodians of a massive infrastructure network that delivers services to 15 million customers and as such we remain committed to its long-term effectiveness. In the last year alone, we invested approximately £1.4 billion, the highest level of capital investment made by any company in the UK water industry. This was directed towards delivering new infrastructure projects as well as maintaining the capacity and efficiency of our existing assets to generate service delivery improvements.

One of our key projects, the London Tideway improvements programme, aimed at expanding London's network capacity, continues to make significant progress. A major milestone was achieved as we celebrated completion of the tunnelling phase at the Lee Tunnel; which was honoured by a visit from His Royal Highness the Prince of Wales. Good progress continues to be made on the secondary lining phase with the tunnel on schedule to be completed in 2015/16. Once operational, the Lee tunnel will prevent 16 million tonnes of sewage overflowing into the River Lee in a typical year.

I am delighted to note that on 12 September 2014, the Secretaries of State granted full consent permitting the construction of the Thames Tideway Tunnel. This project will increase the network's capacity and contribute to a cleaner environment by preventing tens of million tonnes of raw sewage overflowing into the River Thames in a typical year. The tunnel will be built and owned by an independent infrastructure provider and operated by Thames Water as part of our network.

Effective governance

The Board continues to support the increased calls, including those from Ofwat, for enhanced transparency and enhancements to corporate governance across the industry. Acting in the spirit of these announcements, we worked with our shareholders to strengthen the Company's governance structure and have implemented a revised governance framework that came into effect from 13 March 2015.

As part of this exercise, we reviewed the composition of the Board of Directors and have welcomed two new independent non-executive directors: Lorraine Baldry and Ian Pearson. Following these appointments, independent non-executive directors (including myself as Chairman) now represent the single largest group on the Board. We also reconstituted our Board Committees which now each comprise a majority of Independent non-executive directors and are each chaired by an independent non-executive director. During the year, we also welcomed Nick Horler and Guy Lambert, as non-executive directors to the Board.

Following the comprehensive changes that have taken place during the year, the Board wishes to thank Dapeng Xu, Simon Eaves, Dan Buffery, Edward Beckley, Lincoln Webb, Rosamund Blomfield-Smith and Dr Peter Dyer for their service.

Regulatory environment

On 12 December 2014, Ofwat published their final determination on our business plan for 2015-20 which sets our price limits for the next five years. We have accepted this determination and remain confident of our ability to deliver the programme of commitments that customers have told us matter the most.

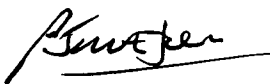
Amidst the transition to a new regulatory period, the water industry is about to undergo a radical change, the greatest since it was privatised in 1989. We welcome competition into sections of the retail market from 2017 as part of a continuing process of improving services and providing for customers' needs. More than ever, Thames Water's future success will rest on the business' ability to innovate and operate more effectively to meet the needs of our customers and stakeholders.

To position ourselves for the upcoming challenges, we are in the process of implementing our Business Transformation Programme. This focuses on positioning Thames Water for the future including how the business is structured and I am pleased to announce our new business model (on page 11) which came into effect in March 2015. The Business Transformation Programme will increase flexibility, provide a greater customer-centric focus, enhance efficiency and ensure effective delivery of our key service outcomes.

Future outlook

Thames Water's successful performance to date has been a reflection of our people's dedication, hard work and commitment and I thank everyone for their significant contribution to our Company.

We have ended the year well positioned to tackle the challenges of the next regulatory period. With the dynamic shifts in our operating landscape and the evolving needs of customers and stakeholders, I expect that the upcoming period will be no less challenging. However, I maintain absolute confidence in Thames Water's ability to meet and thrive in these challenging times.



Sir Peter Mason KBE
Chairman

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Chief Executive Officer's review



I am pleased to present, on behalf of the Board, Thames Water's strategic report for the year ended 31 March 2015; a year in which we continued to drive further improvements whilst readying Thames Water for the future, a company we can all continue to be proud of.

2015 marks the end of Ofwat's five year regulatory period AMP5 and the transition into a new regulatory period. Over the last five years, we have delivered a performance broadly in line with our initial 2009 business plan; rising above operational and financial challenges including volatile weather conditions, economic recession and the adoption of 40,000km of private sewers to provide customers an improving service at an affordable price.

Our operational performance for the year is described in more detail in the review of key performance indicators ("KPI") on page 17, our performance during asset management period 2010-15 ("AMP5") on page 7 and the results generated by performance are presented in the Chief Financial Officer's review on page 29.

Key operational performance 2014/15

Health and safety remains a key priority of the Board and in the year we delivered further enhancements through continued promotion of our zero compromise attitude as well as implementing a range of additional safety measures. This has resulted in a 24% reduction in reported injury rate from 2013/14 to the lowest level ever recorded of 0.19 per 1,000 employees.

Customers are at the heart of all that we do and we continually strive to improve our customer service. I am pleased with the improvements made in the year

which resulted in reducing the number of customer complaints by 6% from the previous year and 40% over the last 4 years. Our efforts are also reflected in internally measured customer satisfaction scores which increased from 4.20 (out of 5) in the first quarter to 4.40 in the final quarter. These scores continue to rise as we enter the new regulatory period, demonstrating the sustainability of these improvements. We acknowledge that whilst we are in a stronger position, we still have to deliver further progress to provide the level of service that our customers both expect and deserve.

Although we are pleased with the good progress achieved in 2014/15, we recognise that our wastewater assets (below ground) have not delivered against the high service performance we expect due to unusually high levels of sewer flooding. To address this, we have identified and implemented process improvements, committed additional resources and increased targeted sewer cleaning activities. We remain committed to upgrading London's sewer system and are developing the Thames Tideway Tunnel project which will significantly reduce the environmental damage caused by the growing problem of sewage overflow into the River Thames.

Absolute greenhouse gas ("GHG") emissions have risen by 11.5% compared to 2013/14. We are commissioning more efficient energy generation plants to be delivered in the next regulatory period which once fully operational, will reduce our dependency on grid electricity by over 10%.

Future outlook

My key focus for the next 12 months is to ensure we continue holding customers at the heart of all that we do, creating an even safer working environment, enhancing service delivery and effectively implementing our industry leading investment plan.

With the direction charted by the Company's corporate vision, a strong management team at the helm, and the unbounded enthusiasm of our people, I am confident that we will continue to deliver cost effective services for customers and fair returns for our shareholders whilst continuing to protect the natural environment on which our business depends.

AMP5 (2010-15) performance highlights

This financial year marks the end of AMP5, a five year regulatory period in which we delivered a succession of highlights including improving customer satisfaction, developing people and strengthening our health and safety environment. Amidst generating improvements to our core service delivery, we also focused on key construction projects including the London Tideway improvements programme, crucial to securing service delivery for future generations.

AMP5 also heralded a number of unforeseen significant challenges including two successive record dry summers followed by exceptionally wet winters of 2012/13 and 2013/14. Throughout this, we remained resilient in restoring and maintaining service levels and the improvement in our customer satisfaction scores has been a reflection of the hard work and dedication of our people.

During AMP5, we focused on delivering a better customer service which resulted in the growth of internally measured satisfaction scores and a reduction to written complaint levels. This was achieved by a number of measures including greater investment in staff training, extending customer contact hours and improving communication to keep customers informed on the progress of reported issues.

We delivered sustained improvements to our health and safety environment, instilling our zero compromise attitude into everything we do and investing in numerous training initiatives, all of which culminated in a new Company record being set for the lowest level of reported incidents.

We invested heavily to maintain and enhance our assets, enabling us to deliver some of the highest levels of water treatment and wastewater compliance in the UK. This achievement was all the more remarkable as we were required to adapt our existing network to accommodate ownership of over 40,000km of sewers that were previously privately owned and at various stages of disrepair. However, overcoming stresses arising from two back-to-back winters that witnessed unprecedented rainfall put undue pressure on our underground wastewater assets which we believe led to the less than satisfactory performance in some areas.

We have deployed additional resources and plans to deliver positive results to improve both customer service and the performance of our underground wastewater assets. Our commitment to restore the performance of these assets to acceptable or stable levels by 2016 is established within our outcome delivery incentives and approved by Ofwat.

We were proud to be the official Water and Wastewater provider for the 2012 London Olympic Games overseeing the installation of the permanent infrastructure on the Olympic Park as well as adding over 30 kilometres of new pipes and sewers to our existing network. Our proactive approach to planning and focus on delivering emergency responses in the face of any event delivered a seamless service and no water related incidents disrupted the Games.

We have generated capital efficiencies of circa £150 million in the last 5 years – the shareholders have reinvested these savings into our networks. In addition, following a favourable ruling in 2014 from HMRC with regard to historic tax issues we have committed an additional £10 million to our Customer Assistance Fund.

During the period, we successfully transformed our business from a centrally structured Company to four accountable operating companies (divisions) each fully responsible for its own operations and focused on proactively responding to the needs of its customer segment. Whilst our Business Transformation Programme is still underway, we have realised significant improvements in our operations and continue to pursue further operational excellence.

Financial performance

We undertook a number of efficiency programmes which delivered over £160 million in savings over AMP5 and helped offset some of the additional costs that we incurred including an increase in bad debts, weather related expenditure, carbon reduction and private sewer adoption costs. These programmes were designed to improve our overall efficiency and continue to be important as we move into the next regulatory period.

I am pleased to report on the successful delivery of our capital investment programme where we invested in excess of £5 billion in improvements and maintenance over the AMP. We embarked upon the largest construction projects in the UK water industry including the London Tideway improvement programme. This programme is delivering upgrades across five major sewage treatment works and our ground-breaking Lee Tunnel which is expected to be commissioned by the end of 2015.

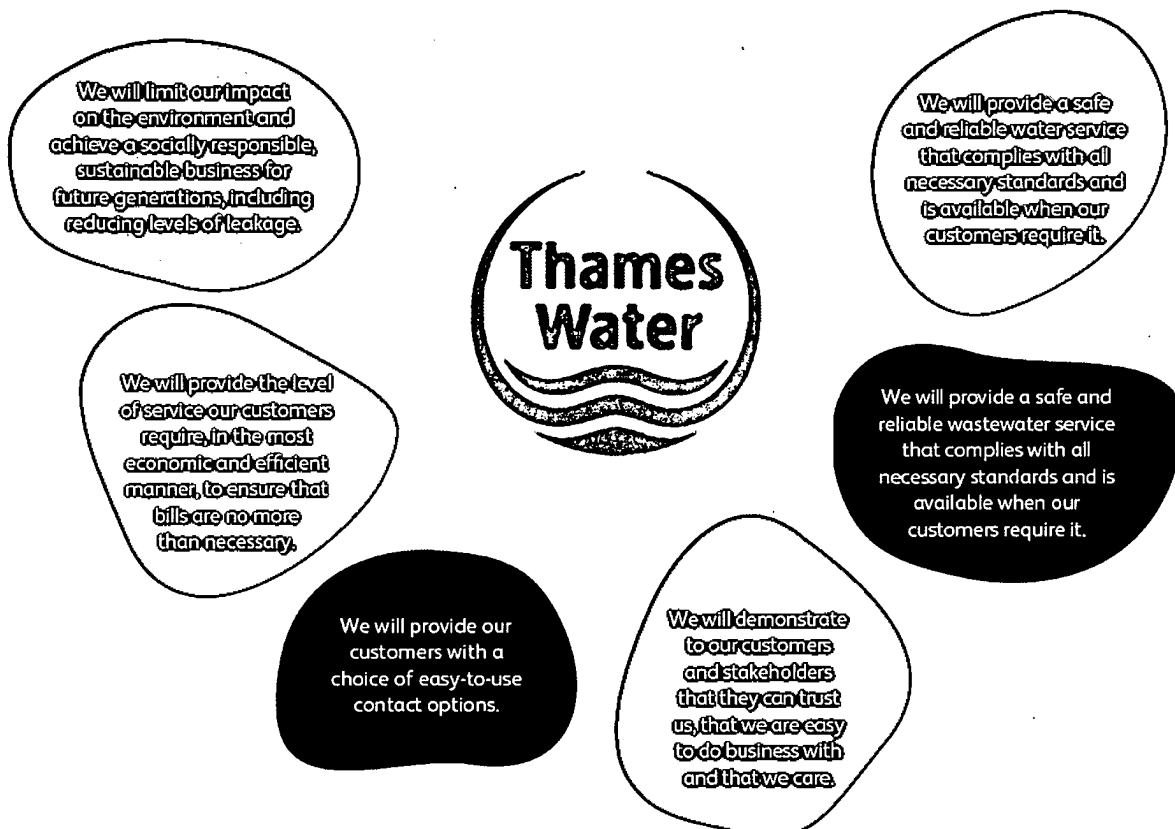
The Thames Tideway Tunnel was delivered from concept to achieving major milestones including obtaining full consent to commence construction, acquiring the majority of the required land and selecting the three preferred construction consortia to build the Thames Tideway Tunnel. The completion of the process to select the infrastructure provider who will finance and deliver the project is expected in the summer of 2015.

In their Final Determination, Ofwat allowed Thames Water £130 million additional revenues in the next five year period to compensate for the shortfall in household revenues during 2010-15. However, Ofwat also imposed a penalty totalling £119 million due to overall levels of customer service falling below Ofwat's expectation and less than satisfactory performance of our underground wastewater assets in the same period.

Business strategy

Our strategy informs how we conduct the business' activities and ultimately delivers the business performance. Strategy also defines what is vital to us, directs the deployment of our resources and concentrates business focus on the activities required to deliver on our commitments.

To improve our understanding of the key long-term services and benefits that customers require, we undertook an intensive public consultation exercise. Combining customer feedback with analysis of our operating environment clarified the demands of our key stakeholders and formed the foundations of the Company's strategy for each core area of operation. These key service outcomes are defined as follows.



To facilitate the delivery of performance against the identified service outcome commitments, we have defined specific strategies structured around our businesses.

Group

- Focus on enhancing further the health, safety and wellbeing of our people through our zero incidents, zero harm and zero compromise approach;
- Deliver the essential services we provide reliably and at a high quality whilst ensuring bills remain affordable and that we are able to provide adequate returns to our investors;
- Limit any negative impact our operations have on the environment;
- Continue to invest in staff training and respond to feedback received from customers and stakeholders; and
- In partnership with our Eight2O and Network alliances to enhance resilience across our network to generate efficiently, an overall improvement to customer satisfaction.

Our water strategy

- Make continued improvements to our day-to-day operations, eliminating avoidable failures and responding quickly to those we cannot avoid, providing an excellent customer service. No customer should be left without water;
- Meet today's demand through our progressive metering programme and reducing leakage to its economic level, while preparing to serve a growing population;
- Use technology to improve the performance of our distribution network;
- Meet all regulatory performance commitments; and
- Grow the value of our business.

Our wastewater strategy

- Develop a fully integrated approach to running our sewer system including reducing the input of rainfall that increases the volume of water in our waste water collection network;
- Ensure our wastewater treatment works comply with standards through careful assessment of risk of failure and focused investment;
- Increase generation of renewable energy; and
- Raise public awareness about the issues caused by improper waste disposal.

Our retail strategy

- Prioritising on getting things right first time and reducing our cost to serve;
- Keeping communications timely and effective, providing customers with easy to understand and accurate bills;
- Increasing the range of contact options, our range of online account management services and optimising use of social media;
- Continuing to support disadvantaged customers; and
- Better management of debt collection to ease the cost of non-payment on customers who do pay.

Business model 2014/15

Our business model defines how we have structured ourselves to conduct day-to-day activities that ultimately deliver the strategy and generate value for our stakeholders. During 2014/15, our business model was functionally focused and centrally structured in the following manner:

- Asset investment - responsible for major capital projects and asset stewardship;
- Operations - managed waste process plants, clean water process plants, water distribution network, water abstraction and waste collection;
- Customer service - this included billing, cash collection and call centre management;
- Commercial - responsible for innovation, property searches and related activities; and
- Thames Tideway Tunnel - promoting the development of the project to be delivered by a separately regulated entity.

The above businesses were supported by group support services including financial control, human resources, external affairs and strategy and regulation.

Whilst this structure has been effective in implementing the Company's strategy to date, we recognise that to effectively deliver the commitments that we have made for 2015-2020 and beyond will require a shift in the dynamics of our business model.

Transforming for the future

The coming regulatory period heralds a myriad of changes in our environment driven by new laws and environmental regulations, technological advances and changes in customers' expectations as well as the opening of the non-household market to competition from 2017.

To capitalise fully on the upcoming opportunities, we implemented our Business Transformation Programme which, upon completion, will generate greater flexibility in decision making and agility to respond to ongoing events and changing circumstances.

Our transformation journey began with the redesign of Thames Water's corporate vision and values in collaboration with over 4,000 of our people. This provided a glimpse of the talent, energy, passion and pride that is in our business and the opportunity to harness this drive in our future plans.

Vision and values

The corporate vision is the compass that charts the direction for Thames Water, translates who we aspire to be and what we set out to achieve and directs how we act and what we do.

We operate within an ever changing environment and as such, our vision is more essential than ever to express our continued commitment to always be here for all our stakeholders throughout all the changes to the external and regulatory environment.



Following the creation of our vision, we progressed to design the core values that Thames Water strives to embody. These values have been designed to express what Thames Water stands for and how we conduct ourselves in all activities. Our values are as follows:



Passionate about everything we do – We commit ourselves wholeheartedly in everything we do and always aim to work with enthusiasm, energy, and positivity.

Take ownership – We commit ourselves to taking responsibility and are proactive in focusing on solutions instead of problems.



Take care – We want people at Thames Water to look after themselves, our customers, and our business. We do not compromise on the health, safety, or wellbeing of our people and the public.

Be respectful and value everyone – We take time to listen to each other and treat people in the way they want to be treated. We strive to be supportive, inclusive and recognise that everyone has their own individual skills and experiences to offer.



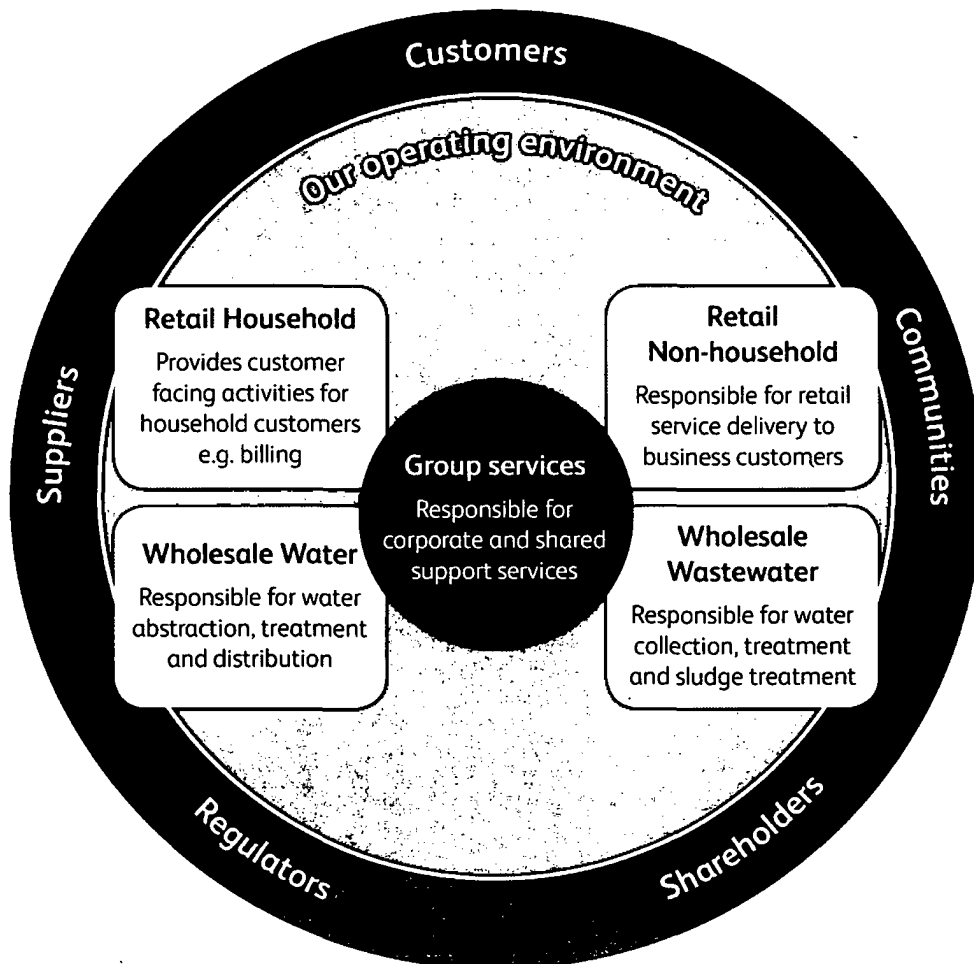
Reach higher, be better – We aim to constantly learn and challenge ourselves and each other to be the very best we can be and exceed all our stakeholders' expectations



Be proud, be blue – We celebrate our past, are proud of what we do today, and are excited about what our future holds.

Business model - 2015 and beyond

Our transformational journey defined the operational capabilities that will be required to deliver on our vision for the future. This involved undertaking a comprehensive review of our organisation design and the competencies required to deliver on our commitments which subsequently resulted in the design of our new business model. This new model, which came into effect from March 2015, has reorganised how we perform business and is delivery focused, reinforcing our commitment to be here for all our stakeholders. Our business is split into four distinct operating companies (not separate legal entities) as follows.



Each operating company is responsible for its own planning, operational and investment decisions to deliver a more focused approach, aligned with our overall strategy, to service delivery improvements. To facilitate decision making there are separate management structures and executive teams in place in each operating company.

Our new business model is designed to strengthen the Company's overall operations by taking a more focused approach, facilitate quicker decision making and deliver tailored responses to the changes that will occur in the different sectors of the water industry.

It will also ensure that the wholesale elements of the business interact with the retail activities in the same manner as any other third party retailer.

Wholesale water

Bob Collington is the managing director of the wholesale water operating company and is responsible for abstraction and treatment of raw water, and ultimately distributing 2.6 billion litres of high quality drinking water to our 9 million customers each day.

This operating company is responsible for delivering high quality drinking water, reducing leakage, making improvements in water supply interruptions and maintaining compliance with regulatory targets.

Wholesale wastewater

Lawrence Gosden heads up our wholesale wastewater activities and is responsible for the collection and treatment of 4.4 billion litres of wastewater from 15 million customers every day.

This operating company is responsible for delivering improvements to the health and performance of our sewerage treatment works, pumping stations and networks and improving overall service delivery whilst continuing to ensure the health, safety and wellbeing of our people.

When the Thames Tideway Tunnel is being constructed by a separately regulated infrastructure provider, we will support the project delivering interface work anticipated to cost £0.4bn during the period 2015-20.

Retail household and retail non-household

Ian Cain leads our retail household and non-household operating companies. Our retail business issues on average 6.8 million bills per annum, handles 3.3 million calls and queries every year and is dedicated towards improving Thames Water's responsiveness to the needs of customers.

The retail operating companies are responsible for enhancing customer service, reducing complaints and ultimately improving customer satisfaction. By gaining a better insight into the needs of customers, we will tailor products and services that are of most value to customers and deliver on our service commitments.

Group services

Whilst each of the operating companies acts independently, they are supported by a central corporate services unit that aligns our strategy and business plan commitments as well as providing uniform shared services across the Company.

The Thames Tideway Tunnel

The Thames Tideway Tunnel is a major project and is currently managed as a separate division. From summer 2015, we expect that this project will be owned and managed by an independent infrastructure provider with our interface obligations managed by our wastewater operating company.

Major transformation projects

Our Business Transformation programme has focused our efforts into key areas such as services delivery and harnessing the power of our contractor alliances. We have formed two significant industry leading infrastructure alliances, blending expertise and best practice from specialised parties to generate innovative solutions. Our Eight2O alliance with Costain, Atkins, Skanska, MWH, Balfour Beatty and IBM will deliver major capital projects for the next regulatory period and beyond. Our Infrastructure Alliance encompasses two joint ventures – Agility consisting of J Murphy & Sons and Morrison Utility Services and KCD, which comprises Kier Services Ltd and Clancy Docwra, to focus on maintaining our water infrastructure network. Both alliances will focus on collaborative teamwork, health and safety, sustainability and an integrated supply community to create long-term value.

Transformation has also focused our efforts on improving the use of data, employing enhanced technology, improving procurement and increasing targeted preventative works to reduce costly repairs that have a financial impact and cause disruption when assets fail.

Through our transformation initiatives we have realised dramatic changes in the way we work. It has also highlighted further opportunities for enhancements within areas including operations control, customer contact centres, interfaces with contractors and outsourcing to improve our service delivery.

Whilst we have delivered considerable progress into designing the Thames Water for the future, our transformation journey is far from complete. We will be implementing a number of key initiatives during 2015/16 to deliver our best performance in the regulatory period 2015-20 and beyond.

Business plan 2015-2020

Ofwat regulates the industry using five year cycles at the beginning of which it sets the prices we can charge customers, regulates proposed service levels and approves investment plans. 2014/15 marked the end of AMP5 and from 1 April 2015, we have embarked upon the five year regulatory period spanning 2015-20.

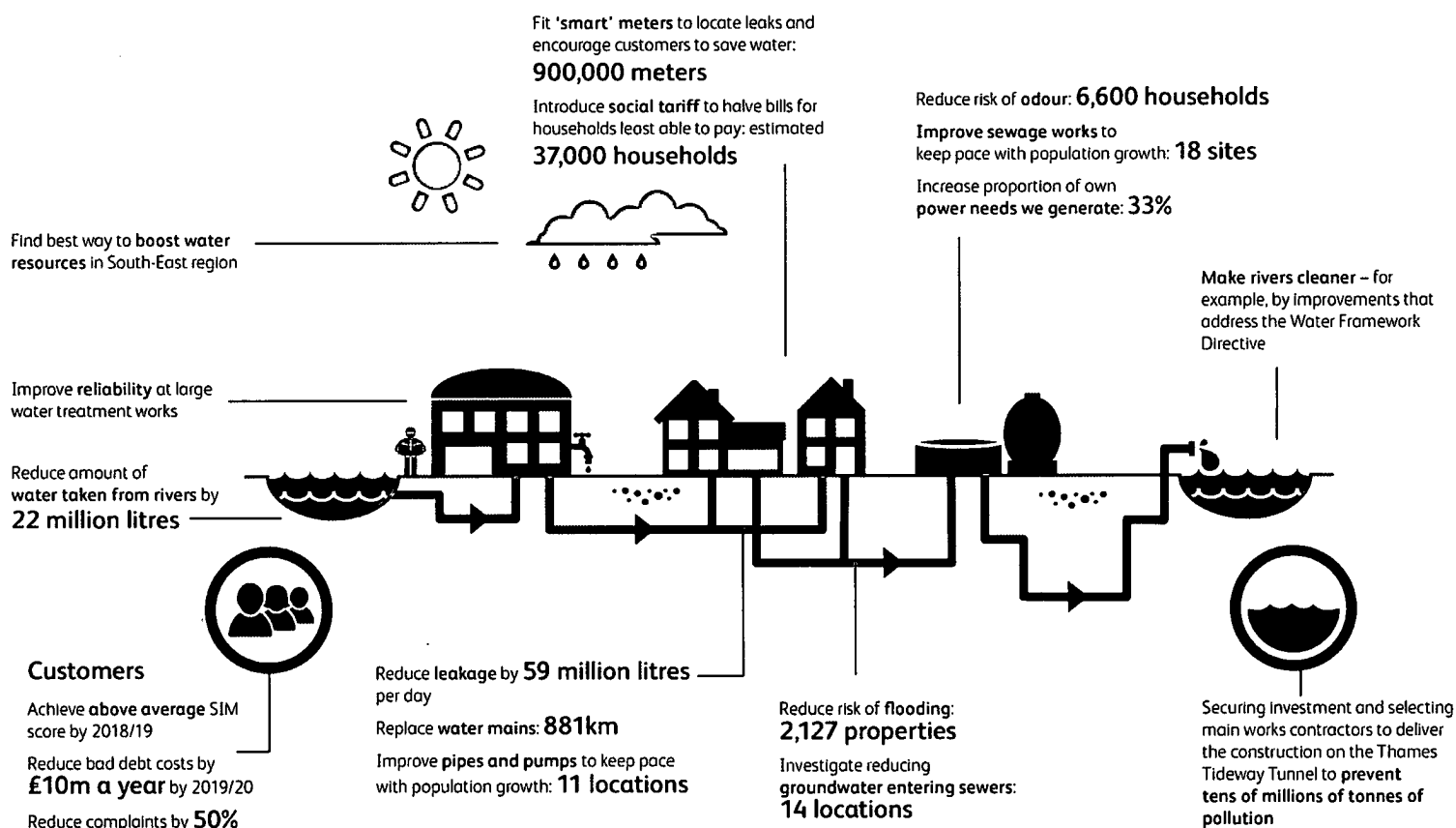
The key service outcomes defined in our strategy, as identified during our extensive customer collaboration exercise, drove the formation of the business plan for 2015-20. This plan is designed to meet the needs of customers both today and into the future, interwoven with the challenges that the water industry will face in the years to 2040.

Our plan focuses on the water resources in the Thames Valley region and the impact of a growing population with the aim of keeping bills as low as possible whilst making necessary improvements to service quality and environmental impact.

We submitted our initial business plan to Ofwat for 2015-2020 in December 2013 setting out the business' service delivery proposals and confirming the work we intend to do to maintain and improve services that customers have highlighted are essential to them. We worked with Ofwat to provide clarification and actioned amendments leading to the submission of our final plan in June 2014.

The new regulatory period 2015-20 heralds a number of changes to the water industry and the plan we submitted to Ofwat in June 2014 was tailored to reflect the benefits that stakeholders have highlighted matter the most. Our plan is challenging however we are confident that we have the right business structure and operational capabilities in place to deliver on our proposals. Like the rest of the industry, the expected return on our asset base was reduced from 5.1% to 3.74% reflecting the fall in market returns which will reduce revenues by approximately £806 million over the next five years. This reduction is partly offset by an increase in our allowance for wholesale total expenditure of £161 million as Ofwat judged both our waste and water operations to be amongst the most efficient in the industry.

A summary of the deliverables of our five year business plan is as set out below and available on the Company website.



We received Ofwat's draft determination in August 2014 which included a number of challenges that we addressed. Ofwat generally responded positively to our representations from the draft determination and largely accepted our proposals in the 'final determination' published on 12 December 2014. Thames Water was the only water and wastewater company in the industry to be recognised for the efficiency of both its waste and water activities and as a result our wholesale total expenditure allowance was increased by £161 million above the Company's business plan. Whilst our final determination is challenging, we have developed a plan in place to improve our overall service and deliver on our commitments.

Ofwat has set price limits for our services for the next five years which will see the average household bill for water and sewerage services rise from £368 in 2015/16 to £380 in 2019/20 (excluding inflation).

The price increase in our average bill of £12 (3.3%) over the regulatory period incorporates the costs associated with constructing the Thames Tideway Tunnel. This demonstrates the efficiency of our business plan in day-to-day activities and capital investment programme as average bills would have fallen by £14 over the same period excluding the costs of the Thames Tideway Tunnel.

During the period 2015-20, we intend to spend a total of £8.4 billion; the largest spend by any water and sewerage company in England and Wales. Our wholesale divisions will spend a combined total of £7.6 billion split between £3.4 billion to protect and improve water supplies, £4.2 billion to safeguard and enhance the delivery of wastewater services and deliver interface connections with the Thames Tideway Tunnel. Across our retail business, we will spend £0.5 billion delivering customer service improvements and supporting our disadvantaged customers and a further £0.3 billion on costs arising from non-payment of bills by customers. Bad debt is a major cost for the business, similar to the rest of the industry, and we are committed to reducing this in each of the next five years.

London Tideway improvements programme

London's Victorian sewerage system is unable to cope with the demands of 21st century London resulting in regular discharges of raw sewage into the River Thames, a situation that will only get worse with the anticipated population growth in coming years. To manage and mitigate this issue, we have initiated three major engineering schemes to stop sewer overflows and improve water quality in the River Thames.

These schemes include upgrades to all five of our major sewage treatment works in London and the construction of the Lee tunnel and the Thames Tideway Tunnel.

Treatment works upgrade

We have completed upgrading our five major treatment works at Mogden, Beckton, Long Reach, Crossness and Riverside.

Lee Tunnel

The £678 million Lee Tunnel is 6.9 kilometres long, 7.2 metres in diameter and up to 75 metres deep; indeed the deepest tunnel in London and the biggest project in the water industry for many years. This is being delivered on time and to budget. The Lee Tunnel will connect Beckton sewage treatment works with Abbey Mills Pumping Station in Stratford East London and in a typical year capture overflows of 16 million tonnes of sewage and reduce pollution in the Thames estuary.

The Lee Tunnel project is now in its final year of construction with secondary lining 83% complete and good progress being made on the mechanical installation in the pumping shaft. The tunnel is on schedule to be commissioned for the end of 2015.

Thames Tideway Tunnel

The Thames Tideway Tunnel is a major new sewer, urgently needed to protect the tidal River Thames from increasing pollution and will tackle the problem of sewer overflows for at least the next 100 years, enabling the UK to meet European environmental standards.

This tunnel is the largest wastewater project in the UK and is estimated to cost approximately £4.1 billion (excluding inflation) of which Thames Water is responsible for a £1 billion net spend on acquiring land and interfacing costs to connect the Thames Tideway Tunnel to our existing network. The remaining £3.1 billion is to be funded by a separate infrastructure provider who will deliver the project and own the tunnel. Upon commissioning in 2023, the tunnel is expected to capture tens of millions of tonnes of untreated sewage and rainfall that currently overflows into the River Thames in a typical year.

Due to the size, complexity and risks involved in the delivery of the Thames Tideway Tunnel project, the tunnel will be financed, built and owned by an independent specialist infrastructure provider with its own licence from Ofwat. The infrastructure provider will benefit from Government support which reinforces how essential this project is for the sewage infrastructure of London.

We have set up a separate entity, Thames Tideway Tunnel Limited ("TTT Ltd") to secure finance, construct and manage the tunnel project. TTT Ltd has in place its own management team which is equipped to make strategic and operating decisions in the best interests of the project. We are managing the formal process to secure investment for this project as we expect that the infrastructure provider, independent of Thames Water, will be operational from the summer of 2015

Upon completion, the tunnel will be integrated with Thames Water's existing network and be operated as part of the Company's existing infrastructure. As such, we continue to provide support to ensure that the completed tunnel will comply with the Company's requirements.

To deliver the benefits required, the Thames Tideway Tunnel is designed to be an engineering project with technical innovation at the core of every aspect of its design and construction. It is intended to safeguard London's sewage system for at least 100 years and will tackle both challenges arising from population growth and continuing loss of undeveloped land that results in overflows when there is rainfall.

The Thames Tideway Tunnel will lead to a cleaner, healthier river for people and wildlife, and ensure that the UK meets Europe's legal and environmental standards consequently leading to a safer and healthier ecological environment. It will take seven years for a separately regulated company to build, with main construction due to start in 2016. The tunnel will directly create over 4,000 jobs and further indirect employment opportunities to become one of the biggest employers in London.

This strategic report was approved by the Board of Directors on 4 June 2015 and signed on its behalf by:



Martin Baggs
Chief Executive Officer

Operational performance

We are committed to conducting our business with integrity and transparency to ensure that the decisions we make today are right for the long-term. To ensure that our plans, vision and strategies for the future are closely aligned with the needs and requirements of our customers and other stakeholders, we have designed a range of measurable 'outcomes' against which we have assessed our performance for 2014/15.

These outcomes represent the services and benefits we aim to provide for our customers and the environment in the year. The outcomes have been designed to support our overall long-term strategy and plans, as detailed on pages 8 to 9. They provide a transition between AMP5 and the regulatory period 2015-20, and were the start point in developing our outcomes for the individual operating companies.

2014/15 Outcomes



Caring for our customers, community and people - We aim to demonstrate to our customers that they can trust us, we are easy to do business with and that we care. We aim to contribute positively to the community, to be a good neighbour and to act on the views of our customers and stakeholders. We aim to recruit and retain the best people and help them reach their true potential. We want all our employees and contractors to be safe and healthy.



Providing a safe and reliable water service – We aim to provide a safe and reliable water service that exceeds all health and safety requirements, whilst making sure that water reaches our customers' taps all day, every day.



Providing a safe and reliable wastewater service – We aim to provide a safe and reliable wastewater service that exceeds all health and environmental standards, without inconvenience to our customers, every day.



Limiting our environmental impact – What we do impacts on the environment in many ways. We aim to limit this impact to achieve a socially responsible and sustainable business for future generations.



Providing value for money and investment – We aim to provide the level of service our customers require, in the most economic and efficient manner, to ensure their bills are no more than necessary.

We monitor our performance carefully against these outcomes, using a number of Key Performance Indicators ("KPIs"). These KPIs demonstrate how well we are operating as a business and are grouped together into the above 2014/15 outcomes. All of our KPIs are monitored by the Board of Directors and senior management on a monthly basis and are used to help us to make effective decisions.

Key performance indicator summary

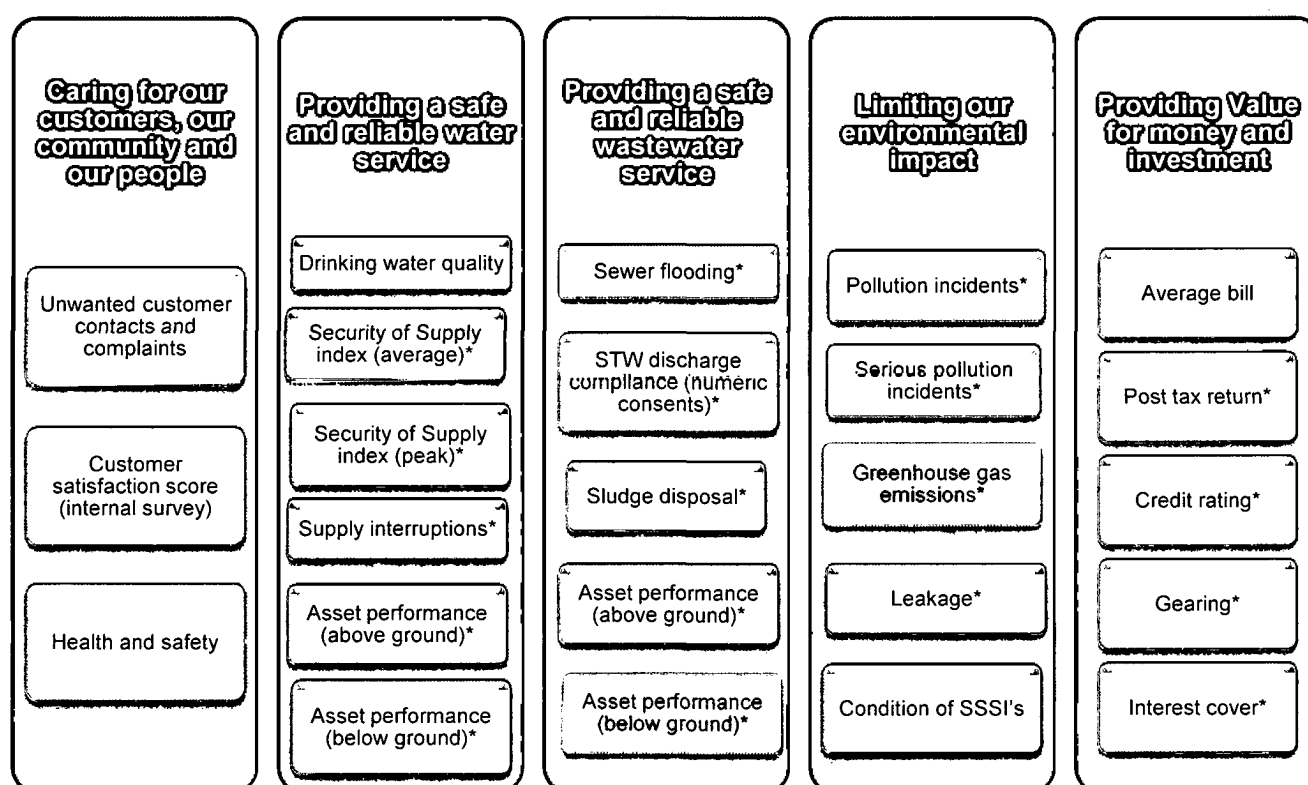
The summary dashboard shown below gives an overview of the most important KPIs we use to measure our performance, grouped together by the outcomes we aim to achieve. Each indicator is assigned a red, amber or green rating to show how we have performed in the year against the relevant target.

The ratings definitions can be summarised as follows:

- Green**  Performance at or above our benchmark
- Amber**  Performance slightly below our benchmark
- Red**  Performance significantly below our benchmark

The financial KPIs relating to 'Providing value for money and investment' are given as part of the analysis performed by the Chief Financial Officer within his report (pages 29 to 36). Commentary around the other performance outcomes and associated KPIs is given in pages 18 to 28.

KPI dashboard summary:



* KPIs required by Ofwat

Sewer flooding, pollution incidents & waste asset performance (below ground) - Our red and amber ratings for these activities reflect the pressure our networks came under in the exceptionally wet winters of 12/13 and 13/14. The number of people affected by sewer flooding in 14/15 did fall and we have significant resources devoted to improving our performance.

Greenhouse gas - In 14/15 we did not offset increases in emissions as required and there was a change in the grid electricity factor (set by central government) which increased carbon dioxide equivalent arising from our activities. We continue to increase power generated from waste up 4% on 13/14 and we are committed to doubling the power we generate from waste by 2020.

Caring for our customers, our community and our people

Caring for our customers



We believe that our customers are at the heart of all that we do, that we should provide them with the best service that we can provide and we strive to improve our service to them as much as possible



Unwanted customer contacts and complaints: 35.01 score out of 50 (2013/14: 32.80)



Customer satisfaction score (internal survey): 4.29 score out of 5 (2013/14: 4.03 based on internal survey)

Over the last four years we have measured our customer service performance using a two-part Service Incentive Mechanism ("SIM"). The first part allocated a penalty point for each unnecessary contact and complaint made by customers. This includes every occasion on which a caller could not get through on our telephone lines as well as any abandoned calls. The second part gauged customer satisfaction by independently surveying a sample of those people who have contacted us, referred to as customer satisfaction scores ("CSAT").

In arriving at the ratings for unwanted customer contacts and complaints and customer satisfaction score, we have applied logic as recommended by Ofwat in its March 2012 KPI guidance. This guidance assigns a total score of 100, with scores over 50 qualifying for a green rating. As both measures above exceed 50% of the target, they have been assigned a green rating.

For 2014/15, we are no longer required to report on the overall SIM measure as Ofwat is trialling a new CSAT measure and the independent CSAT survey has been discontinued since March 2014. Consequently, we have replaced the overall SIM measure with two separate KPIs. These are the two parts of the overall SIM measure described above, with the independent CSAT survey replaced by our own customer satisfaction survey. Our CSAT survey is based on customer feedback on service provided and replicates as closely as possible the prior years' independent surveys.

The number of written complaints has continued to drop each year of the last three years and now stands at 20,531 (2013/14: 21,915) from a total of 3.3 million phone calls including 0.5 million written and email enquires in 2014/15. This is a reduction of over 6% since 2013/14. The Consumer Council for Water has commended us on the significant progress that we have made leading the water and sewage industry by achieving the largest annual reduction in complaints (32%) across the industry from March 2013. We have also made significant progress in reducing unnecessary customer contacts, improving our performance by 8% from last year. The number of calls to our call centres abandoned by the customer (87,413) has reduced by nearly 39% from last year (2013/14: 143,126). This has been achieved by ensuring that resourcing levels are appropriate for expected call volumes along with improved flexibility, especially with our outsourced partners. There has also been an improvement in call forecasting accuracy and an improved service level, with 74% of customer calls answered within 30 seconds.

The feedback from our own customer satisfaction survey is monitored daily and is used to report progress as well as informing continuous improvement and training programmes. A total of 206,000 customer surveys have been completed across revenue, water and wastewater services with the key results shown below compared to prior year. CSAT scores are presented out of a maximum of 5 by each business area.

Area of Internal Survey (annual average)	2013/14 CSAT (internal survey)	2014/15 CSAT (internal survey)	Change
Retail	4.35	4.48	+0.13
Water	3.38	3.97	+0.59
Wastewater	4.03	4.21	+0.18
Group	4.03	4.29	+0.26

Our scores reflect our increased focus on delivering a greatly improved service to our customers; this year we increased our Saturday opening hours for billing enquiries, established teams to liaise with customers when things go wrong and have made it easier for customers to transact with us online. We continue to develop our understanding of what customers consider to be important to them so that we can identify and intervene on poor service.

We acknowledge that whilst we are in a stronger position than we have been in the past, we still have a long way to go in order to provide the level of service that our customers expect. In Ofwat's Final Determination published in December 2014, we were given a revenue adjustment penalty of £95.5 million based on our SIM scores from 2011/12 to 2013/14, which were below the industry average over that time period. Our key priorities going forward will therefore be reducing and mitigating disruption, quickly resolving issues, keeping our promises and ensuring our customers are always informed.

We continue to provide additional free help to 58,617 (2013/14: 58,135) customers who require assistance because of disability or other personal circumstances.

We continued to provide financial help for customers struggling to pay their bills. Our Customer Assistance Fund helped 4,797 (2013/14: 3,426) customers. The Thames Water Trust Fund directly assisted 211 customers and provided assistance to organisations that provide debt advice. In addition, our WaterSure tariff scheme which helps vulnerable households with a metered supply by capping their water bill had 6,379 (2013/14: 6,323) successful applications.

We have set out our minimum standards of customer service and the compensation payments we will make if we fail to meet them under our Customer Guarantee Scheme. Details of this can be found on our website at <http://thameswater.co.uk/help-and-advice/2017.htm>.

Caring for our community

We aim to contribute positively to the community, to be a good neighbour and to act on the views of our customers and stakeholders.

We work closely with local communities, councillors and MPs on numerous important issues, including the development of sewer flooding and drainage strategies in areas affected by the recent wet winters. In West London we are currently consulting with local communities on the Counters Creek sewer flooding alleviation scheme, part of which involved sending letters to over 40,000 residents in the affected boroughs.

More broadly, we continue to undertake a diverse range of research to help improve our customer service and communications, including working with customers to develop our award-winning 'Bin it – don't block it' sewer use campaign. During 2014/15 we were awarded a Business in the Community Big Tick award for engaging customers in sustainable behaviours through this campaign.

Each year we host our Annual Stakeholder Review event, where delegates have the opportunity to ask questions directly of our Chief Executive. Our 2014 event was our largest ever, attended by more than 90 stakeholders from local authorities, environmental groups, business customers and the finance community.

We have volunteered to spend a total of £8.5m over the next five years on measures which provide redress to our customers and the community resulting from the AMP4 sewer flooding settlement agreed with Ofwat last year. Of this amount, £2m has been provided to the independently managed Thames Water Trust Fund, which provides grants to advice organisations and funding for our customers in extreme hardship. The remaining amount has been allocated to funding community projects such as local programmes to better protect rivers and improve the natural environment. During 2014/15, we invested £0.8 million in the Trust Fund and other community projects.

In addition to community project funding we have made charitable donations in the year totalling £0.6 million to charitable organisations including:

- Charities Aid Foundation to fund our small grants programme;
- The Company's principal charity, WaterAid; and
- Thames Water Trust Fund.

Our employees also raised nearly £0.2 million either by taking part in fundraising or through our payroll giving scheme. We are pleased to support our colleagues and matched this to a total of £63,000 which is included in the above figures.

We continue to raise funds for WaterAid, where 2014/15 was the final year in our successful four year bid to raise £2 million, half of which will go to support four villages in Bangladesh (Thames4Bangladesh). Due to the fund raising efforts of our employees and the generosity of our customers and contractors, we have exceeded this target, through raising a total of £0.5 million during 2014/15 alone. Over 43,000 people now have access to clean water and 46,000 people have access to safe sanitation in Bangladesh. We received the Highly Commended award at the 2014 Business Charity Awards for our Thames4Bangladesh fundraising.

We recognise our responsibility, where possible, to give access to the land we own and over 100 of our sites have some form of public access. More than 1,700 people also took advantage of open days at Thames Water sites which are not normally open to visitors, including trips to see our work on the Lee Tunnel.

We have reached over 16,000 young people through our educational activities including our education centres on sewage treatment works, community speaker programme and the Network Challenge where we invite students to design and build their own water supply network.

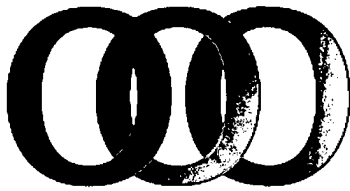
We aim to minimise the odours that can occasionally arise at our sewage treatment works and inconvenience the nearby community. During 2014/15 we completed work to reduce the risk of odour at Beckton sewage treatment works in East London and Long Reach sewage treatment works in Dartford.

Health, safety and wellbeing



We aim to recruit and retain the best people; supporting them in their work and helping them make the most of their abilities. It is also vital that we keep them safe and healthy, as well as the many contractors we employ.

The wellbeing of our employees, contractors and the public remains our key priority and during the current period we have been promoting our Zero Compromise attitude towards health and safety.



**Zero incidents
Zero harm
Zero compromise**

Keeping you healthy and safe, every day at work



Health & Safety: [0.19] reportable injuries per 1,000 employees (2013/14: 0.25)

For 2014/15, our reported injury rate was 0.19 per 1,000 employees. This was an improvement of 24% in reported injuries from 2013/14, and a reflection of our dedication to meeting our Zero Compromise target. We continue to develop upon the initiatives introduced in 2013/14 which have resulted in a significant reduction both in the number of incidents occurring and the frequency of injuries.

In 2010, there was a tragic incident at our Coppermills Lane site which resulted in the death of one of our employees. We took responsibility for this incident for which the associated litigation concluded in December 2014 with Thames Water being convicted and fined £300,000.

We have implemented various health and safety measures to deliver improvements in our environment which have yielded sustainable positive results which include:

- Behavioural safety training to help our employees and contractors consciously improve their attitudes towards health and safety and mitigate potential risks in their working environment. This has resulted in an increase in the number of hazards reported in the year.
- Over 300 managers within the business have attended the National Examination Board in Occupational Safety and Health ("NEBOSH") training. This equips them with the knowledge and skills required to assess risk and manage the safety of their employees which will lead to a safer working environment.
- Building Personal Resilience course for all employees, which supplements the Managers Resilience course introduced in 2013. This is one of the measures in helping tackle stress in the workplace and we have seen a 40% drop in stress related cases referred to occupational health in 2014/15 compared with 2013/14.
- Extension of our Executive Incident Reviews to now also include work related health absences. These reviews provide our senior management with transparency on the actions taken by local management and a better ability to assess their effectiveness.
- We introduced a comprehensive personal medical assessment available to all our employees undertaken by specialist medical professionals. During the year over 3,000 of our employees participated and had a confidential assessment which, from now on, will be an annual opportunity for all to identify existing or potential health risks and gain professional one-to-one advice.
- We have enhanced our personal protective equipment and work wear standards for Thames Water and our contractors to ensure that all persons within any of our workplaces will have a consistent level of protection applied.

We have seen a 27% reduction in the number of buried service strikes during the year (damage to underground electricity cables). This has been led by the Utility Management Working Group which has introduced a number of initiatives including a Buried Service Avoidance dashboard, confidence versus competence assessments and Executive led interventions following a service strike.

As part of our 'driving safely' programme we have realised a 24% decrease in vehicle incidents in the year. In addition we are actively working with our contractors and suppliers in support of the Construction Logistics and Cyclist Safety Scheme ("CLOCS"). Our fleet of vehicles continues to be fully compliant with the standards and our contractors are now required to follow the same standards. We require all suppliers and contractors to undergo health and safety assessments which are conducted independently.

The Health and Safety Hub is our collaborative website used by our alliance partner organisations to share hands-on health and safety information and best practice to prevent incidents and save lives. The "Home Safe Counter", on the Hub, provides real time clock updates on the number of man hours that have passed since one of our employees or contractors incurred a workplace related injury preventing them from returning to work the following day. This provides immediate visibility of any lost time injury and also prevents recurrence of similar incidents.

Caring for our people

Our Values

Proud, engaged, talented people who are passionate about our business are at the heart of serving our customers well. Our new 'Vision and Values', co-created with our people, were launched this year and are becoming part of how we do business and continuously improve for our customers.

During this year's business transformation activities, 70% of our people chose to give us their honest views on the company through our annual engagement survey, "Hear for You" resulting in an employee satisfaction score of 64% (2013/14: N/A). This was an excellent opportunity for us to recognise and applaud our strengths and develop targeted action plans to address areas where we have room to improve.

Developing our staff

Investing in our people is a priority to ensure we have the skills, competence and talent we need to succeed in the future. We have built a high quality portfolio of programmes and activities that support our people development. This year we delivered over 19,000 days of formal development. We have a focus on leadership with 256 managers attending our core management development programme and have introduced Talent Pools with some 80 high potential employees this year to identify a longer term pipeline of future leaders.

Our formal and informal training programmes contribute to the additional work we are doing to attract and develop new talent for our industry as a whole, making sure our company and the wider water and sewerage industry have a talented and sustainable workforce. As part of the Energy and Utilities Sector Partnership, working with EU Skills, we are leading the way with the first traineeship programme; 14 trainees started this year. From the success of this programme we aim to increase intakes in the following years to counter ageing workforce attrition.

We have successfully launched our "Give Someone A Start" programme. To date, this programme has offered 43 placements to people who want to gain skills and experience to aid them in obtaining future employment. Of those who participated, 11 people have since been employed by Thames Water or one of our partners. We continue to drive our established Apprentice and Graduate programmes with intakes of 28 and 22 respectively for the 2014/15 year.

Employee engagement

Executive team members hold regular meetings with employees throughout the business as we strive to maintain open and effective dialogue throughout our vast network. On a regular basis, senior management brief employees on the operational and financial results of Thames Water through various channels, including team meetings, one-to-one discussions, a weekly personal e-mail from the Chief Executive Officer, monthly publication of our internal 'Source' magazine and countless other forms all with the goal of keeping employees informed and engaged.

We support and challenge the performance of our people through our annual Performance Development Review process. This feeds into 'Talking Talent,' our talent and succession planning programme. Our reward and recognition policies and activities are competitive and our leaders share in company success through longer term incentive plans. We celebrate success through our long service awards and annual Employee Awards, recognising people who have demonstrated our values and acted as ambassadors for the Company.

External recognition of our efforts

Our people have delivered much this year and through their hard work and commitment, we have been externally recognised for some real achievements, including:

- A Highly Commended award at the 2014 Business Charity Awards for our fund raising for the Thames4Bangladesh programme with WaterAid;
- Winning the Carbon Reduction Initiative of the Year and the Health and Safety Initiative of the Year at the 2014 Water Industry Achievement Awards; we were also shortlisted in the innovation and flood management award categories;
- Shortlisting of our capital procurement team for the Supply Chain Excellence of the Year award at the 2014 Construction News Awards;
- Shortlisting of our 'Bin it don't block it' campaign for engaging customers in the sustainability category at the Business in the Community awards; it was also shortlisted at the Chartered Institute of PR awards for best use of media relations and best integrated campaign;
- Shortlisting of our customer retention marketing campaign for the Best Campaign category at the 2014 CorpComms Awards;
- One of our young talents being a finalist for the Outstanding Student award at the 2014 CIPD People Management Awards; and
- Awarded "best environmental film" and "best overall film" at the Global Sustainability Film Awards 2014 for highlighting the effects of pollution in the River Thames.

We are proud of how we engage, support and develop our people and this year we were shortlisted for the Utility Awards Staff Development Award and were finalists in the HR Excellence Awards for Best Recruitment Strategy, Best HR Team and HR Director of the Year.

Diversity

At Thames Water we aim for a workforce that is representative of the communities in which we operate. Our policies and practices comply with current legislation. Alongside this, our values protect and support our people by creating an inclusive work environment, where people are treated with respect and are supported throughout recruitment, induction, career development and progression. Our current diversity profile shows across our total workforce; 31% are female and 69% male. Across our management grades, 27% are female.

Thames Water is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and has policies and procedures in place ensure both job applicants and employees with disabilities have equality of opportunity, are treated fairly and have a safe and practical workplace, free from discrimination, bullying, harassment or victimisation.

Disabilities include physical, mental and sensory impairments, such as those affecting sight or hearing. We give full and fair consideration to applications for employment made by disabled people. Through disability and attendance management policies, support and training is provided for employees who become disabled during the course of their employment so that they continue to work in a position appropriate to their experience and abilities.

Human Rights and Ethical Behavior

The Company acknowledges the United Nation's Guiding Principles on Business and Human Rights and has policies and procedures in place which ensure we are compliant with these requirements and that this is enforced throughout the Company. Thames Water seeks to promote a culture of honesty and integrity in all its dealings and it will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data from the business.

Our Code of Conduct, alongside our Honest and Ethical Behaviour policies, expresses our approach to business activities and how we work providing a clear, ethical and legal framework for our employees, customers and stakeholders and clearly sets out the minimum behaviours we expect. This Code covers a wide range of human rights issues including discrimination, working conditions and equal opportunities. We have a confidential 24 hour whistleblowing helpline available where any employees can ask questions or raise concerns.

Our contractors are required to abide by the provisions of this Code when they are operating on our behalf.

Providing a safe and reliable water service



We aim to provide a safe and reliable water service that is available when our customers require it. This means supplying our customers with water that exceeds all health and safety requirements, whilst making sure that water reaches our customers' taps all day, every day.

Safe and clean drinking water

On average, we provide approximately 2,600 million litres of high-quality drinking water to our customers every day, sourcing untreated water from rivers and boreholes, treating it at one of our 100 operational water treatment works and distributing it to our customers through our network of water mains.

The overarching measure used by the Drinking Water Inspectorate ("DWI") for assessing drinking water quality compliance (mean zonal compliance) consists of the average of the compliance scores for 39 different parameters that are tested to establish the quality of water.



**Drinking Water Quality: 99.96% compliant (2013: 99.99% using 2013 25ug/l lead standard) (calendar year)
(2013: 99.96% using 2014 10ug/l lead standard)* (calendar year)**

* - We have included an additional prior year comparative due to a change in DWI's methodology.

Our drinking water quality remains amongst the best in the world. In 2014 we undertook more than 400,000 tests throughout our supply network to ensure our water met stringent UK and European standards. We achieved a compliance score of 99.96%¹ against tighter lead standards than the previous year, meeting our internal target and ranking us amongst the best in the UK water industry.

To maintain this high standard of compliance, we have continued with our programme of replacing lead communication pipes (the length of pipe between the water main and the outside stop valve/stop tap). We have exceeded our 2014/15 target of replacing 4,493 lead communication pipes as well as our five year target of replacing 34,930 such pipes.

The number of customer contacts related to drinking water quality remained at a very low level, falling from 0.65 per thousand people in 2013/14 to 0.58 in 2014/15.

As part of our continued drive to maintain excellent quality drinking water, we noted last year that we needed to improve performance against the Drinking Water Inspectorate index used to monitor the quality of samples taken from our underground service reservoirs. We have improved from 99.93% in 2013 to 99.94%² in 2014 by carrying out a number of initiatives including proactive remedial work on service reservoirs and reviewing the representativeness of the sampling taps used. However, we recognise that still have room for improvement relative to industry performance and will continue to focus on this area with additional measures underway to prevent water stagnation.

Providing a reliable supply of water

We use the Security of Supply Index ("SOSI") to measure the reliability of our water supplies in the long term. This compares the volume of available water against demand over a full range of possible future weather conditions, and thus estimates our ability to meet that demand in the future. The SOSI is assessed over a full year (annual average) and over a peak week which occurs in the summer (peak period) during periods of hot dry weather.



Security of Supply Index (average): 100 (2013/14: 100)



Security of Supply Index (peak): 100 (2013/14: 99)

This year we have achieved the maximum level of 100 for both peak and the annual average scenarios. We have brought forward a scheme from the regulatory period 2015-20 to mitigate the previous risk seen to London, and in Guildford we have specifically targeted leakage control to address the shortfall reported last year. The targeted leakage control provides a quicker response to leaks when reported by the public. There is also an increased focus on proactively identifying and repairing 'hidden' leaks. However, looking over the longer term, population growth and climate change add increasing pressure to the supply demand balance. We are proactively implementing solutions which will enable us to keep pace with the increasing demand and limited availability of water.

¹ Subject to Drinking Water Inspectorate (DWI) confirmation via report due in July

² Subject to DWI confirmation via report due in July

Installing more meters will be vital in aligning supply and demand in the future. Over the last five years we have fitted over 142,000 meters for customers who have requested them, outperforming our regulatory target of 139,000 customers. We remain committed to the delivery of our long term metering programme and have secured a new partner to drive this forward.

We also have a water efficiency programme which helps domestic customers and businesses reduce their water usage, through the distribution of free water efficiency devices and customer education. During 2014/15, our activities resulted in a saving of 6.97 million litres per day (2013/14: 5.23 million litres per day), which has exceeded our annual target of 4.42 million litres per day (2013/14: 4.42 million litres per day). From November 2014 to January 2015 we promoted our water efficiency website on the outside of all annual billing envelopes. This resulted in a four-fold increase in customer orders for water efficient devices, which in turn resulted in a large increase in household water savings. Thames Water, in partnership with Girl Guiding South West England, was shortlisted in the 2014 Sustainability Leaders Award for the stakeholder engagement category.



Supply Interruptions: 0.19 hours per property (2013/14: 0.20 hours)

We measure the reliability of our supplies by calculating the average amount of time for which each property we supply was without water for three hours or more, per property served.

On average over 2014/15, each property was without supply for 12 minutes, although the majority of customers experienced no interruptions. We have awarded this metric a 'Green' status as this is below the historic average value, in line with our methodology.

The number of properties without water for more than 12 hours has dropped from almost 6,000 in 2013/14 to approximately 3,000 in 2014/15. We will continue to focus on improving our response to burst mains and are reviewing our power resilience capability.

Looking after our water assets



Asset Performance (above ground): Stable (2013/14: Stable)



Asset Performance (below ground): Stable (2013/14: Stable)

The performance of our water mains, pumping stations and treatment works (serviceability) is measured by analysing trends in performance against a range of measures including the number of burst mains and water supply interruptions greater than twelve hours on our network and percentage of samples with coliform failures at water treatment works and service reservoirs.

This analysis shows that the performance of our water assets remained Stable over 2014/15, and 'Green' status has been awarded in line with Ofwat methodology³

³ Some drinking water quality measures are subject to Drinking Water Inspectorate (DWI) confirmation via report due in July

Providing a safe and reliable wastewater service



We aim to provide a safe and reliable wastewater service that is available when our customers require it. This means disposing of wastewater in a way that exceeds all health and environmental standards, and without inconvenience to our customers, every day.

Collecting and transporting wastewater safely

Every day, we remove and safely treat approximately 4,400 million litres of wastewater for 15 million customers. This includes collecting and transferring wastewater through our network of sewer mains and pumping stations to one of our 348 sewage treatment works.

The sewer flooding KPI measures incidents of internal flooding at properties in the reporting year which have flooded previously due to issues with the sewer network over the last ten years.



Sewer Flooding: 443 incidents (2013/14: 471)

Reflecting our methodology, we have assigned this measure an 'Amber' status as the number of repeat incidents is above the specific range around our 2008-2010 historic average.

The number has fallen in 2014/15, due to a combination of the last 12 months being considerably drier than 2013/14 and a number of measures implemented to improve performance, including process improvements to prioritise jobs more effectively, enhancements to fast response vehicles and flood protection equipment. In November 2014, we began to expand our field equipment and resources, and performance is now monitored on daily management calls.

Strategies to manage the risk of sewer flooding in extreme wet winters are being developed. We issued the first phase of 21 drainage strategies and their implementation plans to MPs, local authorities, flood forums and parish councils, plus other interested parties for consultation.

We continue to promote our 'Bin it – don't block it' campaign, raising customer awareness of the consequences of sewer misuse, fats oils and grease and wet-wipes. In 2014/15, we have completed three further campaigns in Ealing, Harrow and Hounslow, consisting of localised poster adverts (billboards, bus stops, restroom doors and promotional stands), as well as press activities and direct mail outs to target households identified as 'the worst offenders'.

Treating wastewater and returning it safely to the environment

As our sewage treatment works ("STW") discharge into rivers, it is really important that we get our treatment processes right to maintain the health of the river. The Environment Agency ("EA") is responsible for setting quality standards at each of our 348 sewage treatment works, measured by our discharge compliance KPI.



STW Discharge Compliance (numeric consents): 98.85% (2013: 95.71%) (Calendar year)

For the previous calendar year, our compliance score reflected the impact of changes in reporting methodology that year. We have subsequently changed our processes to ensure we follow the revised approach required by the EA. Our score is above the range around the 2008-10 water industry average and so we have classed this KPI as 'Green' in line with Ofwat methodology.

In 2014, four works had consent failures (2013: 15). Following incident investigations for the four sites failing in 2014, defective equipment has been replaced and operational procedures tightened. We have invested in additional resilience maintenance in 2014 and early 2015 to ensure continued good performance.

To ensure we can meet our standards and our customers' needs in future, we have completed a £675m project to modernise and extend London's five major sewage treatment works with the final two works (Beckton and Crossness) upgraded during this reporting year. The work is well advanced and will increase the amount of sewage the sites can treat safely, greatly reducing from 2015/16 the need for storm discharges to the River Thames thus improving the standard to which we treat sewage at each of the works, and further boosting the quality of the river.

Additionally we have increased the treatment capacity at 9 other works in areas where population is growing and we have improved the quality of effluent at 11 other works.

Disposing of sludge

Sewage sludge is the main by-product of the wastewater treatment process. This KPI measures the percentage of sludge we dispose of safely.



Sludge Disposal: 100% (2013/14: 100%)

The production, treatment and recycling, reuse or disposal of sewage sludge is controlled by comprehensive legislation with which we maintained 100% compliance in 2014/15. Consequently we have graded this metric as 'Green', in line with Ofwat methodology. Treated sludge is recycled to agricultural land as a biological fertiliser. Untreated sludge is used in land restoration projects as a bulk soil improver to help restore industrial land for future regeneration. Incineration ash is, where possible, recycled to industrial applications such as cement replacement. Otherwise, it is disposed of as an inert landfill product.

Looking after our wastewater assets

The performance of our wastewater assets, sewers, pumping stations and treatment works is measured against a number of key indicators. These include the number of blockages and collapses affecting our network, and the number of pollution incidents and compliance with discharge consents at sewage works.



Asset Performance (above ground): Stable (2013/14: Stable)



Asset Performance (below ground): Deteriorating (2013/14: Deteriorating*)

* - We have amended our serviceability assessment for 2013/14 from marginal to deteriorating to reflect the outcome of the 2014 Final Determination.

The performance of our sewage treatment works has continued to be excellent, and we have therefore assessed the performance of these assets to be 'stable' and graded this metric as 'Green', in line with Ofwat's methodology.

We have assessed performance of our below-ground wastewater assets, however, to be 'deteriorating' and graded this as 'Red'. This assessment is driven by performance on 'other causes' flooding and network pollution, which have been above their respective upper control limits for two years.

The number of properties that suffered sewer flooding from 'other causes' (due to blockages, collapses or equipment failure) fell from 903 in 2013/14 to 868 in 2014/15 following improvements in processes, additional resources and equipment brought in during 2014/15. The number of properties affected over 2014/15 was within the upper control limit of 875 properties set by Ofwat for this indicator.

This was not the case for the network pollution incidents indicator (the number of network pollution incidents reported in a calendar year in the top three pollution categories (Categories 1 to 3) as defined by the Environment Agency). There were 192 such incidents recorded in 2014 (2013: 232). This was an improvement on the 2013 performance, reflecting the ongoing mitigation measures in place such as targeting sewer cleaning activity. However, it was still above the upper control limit (147 incidents) set by Ofwat for this indicator for the third year in succession which has resulted in below ground asset performance being assessed as deteriorating.

In 2015/16 this KPI will be replaced by an assessment of Asset Health of wastewater infrastructure assets. This new measure will still include blockages, collapses, other causes of flooding and pollution, but the targets have been updated following the 2014 Periodic Review and will include the performance of sewers that transferred to Thames Water ownership in October 2011 (known previously as 'private' or s105a sewers). We are committed to delivering stable asset health and are commencing a number of innovative initiatives to achieve this, such as using acoustic sensors to detect the build-up of fats, oils and grease in sewers and the use of real-time information from the field to make better decisions in the control room.

Limiting our Environmental Impact



What we do impacts the environment in many ways. We aim to limit this impact as a socially responsible and sustainable business. Understanding and addressing the causes of climate change and adapting to its consequences are key elements of our business planning.

Preventing pollution incidents



Pollution Incidents: 75.66 incidents per 10,000km sewer (2013: 89.56)
(Calendar year)



Serious pollution incidents: 2.34 incidents per 10,000km sewer (2013: 3.22)
(Calendar year)

The Environment Agency categorises pollution incidents on a scale from one (most serious) to four (no significant environmental impact). They maintain the official database of all reported pollution incidents and confirm numbers for each calendar year.

Every Category One and Two pollution incident is thoroughly investigated and is subject to an in-depth review with our Chief Executive Officer and Wastewater Wholesale Managing Director. Our aim is to understand the cause, whether the incident was predictable (and therefore preventable) and whether our response could have been improved. We share the lessons learnt from these reviews with other operational teams, to prevent similar incidents occurring elsewhere.

The KPIs are expressed in terms of incidents per 10,000 km sewer and include pollution incidents relating to sewage treatment work discharges as well as discharges from the sewer network. The total number of Category One and Two pollution incidents reported in 2014 was 16 (2013: 22). The number of Category Three pollution incidents decreased by 18% to 501 incidents. The performance from January 2014 to March 2014 was adversely affected by the extreme wet weather experienced during that period.

The improvement in performance from the previous year reflects our continued focus on preventing pollution taking place and responding more effectively when it does.

Managing our emissions

We calculate our greenhouse gas emissions using the UK Water Industry Research Carbon Accounting Workbook ("CAW"). The CAW is the industry standard which is updated annually to reflect changes to emission factors and carbon reporting guidance from the Department of Environment, Food and Rural Affairs (Defra).

Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually reflecting the six major greenhouse gases and the Defra Environmental Reporting Guidelines. The emissions reported are associated with the operational emissions of the regulated business and include:

- Scope 1 (Direct emissions);
- Scope 2 (Indirect energy use emissions);
- Scope 3 (Emissions from outsourced services and business travel); and
- Carbon intensity ratios per mega-litre day (MLd) of service delivered

Emissions from the greenhouse gases are standardised to global warming potential represented as carbon dioxide equivalents ("CO₂e").



Net Greenhouse Gas Emissions: 823,924 tCO₂e (2013/14: 739,157 tCO₂e)

Our KPI has been given 'red' RAG status, as we were 10.3% above our adjusted target for 2014/15 of 747 kTCO₂e and Ofwat set a 10% tolerance on our emissions. We did not meet the target because the increases in emissions associated with meeting higher wastewater treatment standards have not yet been offset by increases in renewable generation.

Our absolute GHG emissions have risen by 84.8 kTCO₂e (11.5%) compared to 2013/14. Over a third of this increase was due to increased electricity consumption from new wastewater plants, required to meet higher sewage treatment standards. In our business plan for AMP5, we had offset this with additional renewable electricity generation and energy efficiencies, chiefly through the delivery of seven Thermal Hydrolysis Plants ("THP"). These plants generate renewable energy by processing sludge. By the end of 2014/15 all of the THPs were installed but only one was fully operational, consequently we were not able to generate the expected level of renewable energy. Once fully operational, these new plants are expected to reduce our dependency on grid electricity by over 10%. The remaining 65% increase in emissions was beyond our control, due to the Defra grid electricity emissions factor rising 11% from 2013/14.

To manage our emissions, in 2014/15 we generated a total of 12.5% of our electricity requirements from renewable sources, which is a 4% increase in renewable generation compared to 2013/14. We successfully delivered significant energy efficiencies in many areas including our wastewater treatment process, water abstraction and distribution, and lighting of our sites and buildings.

The rise in grid emissions factor also increased the intensity of our GHG emissions. Our carbon intensity increases are less than absolute emissions of 11.5% as a result of our efficiency programmes.

	2014/15	2013/14	Change
	kgCO ₂ e/MI		%
Operational GHG emissions per MI of treated water	295.9	270.9	9.23%
Operational GHG emissions per MI of sewage treated	298.4	272.5	9.50%

In 2014/15 Thames Water was reaccredited to the Carbon Trust standard. We demonstrated an 8.9% reduction in our relative carbon emissions intensity per MI for clean and waste water services over the past four years. The Carbon Trust considers us to be in the top 1% of companies holding their standard. The review of our carbon management highlighted several areas of best practice, particularly surrounding investment, carbon reduction programmes, carbon reporting and communication.

Thames Water has committed to using 100% renewable energy after signing a long-term deal with Ipswich-based Haven Power. The five year contract for electricity supply, power export, PPA management and data and metering has the potential to be extended for up to 15 years.

Leakage



Leakage: 654 million litres per day (2013/14: 644)

Fixing leaks remains a major priority, in line with the concerns of many customers and stakeholders. We have graded this as 'green' as we have achieved our annual target set by Ofwat (673 MI/d) for the ninth year running and have met our own more stringent internal target (665 MI/d). The small increase in leakage seen this year reflects the colder winter weather compared to that in 2013/14 which causes the cast iron pipes to contract and consequently leak and burst.

Making environmental and wildlife improvements



Condition of Sites of Special Scientific Interest (SSSI): 99% (2013: 99%) (Calendar year)

Thames Water is a major landowner across London and the South East of England. Some of the land we own is within important wildlife areas including Sites of Special Scientific Interest (SSSIs). There are 32 parcels of land, spread across 12 sites, for which Natural England considers us to be an 'influential land manager'. We aim to have a positive impact on these locations and benefit the wildlife that flourishes there. Sites of Special Scientific Interest protect England's finest wildlife and geological sites – these include bat roosts, grasslands and internationally important water bodies.

Targets set by Natural England require that 95% of the SSSIs we are responsible for are in 'favourable' and 'unfavourable recovering' condition. Once again we have met this target, with more than 99 per cent of those for which we are responsible classified as 'favourable' or 'unfavourable recovering'; so this KPI has been given a 'Green' status.

Financial Review



2014/15 has been a year of considerable achievement; with highlights including the formal acceptance of the Final Determination for 2015-20, implementation of our Business Transformation Programme and securing Development Consent Order for the commencement of the Thames Tideway Tunnel, one of the biggest projects in the water industry. We delivered circa £1.4 billion of investment improving and enhancing our network to support future generations.

Amidst this, I am pleased to deliver improved financial results for the year ended 31 March 2015 reflecting the sustainability of our efforts in improving overall service delivery and generating operational efficiencies. We are positioned strongly to embark on the new regulatory period and deliver on the commitments made in our business plan for 2015-20.

Our bills remain amongst the lowest in the UK water industry even though the size of our investment programme is greater than the next two largest water companies combined. We achieve this by delivering focused and targeted investments to generate good value for money.

The average annual bill (representing average combined water and wastewater bill for household customers) for 2014/15 was £370, an increase of 3.35% (£12) from 2013/14, primarily driven by growth in the retail price index combined with the allowed price increase. Despite this increase, our bills are the third lowest of all major water and sewerage providers in England and Wales and we achieved this without conceding on the high quality of our service.

Key financial performance indicators

	2014/15	2013/14
Post-tax return on capital	4.79%	4.88%
Credit rating*	Baa1	Baa1
Regulatory capital value	£11,848.1m	£11,569.5m
Gearing	80.1%	77.6%
Interest cover	2.0	1.8

* Representing the consolidated Corporate Family Rating assigned by Moody's

Post-tax return on capital

Post-tax return on capital ("PTROC") is a regulatory measure of the level of post-tax regulatory operating profit the Company makes on its asset base. We operate the business to allow for a reasonable return on the capital provided by our investors to fund continued investment in our infrastructure.

The post-tax return on capital was 4.79% for 2014/15 and compares to our performance of 5.29% cumulatively for AMP5. Overall this was greater than the regulator's assumption of 4.97% that was set at the commencement of AMP5. Increased bad debts and the impact of a drought followed by very wet winters have been offset by reduced finance costs and operational efficiencies. The benefit of lower cost of debt will be passed onto customers in the regulatory period 2015-20.

Credit rating

The Company maintains strong investment grade credit ratings as assigned by the rating agencies Moody's and Standard & Poor's ("S&P"). The on-going assessment of these two rating agencies provides an external evaluation of our performance and prospects.

In April 2014 Moody's changed the outlook for the credit ratings of TWUL from "stable" to "negative". This outlook change reflected the incremental risk posed by TWUL's continuing involvement in the Thames Tideway Tunnel ("TTT") project. Subsequent to the Final Determination, in February 2015 Moody's affirmed the Baa1 corporate family rating (CFR) of Thames Water Utilities Limited and the A3 senior secured Class A rating and Baa3 subordinated debt Class B rating. The outlook on all Moody's ratings is stable.

Moody's commented that the decision to affirm ratings primarily reflects (1) a final regulatory price determination that is broadly in line with the company's business plan submission; (2) reduced risks in relation to Thames Water's involvement with the TTT project; (3) a conservative financial and dividend policy during the TTT procurement process; and (4) credit metrics forecast to remain around 80% of net debt to regulatory capital value (RCV) and around 1.3x or better for the adjusted interest coverage, broadly in line with Moody's guidance for the current rating.

In September 2014 S&P moved the A- (Class A) and BBB (Class B) credit ratings of TWUL to negative outlook. S&P has not issued an updated credit opinion subsequent to the Final Determination.

Regulatory capital value

The regulatory capital value ("RCV") has been developed by Ofwat as a measure of the regulatory net book value of our assets. This is a key measure of focus as it is used by Ofwat in determining the prices that the Company is able to charge. Ofwat published our RCV on a 2013 price base which we have adjusted for RPI to inflate to 2014/15 prices.

Gearing and interest cover

Our investments are funded by a combination of equity from shareholders and from borrowings under long term secured financing arrangements including bank loans and bonds. Our gearing is 80.1% (2014: 77.6%) and is measured by comparing the sum of our net debt (covenant basis) of £9,494.6 million against RCV of £11,848.1 million.

In early April 2015 the Company obtained consent from secured creditors to introduce a new conformed interest cover covenant to reflect recent changes to the regulatory framework. The historic covenant looked to information previously published by Ofwat, CCD (Current Cost Depreciation) and IRC (Infrastructure Renewals Charge) to calculate the ratio. From 1 April 2015, Ofwat ceased to publish CCD and IRC effectively rendering the covenants not fit for purpose. To address this, a new covenant has been introduced that uses the relevant new regulatory building blocks.

As part of the whole business securitisation agreement with our secured creditors, we are required to keep these within certain financial limits. Under these covenant conditions we are required to maintain a gearing level below 85.0% and an interest cover ratio of at least 1.1. Our dividend payment policy requires that we maintain these ratios with minimum headroom on gearing ratio of 2%.

The Company's financial performance for the year ended 31 March 2015 ensures that we have met the conditions defined within our covenants within the headroom required by our dividend payment policy.

Financial performance for the year ended 31 March 2015

The key measures of our financial performance are detailed below, all of which are used by the Board of Directors in assessing the Company's performance. For 2014/15, the Directors consider the Company to have one class of business which is conducted solely within the United Kingdom; as such the following analysis is that of the Company as a whole.

	2014/15 £m	2013/14 £m
Turnover	2,026.8	1,943.7
Operating costs	1,348.8	1,300.4
Net interest payable	359.3	408.4
Net debt (statutory basis)	9,522.0	8,910.1
Cash flow from operating activities	1,231.6	1,158.5
Capital expenditure	1,375.5	1,156.5
Dividends paid	169.9	208.5

Turnover

Turnover for the financial year has increased by £83.1 million (4.3%) compared to the prior year, primarily as a result of an allowed average price increase of 3.35% combined with a marginal increase in domestic consumption due to general population growth.

Operating costs

Total net operating costs have increased by £48.4 million (3.7%) from the prior year. This increase is at a lower rate than the growth in turnover which demonstrates the positive effects of our cost control measures. The implementation of the Business Transformation Programme gave rise to a charge in the year of £12.3 million for one off severance related costs incurred in net operating costs. This reorganisation was announced prior to 31 March 2015 but was still in progress at the year end.

The delivery of our capital programme where we have invested approximately £1.4 billion during the year has resulted in an increase in depreciation charge of £16.5 million.

Bad debt costs remain a key focus of the Board and our charge remains above the industry average. Our analysis indicates that a high proportion of our customers live in short term accommodation which causes difficulties in collecting debts. Our gross bad debt charge through operating costs for 2014/15 was £71.8 million (2014: £60.0 million). The increase from prior year was due to a combination of price increase and an increase in the level of bad debts relating to current year billings.

We have continued to improve cash collection rates and whilst we are pleased with this progress, we have developed plans to secure further improvements which will help reduce our bad debt charge. We are on track with the transformation of our cash collection systems and processes and are implementing a new leading debt management system with the first stage successfully completed in April 2015.

Net interest payable

Around 50% of our debt is inflation linked and the relatively low RPI rates have had a significant impact on our net interest cost. During 2014/15, lower inflation was the main driver of the decrease in net interest payable of £49.1 million (12.0%) from prior year.

Net debt

Net debt has increased from March 2014 by £611.9 million arising primarily as a result of the additional borrowings during 2014/15 that we have utilised to drive forward our capital investment programme. During the year, we have once again spent more on investing in our fixed assets, including improvements and maintenance to the general infrastructure, than the cash inflow generated by our normal operating activities. We are financed by a mixture of debt and equity which enables us to deliver the enhancements required to the infrastructure.

Cash flow

Net cash flow from operating activities has increased to £1,231.6 million during the year (2014: £1,158.5 million). This has been primarily driven by improvements in the profitability of the business' underlying operations reflecting the positive savings that have been achieved through efficiency measures and increases in revenues.

Capital expenditure

Capital expenditure incurred during the year amounted to £1,375.5 million as we continue to deliver the largest investment programme in the water industry in England and Wales to improve our network. We continue to drive more effective and efficient delivery of our capital programme and have made significant progress on key projects including:

	31 March 2015 £m
Thames Tideway Tunnel development costs	329.7
Lee Tunnel construction costs	113.7
Deephams sewage treatment works upgrade	38.6
Security emergency measured directive ("SEMD")	30.8
Hydraulic flooding programme (North and South London)	41.6
Thermal Hydrolysis Process ("THP") - energy from waste	41.2

The Thames Tideway Tunnel has evolved from concept to reality with the independent infrastructure provider due to be appointed to build the Tunnel in summer 2015 and will commence construction in 2016. The Lee Tunnel project is on schedule to be commissioned in December 2015.

After extensive consultation with residents, we submitted amended plans to upgrade our Deephams sewage treatment works which were approved by both the Enfield Council and the Greater London Authority. Progress is being made on early works to ensure the treatment works continue to process as construction commences on replacement works. On completion, the treatment works will have capacity to treat increased flow to a higher effluent standard and meet the stricter river water quality standards set by the Environmental Agency that will come into effect from March 2017.

The SEMD programme is delivering physical and electronic protections to secure operational sites to DEFRA's standards. The programme covers 196 sites and offers site protection ranging from simple security devices to sophisticated electronic systems enabling central visibility and control. The programme has delivered on 167 sites by end of the year with the final 29 sites to be completed in 2015/2016.

The hydraulic flooding programmes have delivered good progress during the year with 16 schemes in operation in North London and eight schemes in South London delivering flooding local improvement projects. The schemes vary from small scale delivery to individual properties via installation of free mini-pumps, to large scale schemes which deliver construction of flood prevention mechanisms that protect clusters of affected properties. During the course of AMP5, we have delivered protection from hydraulic sewer flooding to over 1,000 properties.

We have continued with our investment of nearly £250 million over AMP5 to roll out the THP project across six of our major sewage treatment sites including Long Reach sewage treatment plant. THP involves utilising sludge more effectively to generate renewable energy and will help reduce our operating costs and environmental footprint as the more electricity that we can generate the less we have to buy externally. This investment will help us achieve our target to self-generate renewably 33% of our annual electricity requirements by 2020.

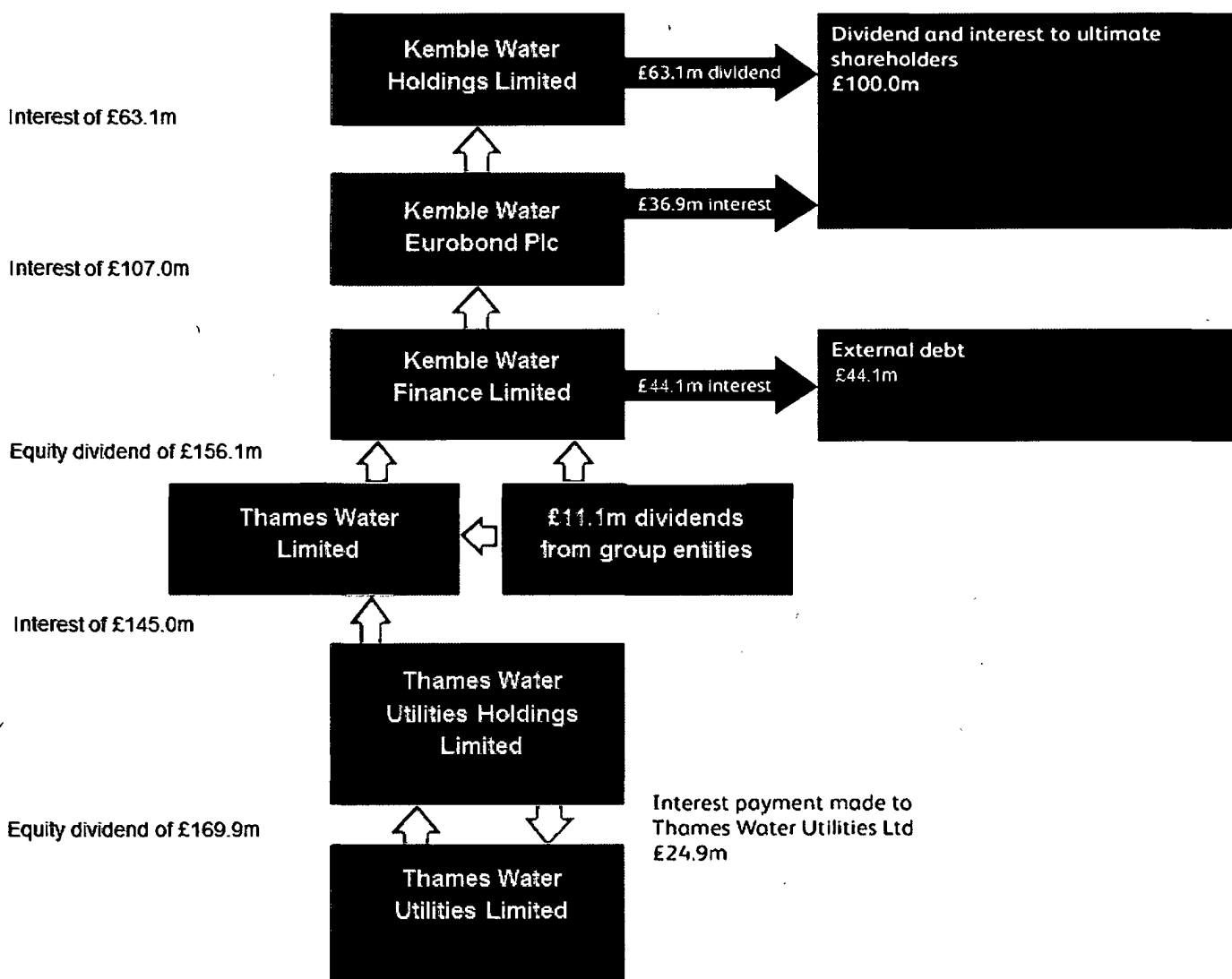
We celebrated the completion of our £190 million upgrade programme at Beckton sewage works on 4 July 2014 when the site was officially opened and visitors were invited for a tour of the new works. This was a major event in the five year long project which has increased the sewage treatment plant's ability to deal with a 50% increase in sewage and will be able to cope with the London Tideway Improvement sewage treatment upgrades, which include the Lee Tunnel and the Thames Tideway Tunnel.

Utilisation of the Company's dividends

During the year TWUL paid dividends totalling £169.9m (2014: £208.5m). These were used to fund internal and external interest payments by companies within the group totalling £69.0m (2014: £105.0m) and distribution of dividends and payment of interest to our external shareholders totalling £100.0m (2014: £100.0m).

Other group companies paid a total of £11.1m in dividends.

The illustration below shows the structure of the Kemble Water Holdings Group ("Group") including TWUL and the holding companies, showing how the Company's and other group dividends were transferred through the Group structure and utilised.



Financing and financial risk management

The Company's operations expose it to a variety of financial risks. Treasury activities are managed internally by the Group Treasury function with financial risks managed within a framework agreed annually by the Board.

Funding and treasury policy

The Company's debt is comprised of bank loans and intercompany loans from subsidiary undertakings that issue secured bonds. The Company guarantees the funding activity of subsidiary companies established to raise debt finance in international capital markets under the terms of the whole business securitisation. The 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 to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to an extent to manage interest rate risk, inflation risk and foreign exchange risk. All funding and treasury transactions are undertaken and managed by the central treasury function.

Financial derivatives used include cross currency swaps, interest rate swaps and forward currency contracts and are used solely to manage financial risks associated with our normal business activities. The treasury function is managed as a cost centre, not a profit centre. No material open or speculative positions are taken and the operation of the treasury function is governed by specific company policies and procedures that set out specific guidelines for the management of liquidity, credit and market risks associated with the financing activities of the Company.

Treasury policy and procedures are incorporated within the financial control procedures of the Company. The key objectives of the funding strategy are to retain our investment grade credit rating, provide liquidity for our ongoing obligations and keep customer bills low. The Board reviews the Company's exposure to these risks and actively oversees the treasury activities, reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis.

Market risk

Market risk is the risk that changes in market variables, such as inflation, foreign currency rates and interest rates, will affect the Company's income or the value of its holdings of financial instruments.

Debt issued by the Company includes RPI linked loans and these instruments are exposed to movements in the RPI index. The Company is a regulated water company with RPI linked revenues. Therefore the Company's index linked borrowings form a partial economic hedge as the assets and liabilities partially offset. The Company also uses derivatives to manage inflation risk on non-index linked borrowings.

The Company uses currency swaps to hedge the foreign currency exposure of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The Company has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the company.

Interest rate risk arises on interest-bearing financial instruments. Floating rate borrowings are exposed to a risk of change in interest cash flows due to changes in interest rates. The Company uses interest rate swaps which economically hedge future cash flows to protect against interest rate movements.

In mid-2014 the Company executed £2.25bn of forward-starting pay fixed/receive floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the anticipated new debt issuance in the regulatory period 2015-20. This protects the Company against adverse movements in underlying interest rates by matching projected future debt issuance against a derivative instrument with a fixed cash flow.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's loan with its immediate parent entity Thames Water Utilities Holdings Limited, short-term investments and cash flows receivable from counterparties to the derivative financial instruments.

Under the terms of the whole business securitisation agreement, counterparties to the Company's short term investments and derivative transactions have to meet minimum credit rating criteria as assigned by both Moody's and S&P. In respect of the derivative counterparties there is also a mechanism for the counterparty to post collateral when amounts due to the Company under outstanding derivative contracts exceed a contractually agreed threshold amount or the counterparty fails to meet the necessary credit rating criteria.

At 31 March 2015 the Company held £7.4 million (2014: £Nil) of collateral cash, representing amounts due from counterparties to the Company's derivative contracts that have failed to meet minimum short term credit rating criteria assigned by Moody's.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages long-term liquidity by maintaining continuity of funding through access to different market and debt instruments, raising funds in the capital markets and ensuring that diverse debt maturity profiles are maintained. The Company also maintains a level of committed liquidity facilities provided by a range of financial institutions.

Pension

The latest triennial actuarial valuation of the Company's two closed defined benefit pension schemes was undertaken as at 31 March 2014 on behalf of the pension Trustees by Aon Hewitt Limited. Following completion of the valuation, the Company and the Trustees have agreed a Schedule of Contributions, setting out the amounts that the Company and the scheme members will pay into the schemes up to 31 December 2025, and a recovery plan, identifying the amount that the Company will pay to cover the funding deficits. The deficit repair contributions across the two schemes will be £20.3 million annually from 1 April 2015, similar to our existing commitment.

From 1 June 2014, we have changed the way that members' benefits are calculated in our Mirror Image Pension Scheme. These are now calculated on the basis of members' Career Average Revalued Earnings ("CARE") rather than final salaries. Consequently, there has been a reduction to the normal contributions we pay into the scheme as well as a one-off non-cash curtailment gain of £10.0 million that has been reflected in the financial results for 2015.

Actuarial losses over the two pension schemes totalled £119.4 million (2013/14: gain of £20.1million) net of deferred tax arising largely as a result of management applying more prudent assumptions, including a lower discount rate. These are deemed to represent a more fair and balanced approach.

Taxation

As disclosed within these financial statements, we have not paid substantial amounts of corporation tax in recent years, principally due to the capital allowances that we have received in respect of our infrastructure investments in line with tax legislation. As we have invested in excess of £1 billion a year from 2010 to 2015, more than any water company in the UK's history, our tax payments are deferred for many years. Our average customer bill is approximately £9 lower in 2014/15 as a result of HMRC's capital allowances incentives.

During 2014/15, the Company elected to reduce its claims for tax relief on capital expenditure for a number of prior years. The capital allowance disclaimer is expected to provide tax relief worth £129.3m to the Company in future (assuming a corporation tax rate in future years of 20%), which is included in the deferred tax release in respect of prior years of £132.9m in the financial statements. The Company has paid £71.5m for tax losses from group companies as group relief as a result of the disclaimer, which is included in the current tax charge in respect of prior years of £61.6m in the profit and loss account.

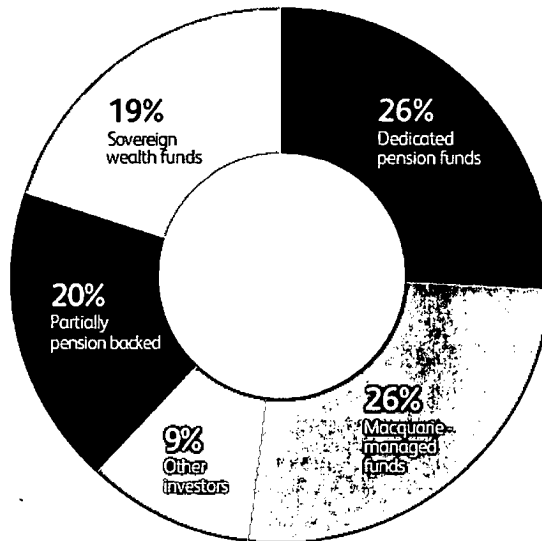
Like all taxes, corporation tax payments are among the costs Ofwat takes into account when setting price limits. Had we not taken advantage of the tax relief available to us, these tax payments would have been reflected in higher customers' bills.

Our financial statements for 2013/14 recognised a deferred tax credit for the benefit of the reduction in deferred tax liabilities resulting from the cut in corporation tax rates from the rate applying in 2013/14 of 23% to 20% with effect from 1 April 2015, which increased profits for 2013/14 by £132.2 million. This represented a reduction in the level of tax payable in future years and hence did not constitute a refund from HMRC. This benefit will eventually flow through to customers in the form of lower bills. No tax rate changes have been announced during the current period so there is no corresponding deferred tax credit in these financial statements.

Thames Water continues to pay around £150 million annually in taxes other than corporation tax, including central and local government business rates, PAYE and national insurance.

Thames Water ownership structure

Thames Water Utilities Limited is a 100% subsidiary of the ultimate parent Kemble Water Holdings Limited that is incorporated in the United Kingdom. The Kemble Water Holdings group is owned by a number of long-term investors, most of whom are investing on behalf of pension funds in Britain and around the world.



The water industry attracts investors due to the relatively long-term stable regulatory regime under which it operates. Our shareholders have previously borne exposure to external risks including interest rate fluctuations and the cost of fixing problems caused by extreme weather. While reductions in interest rates have benefited the company by bringing down interest payments, these reduced payments will benefit customers through lower bills in the future regulatory periods.

The capital (debt and equity) market is global, and as a company investing in excess of £1 billion a year in its infrastructure, Thames Water needs access to it continually. If this market was restricted to UK-only participants it would not be as competitive or as efficient and result in greater costs to be ultimately borne by customers.

Adoption of new accounting standards

UK GAAP in its current form is being replaced for all financial periods starting on or after 1 January 2015. Companies currently applying UK GAAP must convert to either European Union endorsed International Financial Reporting Standards ("EU IFRS") or FRS101/FRS102, the new sets of accounting standards issued by the Financial Reporting Council ("FRC"). The Company has chosen to adopt EU endorsed IFRS in the preparation of the financial statements for the year ending 31 March 2016. Work has been completed on the resultant recognition, measurement and presentational adjustments that will be made to the financial statements.

Stuart Siddall
Chief Financial Officer

Principal risks and uncertainties

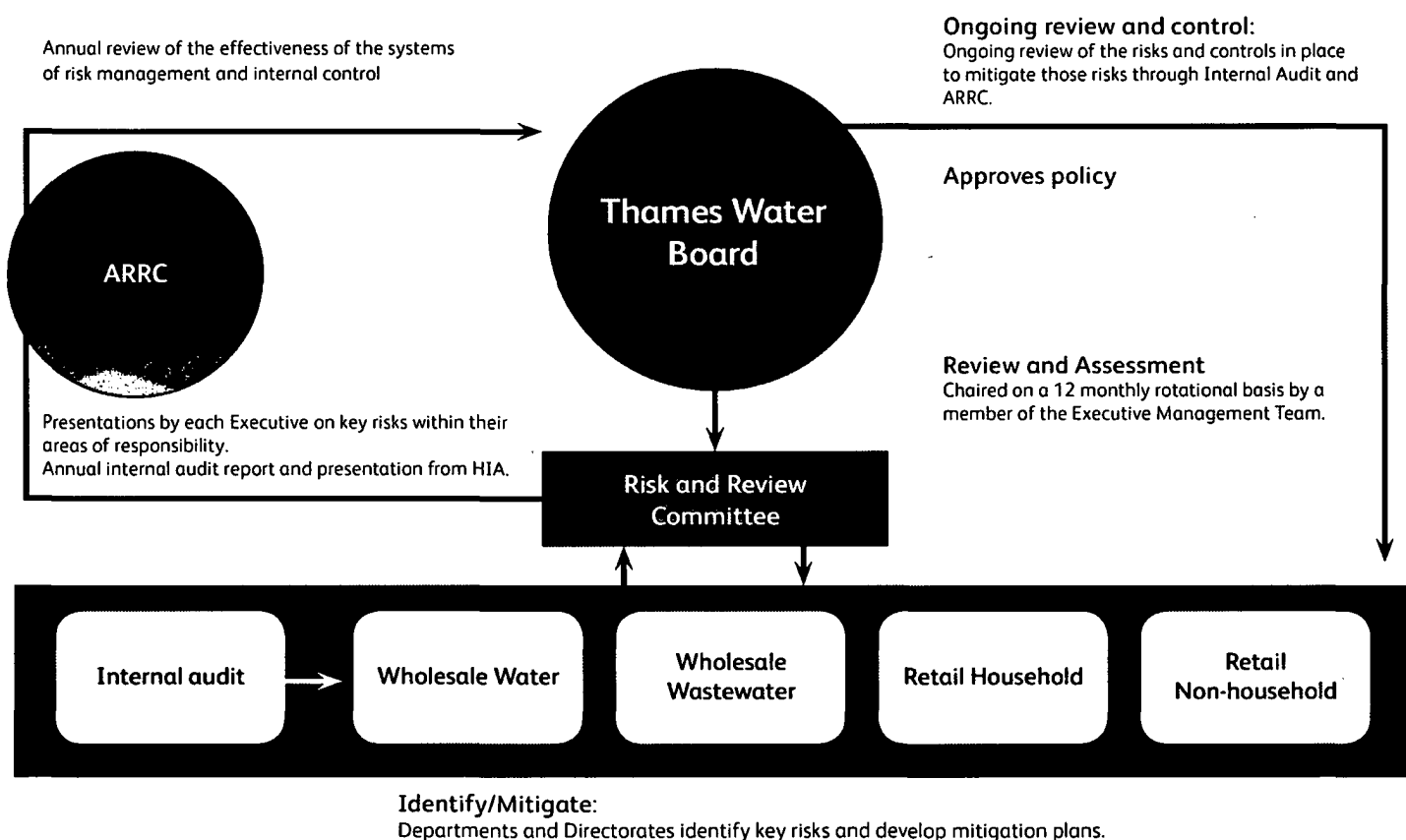
Principal risks and uncertainties

Managing the risks that could prevent the achievement of the Company's objectives is a core element of our day to day business activities. This is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation.

Risk management framework

During 2014/15 the Audit and Risk Review Committee was responsible for assisting the Board in discharging its responsibilities for considering the effectiveness of the risk management framework and internal controls. The risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and is coordinated by the Head of Audit and Assurance ("HIA"). From 31 March 2015 the Committee was reconstituted as the Audit Risk and Regulatory Committee combining the Audit and Risk Review Committee and the Regulatory Committee under the Chairmanship of Michael Pavia, Senior Independent Director. This will broaden and strengthen the skills of this Committee as well as streamlining governance processes. The newly constituted Audit Risk and Regulatory Committee considered the 2014/15 annual accounts whilst other activities in the year to 31 March 2015 were undertaken by the Audit and Risk Review Committee.

The Company's risk management approach looks at risks arising in all parts of the business using both a bottom up and top down approach.



* ARRC in the diagram above refers to the Audit Risk and Review Committee up until 31 March 2015 and the Audit Risk and Regulatory Committee onwards

Assessment of key risks

All material risks and their associated controls are challenged by the Risk Review Committee and the Audit and Risk Review Committee and from 31 March 2015 Audit Risk and Regulatory Committee, as well as Internal Audit.

This has been a year of significant change within our risk profile with the implementation of a new operating model, acceptance of Ofwat's Final Determination as well as major progress on Thames Tideway Tunnel (securing Development Consent Order, procuring key sites and ongoing procurement for the Infrastructure Provider and construction sites). However, new risks are emerging with respect to the regulatory period 2015-20 and the delivery of Outcome Delivery Incentives, different contracting models and the opening of markets to competition in 2017.

Description & Impact	Mitigating activities	Change
Safety We have a zero compromise approach to health, safety and wellbeing. A failure in safety could result in injury or loss of life which would have tragic implications for individuals and their families and communities.	There is a clearly defined strategy, safety protocols and standards that are set, monitored and reported to the Board and the Executive each month as required. We continue to introduce initiatives based on emerging risk areas to reinforce our ambition of zero harm, zero incidents and zero compromise. Initiatives in 2014/15 included a new drugs and alcohol policy and mobile phones policy.	There has been a continued improvement in the safety standards across our sites and a shift in the business safety culture. For example, there has been a 40% reduction in cases of reported work related illness and a 24% reduction in work related injuries.
Customer service Failure to deliver good customer service can be caused by failures in supply and quality requirements and also the effectiveness of communication and response. In AMP5 we have been penalised £95.5m for not achieving Ofwat Service Incentive Mechanism ("SIM") targets. The new Household SIM measure has been introduced by Ofwat. The Reward and Penalty will be based on comparative performance for the aggregate of 2015-16 to 2018-19, four years.	The Company's focus is on ensuring right first time service delivery to our customers and removing the drivers of dissatisfaction. Our business model has changed to drive accountability in the organisation to empower each operating company to identify areas where process improvements and additional resources are required to support the customer experience. In 2014/15 the Company implemented a weekly customer satisfaction ("CSAT") tracker which enables us to gauge customer experience on a daily basis. Clear targets for improvements to customer experience measures have been established for 2015/16 and each year in the regulatory period 2015-20. Senior management is incentivised as part of their performance reviews on improving customer service standards.	Significant engagement with stakeholders as part of the design for our regulatory period 2015-20 plan. We have invested additional resources to better understand our customer requirements and improve co-ordination and processes across the Company. Reduced complaints and improved CSAT.

Description & Impact	Mitigating activities	Change
Delivery of the Thames Tideway Tunnel As an innovative solution to the challenge of reducing sewage discharges into the tidal Thames, the design and construction of the Thames Tideway Tunnel present a number of major technical and logistical challenges. A key challenge is the impact of any delays to the stand-alone Infrastructure Provider (IP) licence award which is targeted for 31 July 2015.	The key mitigation and the preferred solution for key stakeholders is the establishment of a separately regulated entity to deliver the Thames Tideway Tunnel. This model requires third party investment and will enable exceptional project risks, which require contingent support from HMG, to be ring-fenced. The Development Consent Order ("DCO") was granted by Secretary of State in September 2014 for the project. Claims for Judicial Review have been dismissed by the High Court but appeals have been lodged. The Company has worked with the Government on the development of an approved resilience plan in the event that financial close of the IP is delayed.	Good progress has been made and the successful DCO is a significant step forward to support Thames's preferred delivery model which has been agreed with stakeholders. Financial Determination provides acceptable risk sharing mechanisms for the Company. Main works contractors selected and costs remain within agreed scope.
Credit downgrade risk As a regulated utility, the Company expects to be able to access financing, but an increase in the cost of funds may put pressure on key financial covenants. Poor operational or financial performance could lead to increased borrowing costs to be serviced which could affect the Company's ability to invest in improving services for our customers as well as reducing financial flexibility.	Our Funding Strategy is resilient and approved by the Board annually. Conservative financing plans are in place.	Following review of the PR14 Final Determination, Moody's has now affirmed the credit ratings of TWUL and moved all ratings to stable outlook. The Company remains on negative outlook with S&P.
Operational service Within the PR 14 Final Determination our Waste Infrastructure Assets were classified as deteriorating. Physical, environmental, technological or human factors, either within or outside the Company's control, could result in impacts ranging from a decline in performance to interruptions and environmental impact. Ofwat could make financial adjustments at PR19 if corrective actions do not restore service to the required reference levels for each of their serviceability measures.	Action plans are in place and regularly monitored to deliver sustained performance improvements.	Targets for the regulatory period 2015-20 have been reset by Ofwat and if delivered will put us in upper quartile performance within the industry (based on AMP5 basis). Contracting strategy aligned for Thames Water and its delivery partners. Clear plans to deliver PR14 Outcome Delivery Incentives. Improved accountability within new operating model to drive performance.

Description & Impact	Mitigating activities	Change
Delivery of capital projects A failure at one of the Company's major assets could significantly impact the safety of its workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets. Delivery of our capital investment programmes could be affected by delays or cost overruns.	We have established an industry leading Alliance, Eight20 with market leading organisations to proactively manage and mitigate risk within our Capital Programme.	Contractors aligned with Thames objectives. Number of major projects nearing successful completion.
Loss of key data There are significant threat levels to key financial, operational and customer data. Loss or misuse of customer data throughout our supply chain could lead to potential regulatory and financial impacts as well as more importantly damaging our customer's trust in the Company.	Extensive awareness programme with our employees and supply chain as well as investing in improving our IT and physical security controls. All employees and key contractors are undergoing mandatory data security and data protection training. We have used external capabilities to review and benchmark our security framework. We are developing a Cyber Security improvement programme chaired by the Chief Executive Officer ("CEO").	We are committing increased resources to our cyber security response capability.
Impact of regulatory changes The PR14 Final Determination for 2015-20, has introduced changes to regulation in the industry, including: a move from outputs to outcomes, performance commitments and Outcome Delivery Incentives (ODIs); the introduction of separate price controls for water, wastewater, retail household and retail non-household functions (plus Thames Tideway Tunnel for Thames Water); and moving from the traditional financial categorisation of capex and opex, to total expenditure ('totex'). Wider changes to the industry include the Water Act (2014), which will enable the creation of a new market for retail water and sewerage services to non-domestic customers in England in 2017. In this environment, anti-competitive behaviour could lead to a financial penalty and also divert management resource to defend any investigation or allegations. Ofwat consultation regarding inflation adjustment as part of proposed PR14 reconciliation rulebook. The potential impact of this proposal would be a reduction of around 2% in our AMP 7 opening RCV. This could impact gearing and future income.	Compliance with our regulatory obligations and competition law remain key areas of focus. We are investing in a number of system changes including Billing systems to support delivery of the required changes. We have restructured our business as set out in our PR14 submission to respond to changes in the industry and to enable us to deliver efficient and effective customer service improvements. We have made strong representations to Ofwat that its proposals for an RCV adjustment would amount to a departure from the position it had confirmed at various stages during PR14. We also proposed that any RCV adjustments should be made gradually from April 2020 so as not to undermine the terms of the regulatory settlement for the period 2015-20.	Plans to deliver PR14 Outcome Delivery Incentives well advanced. Business Transformation projects well defined to deliver continued improvement. Workforce involved in developing Thames 2025 Vision. Ofwat consultation on inflation adjustments and our strong representations made in response.

Description & Impact	Mitigating activities	Change
Inflation In return for their capital investment in assets, regulated water companies earn a return on their Regulatory Capital Value ("RCV"), which is adjusted by the Retail Price Index ("RPI"). In times of low inflation or deflation, the return on this investment will decrease relative to the cost of funding, reducing cash flow and shareholder value. Falling inflation or deflation could lead to pressure on covenants due to reduced headroom between our RCV and the financing structures in place especially for instruments which are not linked to RPI.	In order to reduce the impact of low inflation or deflation, around half of the Company's debt is linked to RPI. Clear financial policies used to manage Group Finances.	Prospect of lower inflation for a sustained period increased. Clear plans for performance improvements for 2015-2020.
Level of bad debt Our area covers London and the Thames Valley where the proportion of persons in rented accommodation is higher than other parts of the UK. This increases loss due to non-payment of debt. Our bad debt percentage for 2014/15 is 3.6% compared to the 3.1% in the previous year. The best in the industry is approximately 2.0%, ranging to 3.0%. The law prohibits the disconnection of a water supply from certain premises including domestic dwellings as a method of enforcing payment. Failure to adequately manage cash collection processes has a detrimental impact on the Company results.	Management actions have resulted in improved cash collection rates for 2014/15. The Company has implemented a new Debt Management System to further enhance management information and reporting to allow us to refine our targeting of customers who may represent a bad debt risk. The Company is participating with Landlord TAP which is an industry initiative to allow Landlords and Managing Agents of properties in England & Wales, to provide water companies with details of those responsible for the payment of water and/or sewerage charges for their tenanted properties.	Improved debt collection processes and systems as part of Credit Collections Transformation.

Corporate Governance Report

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Chairman's introduction

Dear Shareholder,

As Chairman of the Board I am pleased to present this year's corporate governance report. This has been a year of strategic transformation for Thames Water following the reorganisation of our business into four operating companies and a central group function. The operating companies have in place a managing director and an executive team to focus on their specific opportunities and challenges. The Board understands the importance of ensuring that there is a strong governance framework in place. Appropriate governance underpins the Company's ability to achieve its strategic goals, whilst still allowing the management of the business to exercise their skills and experience to deliver the vital service we provide our customers every day.

This report details the Company's governance framework and provides an overview of how the Company has applied the Main Principles of the UK Corporate Governance Code 2012 (the "Code").

Following the publication of Ofwat's *Board leadership, transparency and governance – principles*, in January 2014, the Board approved a revised governance framework in order to comply with Ofwat's requirements. After consultation with our shareholders during the year, the Company's constitutional documents were amended in order to give effect to the required changes.

The most significant change is to the composition of the Board of Directors. The Board has been reconstituted such that the largest single group of directors represented on the Board is the independent directors and Chairman. In anticipation of this, two new additional independent non-executive directors, Lorraine Baldry and Ian Pearson, were appointed to the Board in September 2014 (their biographies can be found on page 46-47). This increased the number of Independent Non-Executive Directors to 5. In March 2015, the number of investor directors was reduced from 11 to 5. Martin Baggs and Stuart Siddall continue as Chief Executive Officer and Chief Financial Officer respectively.

As part of these comprehensive changes, Dr Peter Dyer retired and Edward Beckley, Yan Wang, Rosamund Blomfield-Smith and Lincoln Webb resigned in March 2015. On behalf of the Board, I would like to express thanks to these Directors for their contributions. The full composition of the Board, along with individual biographies for each of the directors, is set out on pages 44 to 49.

We have also taken the opportunity of reconstituting our Board Committees, which all now comprise a majority of Independent Non-Executive Directors and are each chaired by an Independent Non-Executive Director. During the next year, each of the reconstituted Committees will undertake a thorough review of their Terms of Reference and will agree any amendments with the Board as appropriate.

These are important changes for the Company that will ensure the Board has the appropriate balance of skills, experience, independence and knowledge to enable it to discharge its duties and responsibilities effectively. I am confident that we have a strong team in place to continue the successful delivery of our strategy and to make the most of the opportunities and challenges ahead.

In the opinion of the Directors, the Company has complied with the Main Provisions of the Code, with a small number of exceptions that are explained on page 50.

We are mindful that best practice in corporate governance continues to evolve. Thames Water is committed to continuing to improve its compliance with the Code and as a result we will continue to review compliance at least annually in order to take account of any relevant changes.



Sir Peter Mason
Chairman

Chairman

Sir Peter Mason KBE, Chairman (68)



Sir Peter became Chairman of Thames Water Utilities Limited in December 2006 and brings extensive experience in engineering, construction and complex capital investment businesses. He retired as CEO of Amec plc in September 2006 and previously was Chairman and CEO of Balfour Beatty Limited.

Sir Peter was the senior non-executive director of BAE Systems plc until May 2013 and until October 2008 was a Board member of the 2012 Olympic Delivery Authority. He is currently a non-executive member of the Board of Spie S.A., senior independent director of Subsea 7 S.A and Chairman of the AGS Group.

Sir Peter was made a Knight Commander of the British Empire (KBE) in 2002 for services to international trade.

Executive Directors

Martin Baggs, Chief Executive Officer (50)

Martin became CEO of Thames Water Utilities Limited in March 2010 having been a non-executive Director since 2006.

Prior to taking up the role of CEO of Thames Water, he was an Executive Director with the Macquarie Infrastructure Funds with responsibility for the portfolio of utility investments across Europe. Martin has a long career in the water industry with previous roles including Managing Director at South East Water and Operations Director at Southern Water.

Martin is a Chartered Civil Engineer, a Fellow of the Institution of Civil Engineers and a member of the Worshipful Company of Water Conservators.



Stuart Siddall, Chief Financial Officer (62)



Stuart joined Thames Water Utilities Limited in September 2011, having previously held the position of Chief Executive of the Association of Corporate Treasurers. Stuart joined Price Waterhouse in Johannesburg after qualifying as a Chartered Accountant. Returning to the UK, he held several senior financial roles and was among the first students to qualify with the Association of Corporate Treasurers.

Stuart has gained extensive experience in the construction, engineering and utilities sectors, including serving as finance director for Amec plc, Balfour Beatty Limited and Manweb plc. He is the second executive member of the Thames Water Board, alongside Chief Executive Officer Martin Baggs.

Non-Executive Directors

Christopher Deacon (67)



Christopher became a non-executive director of Thames Water Utilities in December 2006. He brings extensive experience as a banker and advisor in major infrastructure and project finance.

Presently Christopher is an advisor to Ofgem on the offshore wind transmission programme and a member of the Investment Committee for the Dutch Infrastructure Fund. He is a non-executive director of various other companies and a Trustee of the Franco British Council.

Chris Heathcote (52)

Chris became a non-executive director of Thames Water Utilities in June 2013. He is a director in the Macquarie Infrastructure and Real Assets division of Macquarie Group Limited with responsibility for Macquarie's Utilities assets and its German metering business, Techem. Chris joined Macquarie in April 2013 from Lloyds Banking Group, where he was Global Head of Project Finance responsible for Project Finance activities in Infrastructure, Utilities, Renewable and Conventional Energy.

Chris was previously a founding partner of Hyder's Infrastructure Investment Fund and has also worked in the City involved in the financing of a number of utilities including Southern Water and Kelda. Chris has been involved in a number of landmark deals in the UK and overseas, including Wembley Stadium, London Underground, M25, the Melbourne Citylink and Gatwick Airport.



Nick Horler (56)



Nick Horler was appointed as a non-executive director of Thames Water Utilities in April 2014. Nick is a portfolio non-executive director. He has been a member of the Board of the Royal Mail since 2010 and a member of the Board of the Go-Ahead Group since 2011. He has been Chair of Alderney Renewable Energy since 2011 and Chair of Meter Provida Ltd since 2014. He became Chair of Adler & Allan in March 2015. He recently stepped down as the Chair of the Advisory Board of KPMG's Energy and Natural Resources practice which he held from 2011-2014.

Nick spent his Executive career in the energy industry. He worked for Phillips Petroleum for 12 years in a variety of roles in the UK and USA. He spent 11 years with E.On including eight years on the Board of E.On UK, first as Managing Director of PowerGen Energy Trading Ltd and then as Managing Director of E.On Retail. He spent two and a half years as the CEO of Scottish Power from 2008 to 2010.

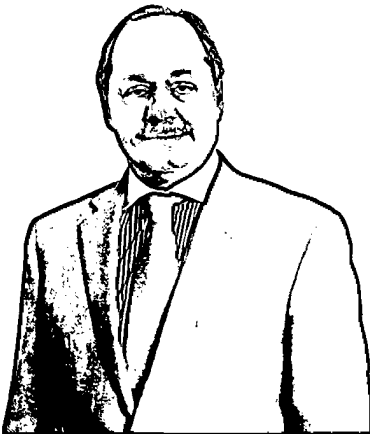
Guy Lambert (38)

Guy became a non-executive director of Thames Water Utilities in October 2014. Guy has been with the Abu Dhabi Investment Authority in the Infrastructure Division since February 2008 and currently heads up the utilities business globally within the Infrastructure Division.

Guy is responsible for sourcing and executing new investments in the utilities sector and overseeing the existing utilities portfolio. Guy's previous roles include Corporate Finance and Advisory Manager at Macquarie Capital London and Corporate Finance and Advisory Analyst at Dresdner Kleinwort Wasserstein. Guy has an MSc in Economics from Erasmus University in Rotterdam, Netherlands.



Dipesh Shah OBE, FRSA (62)



Dipesh became a non-executive director of Thames Water Utilities in October 2007. He is a non-executive director on the Boards of Canaccord Genuity Inc., JKK Oil & Gas Plc (where he is the senior independent director and Chairman of the Remuneration Committee), The Crown Estate, EU Fund for Energy, Climate Change and Infrastructure (the Marguerite Fund) where he is Chairman of the Investment Committee, Trustee of the British Youth Opera, Governor of Merchant Taylors' School and Chairman of ANHD International Advisory Services Ltd.

Dipesh was the chief executive of the UK Atomic Energy Authority and of various large businesses in the BP Group and a non-executive director of Babcock International Group plc and Lloyd's of London. He was Chairman of Viridian Group plc, HgCapital Renewable Power Partners LLP and the European Photovoltaic Industry Association. He was also a member of the Government's Renewable Energy Advisory Committee from 1994 to 2002.

Independent Non-Executive Directors

Michael Pavia (68) – Senior Independent Non-Executive Director

Michael became a non-executive director of Thames Water Utilities Limited in December 2006 and was appointed as Senior Independent Non-Executive Director in June 2013. Michael is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) and he brings extensive experience in management of regulated businesses.

Michael was previously Group Finance director of SEEBOARD group, Chief Financial Officer of the London Electricity Group (EDF Energy Group) and a non-executive director of Salamander Energy plc. He is currently a non-executive director of Telecom Plus plc, Wales & West Utilities Ltd and Chairman of their audit Committees. He is also non-executive Chairman and a founder shareholder of PetroGranada Ltd, an oil exploration company.



Lorraine Baldry OBE (66)



Lorraine was appointed as an independent non-executive director of Thames Water Utilities in September 2014. Lorraine has over 40 years' experience in a wide range of industries including Technology, Broadcasting, Distribution, Real Estate and Financial Services. Lorraine is Chairman of London & Continental Railways, Schroder Real Estate Investment Trust Limited, Inventa Partners Ltd and Tri-Air Developments Ltd.

She is the Senior Independent Director of Circle Holdings plc and was a Board Member of the Olympic Delivery Authority until its dissolution in December 2014 and a Governor at the University of the Arts London. Lorraine was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is a former Chairman of London Thames Gateway Development Corporation and Central London Partnership and non-executive director of St Ives plc and DTZ Holdings plc.

Lorraine is an Honorary Member of the Royal Institution of Chartered Surveyors and a Past President of the British Property Federation. She was awarded OBE in the Queen's Jubilee Honours.

Dame Deirdre Hutton CBE (66)

Dame Deirdre was appointed as an independent non-executive director of Thames Water Utilities Limited in July 2010. She is Chair of the Civil Aviation Authority, Pro-Chancellor of Cranfield University and a non-executive director of Castle Trust.

Dame Dierdre was a non-executive member of HM Treasury Board, was previously Chair of both the National Consumer Council and Food Standards Agency and Deputy Chair of the Financial Services Authority. Dame Deirdre has also held a number of positions on a variety of bodies dealing with food issues. She is currently Vice President of the Trading Standards Institute.



Ian Pearson (56)



Ian Pearson was appointed as an independent non-executive director of Thames Water Utilities in September 2014. Ian works in strategy and business development for major organisations. In addition to being an independent non-executive director at Thames Water he is a member of the Advisory Board of the accountants PwC, Chairman of Octopus VCT2 plc and of CrowdBnk Ltd and a Senior Adviser to Avanti Communications.

Elected to Parliament in a by-election in December 1994, until standing down before the 2010 general election, Ian had various roles in Government. He was Economic Secretary to the Treasury between 2008 and 2010. Before that he had important roles as Science and Innovation Minister, Minister for Climate Change and the Environment, Minister for Trade and as a Minister in Northern Ireland.

Ed Richards (49)

Ed Richards was appointed as an independent non-executive director of Thames Water Utilities Limited in July 2010. He was Chief Executive of Ofcom until December 2014, having previously been the Chief Operating Officer. He was previously a senior policy advisor to the Prime Minister for media, telecoms, the internet and government and Controller of Corporate Strategy at the BBC.

Ed is currently leading the independent review of financial services trade associations and is also a director of Donmar Warehouse and a Governor of the London School of Economics.



Executive Team

Thames Water's Executive Team is responsible for the day-to-day running of the business. Our Executive Team consists of the Chief Executive Officer (CEO) and Chief Financial Officer (CFO) and eight functional directors, following the departure of Piers Clark, the Company's Commercial Director, in December 2014:

Richard Aylard CVO, External Affairs and Sustainability Director

Richard joined Thames Water in 2002 as Corporate Responsibility Director. He leads the Company's engagement with external stakeholders, including Government, the Environment Agency and the Consumer Council for Water and is the principal spokesperson with the media and other audiences.

As Sustainability Director, Richard is the Executive Team member with responsibility for environmental and social issues.

Janet Burr, Human Resources Director

Janet was appointed Human Resources Director in November 2010, having previously served as Interim Human Resources Director from June 2010. Janet is the Executive Team member with responsibility for all employee issues.

The HR function contributes to the overall business strategy, particularly through the Company's People Strategy, which underpins the vision, mission and values required to achieve the business goals of profitable growth and operational delivery.

Ian Cain, Managing Director, Retail

Ian joined Thames Water in November 2013, having previously held the position of Managing Director at Centrica's Credit Energy business.

Ian enjoyed a successful career with Centrica where he played a key role in establishing British Gas as the UK's leading energy supplier.

As Managing Director for its Credit Energy business Ian was instrumental in the transformation of service to some 13 million residential customers, delivering programmes which radically reduced complaints, while improving customer satisfaction and retention.

Bob Collington OBE, Managing Director, Wholesale Water

Bob Collington is the Managing Director of Thames Water's newly formed Wholesale Water business.

Prior to this Bob was appointed as Operations Director in September 2012, having previously served as Asset Management Director. Bob has over 25 years' experience in the Water Industry having held a number of senior roles throughout Thames Water and 5 years overseas in the USA at Elizabethtown Water Company and American Water where he served on the Board of the Long Island Water company.

Bob also serves as a Board Member for UK Water Industry Research, the independent Company that facilitates research for the Water Industry in the UK and is a pension trustee for both the Thames Water Pension schemes.

In June 2013 Bob was awarded an OBE in the Queen's Birthday Honours list reflecting his huge contribution to Thames Water, the industry and in particular the management of the drought and the successful delivery of the Olympic Games.

Nick Fincham, Strategy & Regulation Director

Nick was appointed Strategy and Regulation Director in April 2011, having previously served as Head of Regulation from June 2010. Before joining Thames Water, Nick spent six years as Director of Economic Regulation and Competition Policy at the Civil Aviation Authority.

Prior to that, he held senior positions at a number of economic regulators (OFFER, Ofgas, Ofgem and Postcomm).

Michael Gerrard, Managing Director, Thames Tideway Tunnel

Michael was appointed Managing Director for the Thames Tideway Tunnel project in May 2011. Michael has worked for most of his 30 year career on the development, finance and delivery of major capital projects and programmes, both within the public and private sectors.

Before joining Thames Water, he had also been a member of Defra's Waste Infrastructure Delivery Programme (WIDP) Executive and the Welsh Assembly Government's waste investment programme board.

Lawrence Gosden, Managing Director, Wholesale Wastewater

Lawrence Gosden is the managing director of Thames Water's newly formed wholesale wastewater business and was previously Thames Water's asset director, having been capital delivery director since Oct 2011.

He is responsible for overseeing the collection and treatment of 4.4 billion litres of wastewater every day across its 348 sewage works and its vast network of sewers and the creation of enough energy to run a city the size of Oxford.

He was responsible for the sustainable management of Thames Water's asset base together with a £5bn capital investment programme in the five years to 2015, including the Lee Tunnel, Thames Tideway sewage treatment works improvements and the four joint ventures responsible for the majority of its remaining programme.

Lawrence has also transformed the way Thames Water delivers its investment programme and the creation of the innovative Eight2O alliance.

He joined Thames Water in October 2007 and has previously held senior positions principally in Southern Water and South East Water.

Kevan Mossman, Transformation Director

Kevan has been contracted to Thames Water as its Transformation Director since April 2014. For the last 14 years Kevan has run his own business specialising in M&A, transformation and change delivery for major clients in the UK, USA, Asia and Australasia. Major clients include Alcatel Lucent, Vodafone, Orange, Network Rail, British Energy, Littlewoods, Scottish Power, Macquarie Bank and in the water sector Anglian Water, Southern Water and Severn Trent.

Prior to 1999 Kevan was Operations Director and latterly Transformation Director at Southern Water.

Corporate Governance Report

The UK Corporate Governance Code 2012 (the "Code") applies to accounting periods beginning on or after 1 October 2012. The Board has reviewed its operations and governance framework and confirms that as at the date of this report, the Company has complied with the provisions set out within the Code, except as detailed in the tables below.

Provision	Explanation
<i>Provision A.3.1 requires that the Chairman should on appointment meet the independence criteria set out in B.1.1.</i>	The Chairman is considered by the Board to be independent but in terms of provision B.1.1 of the Code was not considered independent on appointment as he was appointed by the shareholders of Kemble Water Holdings Ltd.
<i>Provision B.1.2 requires that at least half the Board, excluding the Chairman, should comprise non-executive directors determined to be independent.</i>	Changes made during the year have resulted in an increase in the number of independent non-executive directors and a reduction in the number of investor appointed directors. In accordance with the Ofwat corporate governance principles, though not the Code provision, the independent non-executive directors, including the Chairman, represent the largest single group on the Board.
<i>Provision B.6.1 requires that the annual Board evaluation includes an evaluation of individual Director's performance.</i>	Whilst it has not previously been included as part of the Board evaluation process, the evaluation of Directors' individual performances will be undertaken during the financial year 2015/16.
<i>Provisions B.6.3 and A.4.2 require that an evaluation of the Chairman's performance is undertaken by the non-executive directors.</i>	The performance of the Chairman was not previously evaluated by the non-executive directors. Led by the senior independent director, the non-executive directors will now undertake an evaluation of the Chairman's performance during the financial year 2015/16.
<i>Provision D.2.1 requires that the Company establish a remuneration Committee comprising at least three independent non-executive directors.</i> In addition, the company Chairman may also be a member of, but not chair, the Committee if he or she was considered independent on appointment as Chairman.	The composition of the Remuneration Committee comprises four non-executive directors, of whom two are considered to be independent under provision B.1.1 of the Code, and the company Chairman. The Committee is chaired by the company Chairman, who is considered by the Board to be independent but in terms of provision B.1.1 of the Code was not considered independent on appointment (see Provision A.3.1, above).

With changes having been made to our governance framework during the period, there were certain provisions of the Code that were only complied with part way through the year. In accordance with Listing Rule 9.8.6, the following table details those provisions and the period of compliance.

Provision	Explanation	Date of Compliance
Main Principle B.2 relates to the work of the Nominations Committee, including the appointment procedure for new directors to the Board.	The Board has created a separate and distinct Nominations Committee comprising a majority of independent non-executive directors. In order to ensure the Board has the appropriate balance of skills, experience independence and knowledge, the Nominations Committee will lead the process to consider board appointments and make recommendations to the Board. Non-executive directors will be subject to annual re-election.	31 March 2015
Provision B.4.1 requires that new directors receive a full, formal and tailored induction on joining the Board.	As part of the enhancements made to the governance framework, the attendance at a bespoke induction course became mandatory.	13 March 2015
Main Principle B.7 requires that all directors should be submitted for re-election at regular intervals.	Changes made during the year have resulted in enhancements to the appointment process to include the requirement that non-executive directors are subject to re-election. An increase in the number of independent non-executive directors and a reduction in the number of investor appointed directors. In accordance with the Ofwat corporate governance principles, though not the Code provision, the independent non-executive directors, including the Chairman, represent the largest single group on the Board.	13 March 2015
Provision C.3.1 requires that the Audit, Risk and Regulatory Committee ("ARRC") is made up of at least three independent non-executive directors.	The composition of the ARRC was revised including the appointment of four independent non-executive directors.	31 March 2015

Leadership

Role of the Board

The Board of Thames Water believes that a clearly defined framework of roles, responsibilities and delegated authorities is in place to support the Board's primary responsibility to promote the long term success of the Company for the benefit of its customers, employees, shareholders and other stakeholders. The Board seeks to achieve this through setting the Company's overall strategic objectives, providing appropriate resources to meet these objectives and reviewing executive management's performance. The Board considers that it sets the standards and values expected of management and staff.

The Company has adopted a framework of delegated authorisations in its Schedule of Delegated Authority (SoDA). The SoDA defines levels of authorisation required for specified transactions and also sets out approval limits for operating and capital expenditure. The SoDA authorises the CEO and CFO to approve certain transactions up to specified limits, beyond which the approval of the Board needs to be obtained.

The SoDA also contains matters specifically reserved to the Kemble Water Holdings Limited Board for approval. These include approval of annual budgets, financial plans, financial statements, business strategies and material transactions, such as major acquisitions, divestments, funding and investment proposals.

During the financial year 2014/15, the Board met on the afternoon preceding each formal Board meeting to receive more detailed presentations and updates on various subjects. Topics discussed through the year included: business transformation, customer service, operational performance, market reform, corporate governance, PR14 business plan, 2015/16 pricing and budgets.

The Board also held two strategy days during 2014/15 to facilitate in-depth discussions on matters such as the Company's position in the context of the wider industry, the changing business environment in the regulatory period 2015-20 and beyond and the Company's strategic approach in addressing key risks and opportunities.

The Board holds separate meetings, on a regular basis, without the Executive Directors being present, to discuss any issues or concerns. In addition, the Chairman meets with the Independent Non-Executive Directors only at least once a year. There are also a number of informal opportunities for the Directors to meet and discuss specific areas of the business with individual members of the Executive Team and also invited industry related external guests.

Directors' attendance at Board and Committee meetings for the financial year 1 April 2014 to 31 March 2015¹ is summarised in the table below:

	Board	Audit & Risk Review	Regulatory	Health, Safety & Environment	Compensation & HR	Thames Tideway Tunnel	Customer Service
Total meetings held	13	7	10	4	7	13	4
Attendance by Directors in office for the whole period							
Sir Peter Mason	13 ^c	-	-	-	7 ^c	13 ^c	-
Martin Baggs	13	7	10	4	6	13	4
Christopher Deacon	12	2	9	-	6	-	-
Chris Heathcote	13	7	10 ^c	4 ^c	5	12	3
Dame Deirdre Hutton	11	-	-	4	-	-	4 ^c
Michael Pavia	12	7 ^c	10	-	7	13	-
Ed Richards	11	1	7	-	-	-	3
Dipesh Shah	13	-	7	1	-	-	-
Stuart Siddall	12	7	9	-	5	11	1
Attendance by Directors appointed during the period							
L Baldry (01/09/2014)	6/8*	-	-	-	-	-	-
N Horler (14/04/2014)	11/13*	-	-	-	-	-	-
G Lambert (15/10/2014)	6/6*	-	-	-	-	-	-
I Pearson (01/09/2014)	8/8*	-	-	-	-	-	-
Attendance by Directors resigned during the period							
Edward Beckley (13/03/15)	10/13*	-	8/10*	-	6/7*	-	-
Rosamund Blomfield-Smith (13/03/15)	13/13*	7/7*	3/10*	-	-	-	-
D Buffery (01/01/2015)	9/10*	-	-	-	-	-	-
Peter Dyer (13/03/15)	10/13*	-	-	-	-	-	-
S Eaves (15/10/2014)	6/7*	-	-	-	-	-	-
C van Heijningen (App:01/01/2015)(Res:13/03/15)	3/3*	-	-	-	-	-	-
Y Wang (App:01/07/2014)(Res:13/03/15)	4/10*	-	-	-	-	-	-
Lincoln Webb (13/03/15)	11/13*	-	-	-	-	-	-
D Xu (01/07/2014)	1/3*	-	-	-	-	-	-



- Denotes membership of a Committee to 31 March 2015

C - Denotes chair of the relevant Committee to 31 March 2015

* - Denotes attendance out of the total number of meetings during the period of appointment

¹Note: On 31 March 2015 the new Board Committee structure became effective as part of the implementation of the Company's revised Corporate Governance framework. This resulted in the Audit & Risk Review Committee being merged with the Regulatory Committee to form the Audit, Risk & Regulatory Committee; the Compensation & HR Committee being reformed as the Remuneration Committee; the introduction of a new Nominations Committee and the governance of the Health, Safety and Environment Committee was transferred to Executive Management. Details of the revised membership of all Committees can be found on pages 56 to 60.

Division of responsibilities

The roles of the Chairman and executive management, led by the Chief Executive Officer, are separate and clearly defined. This division of responsibility has been approved by the Board.

The Chairman – is responsible for leading the Board, ensuring its effectiveness, setting the agenda and ensuring effective dialogue with the Company's shareholders. In addition, he is responsible for ensuring that the Board receives accurate, timely and clear information and that constructive relations exist between executive and non-executive directors. The Chairman is also responsible for leading the effectiveness review of the Board.

The Chief Executive Officer – is responsible for the leadership and operational management of the Company within the strategy and business plan agreed by the Board. He is supported by the Chief Financial Officer and eight functional directors (together, the "Executive Team"). None of the functional directors are members of the Board. (Biographies for the Executive Team can be found on pages 48 to 49).

Non-executive directors

The Board includes the Chairman and 10 other Non-Executive Directors, five of whom are independent. The Board considers that the independent non-executive directors are independent in character and judgement and is satisfied that there are not any relationships or circumstances which are likely to affect, or could appear to affect, the director's independence. Five Non-Executive Directors are nominated and appointed by the shareholders of Kemble Water Holdings Limited and are therefore not classified as independent non-executive directors.

Michael Pavia is the Senior Independent Director and is available to all stakeholders to answer any queries that cannot be addressed by the Chairman or other Executive Directors. He is also available to chair the Board and Committee meetings should the Chairman or Committee Chairman be unable to attend.

Composition of the Board

The Board is chaired by Sir Peter Mason and at the year-end there were two Executive Directors (Chief Executive Officer and Chief Financial Officer), five Non-Executive Directors and five Independent Non-Executive Directors. The Board considers that the Independent Non-Executive Directors all meet the independence criteria set out in provision B.1.1 of the Code.

The Articles of Association of the Company allow the Board to authorise conflicts, or potential conflicts, of interest. Directors are expected to advise the Company Secretary of any actual or potential conflicts as soon as they arise, so that they can be considered by the Board at the next available opportunity. It is the Board's view that this procedure operated effectively during the year under review.

During the year the Company has actively engaged with its shareholders to address the composition of the Board in order to comply with Ofwat's corporate governance principles. The changes to the Board as part of the Company's corporate governance arrangements were approved by Shareholders at a General Meeting held on 4 December 2014 and became effective from 13 March 2015.

Appointments to the Board

The appointments and resignations during and subsequent to the financial year are set out in the following table:

Director	Appointment	Resignation
L Baldry	01/09/2014	
E Beckley		13/03/2015
R Blomfield-Smith		13/03/2015
D Buffery		01/01/2015
S Eaves		15/10/2014
P Dyer		13/03/2015
N Horler	14/04/2014	
G Lambert	15/10/2014	
I Pearson	01/09/2014	
C van Heijningen	01/01/2015	13/03/2015
L Webb		13/03/2015
Y Wang	01/07/2014	13/03/2015
D Xu		01/07/2014

During the financial year 2014/15, the Board appointed two additional Independent Non-Executive Directors – Lorraine Baldry and Ian Pearson (biographical details can be found on pages 46 to 47). The recruitment process was led by the Chairman and the former Compensation & HR Committee, on behalf of the Board, with the assistance of an external search agency, Egon Zehnder. During the period, Egon Zehnder conducted the board evaluation (see page 56).

Following the Company's changes in Corporate Governance, a Nominations Committee was established that is made up of a majority of Independent non-executive directors and is responsible for the formal and transparent nomination of new directors to the Board. Membership of the Nominations Committee consists of Sir Peter Mason (Chair), Ed Beckley, Christopher Deacon and Michael Pavia.

The Independent Non-Executive Directors are appointed for three year terms. The appointments of Dame Deirdre Hutton, Michael Pavia and Ed Richards were reviewed in March 2015 and it was agreed that Michael Pavia would be invited to serve for a further year, at the conclusion of which he will have served as a non-executive director for a period of ten years and step down. Dame Deirdre Hutton and Ed Richards will continue to serve for a further three years. The Investor appointed Non-Executive directors will be subject to re-election every three years.

The Board includes two women (from a total of thirteen Directors) representing 15% of the total. Janet Burr is currently the only woman on the Executive team from a total of ten members.

The letters of appointment of the Non-Executive Directors, detailing the terms and conditions of appointment and the expected time commitment, are available on request from the Company Secretary. As a matter of good governance all Directors are required to disclose their other significant commitments to the Board. Neither the CEO nor the CFO acts for any FTSE100 company in the capacity of a Non-Executive Director or Chairman.

Development

There is an induction programme for newly appointed Directors, designed to develop Directors' knowledge and understanding of the Company's operations and culture and includes meetings with the CEO and CFO along with other members of the Executive Team and Company Secretary. The programme provides an overview of the financial and operational performance of the Company, the regulatory framework along with commercial and customer service perspectives. The most recent induction was held in September 2014 and was attended by Lorraine Baldry and Ian Pearson.

Previously, in certain circumstances, new Directors would not attend an induction as they may have already adequately familiarised themselves with the operations and performance of the Company by other means (e.g. shareholder Directors appointed following an investment in the Company may have received presentations from senior management on the Company as part of their due diligence or may previously have served as an alternate director). The attendance at an induction course became mandatory from 1 April 2015 and new directors are offered the opportunity to attend a range of presentations from across the business areas.

Continuous training is provided for Directors during the year by way of site visits, presentations and circulated updates. During 2014/15, guidance was provided to the Board on topics including:

- Submission of our business plan for the next regulatory period (PR14);
- The results of the PR14 Final Determination by Ofwat
- Competition Law
- Corporate Governance
- Customer Services
- Regulatory Reform

Training is also available to meet any individual needs as appropriate.

Information and Support

The Board and shareholders are kept informed through the circulation of regular updates and information from the CEO, CFO and Executive Team including a monthly Management Report which includes financial, regulatory and operational performance indicators and commentary.

Directors have access to independent professional advice, at the Company's expense. In addition, the Company Secretary is available to advise on corporate governance matters to ensure that the Company and the Board operate within applicable legislation, rules and regulations. The appointment and removal of the Company Secretary is a matter requiring approval of the Board.

In November 2014, the Board appointed David Hughes as Company Secretary following the departure of Joel Hanson. The Company wishes to express its thanks to Joel for his valued contribution to the Board and the Company as a whole during his time at Thames Water.

Board Evaluation

An externally facilitated Board evaluation is conducted every three years, as required by the Code, with reviews between conducted internally by the Company Secretary. The individual performance of the Directors has not been assessed to date, however, as part of the review of Corporate Governance, the evaluation of Directors' individual performance will be included in all externally facilitated reviews with the first to be conducted during the year 2015/16.

The last external Board evaluation was conducted in the financial year 2013/14 by Egon Zehnder. The principal conclusions of the evaluation were presented to the Board at the April 2014 meeting. The review concluded that the Board was operating effectively, noted the impact of the proposed governance changes to the composition of the Board and Committees going forward, and made certain recommendations. Led by the Chairman, these recommendations have now been addressed.

Accountability

Financial & Business Reporting

The Board is mindful of its responsibility to present a fair, balanced and understandable assessment of the Company's position and prospects through the production of an annual report and financial statements and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Directors' Report on pages 87 to 89. The Statement of directors' responsibilities in respect of the Company's financial statements is set out on page 88.

Board Committees

During the financial year 2014/15 Thames Water had six standing Committees each of which is described in more detail below. The workload of the Committees includes the scheduled meetings during the year in addition to any ad hoc meetings and written updates, frequently requiring considerable amounts of time. All Directors are routinely invited to attend board Committee meetings in addition to the nominated Committee members.

Additionally, project specific Committees were created such as the AMP6 Capital Works Committee and Network Services Committee.

As part of the corporate governance changes implemented in March 2015, it was agreed to review the role of the standing Committees and as a result the Audit and Risk Review Committee was merged with the Regulatory Committee to form the Audit, Risk and Regulatory Committee. The Compensation and HR Committee was reformed as the Remuneration Committee along with the establishment of a Nominations Committee. The membership and work of each of these Committees is described more fully below.

After a full review and consideration it was also agreed that the Health, Safety and Environment Committee should transfer to an Executive platform. Health, safety and environment matters are considered in detail at the monthly Executive Committee meetings and detailed reports are provided to the Board of Directors at every scheduled Board meeting. The new Executive Health, Safety and Environment Committee is chaired by the CEO and meets on a quarterly basis, with the first meeting held in April 2015.

Each of the Committees has terms of reference which have been approved by the Board and these will be reviewed during the financial year 2015/16 as part of the corporate governance programme. The Chairs of each of the Committees provide regular updates to the Board on the work of their respective Committees. Minutes of the Committee meetings are available to all Directors.

a) Audit, Risk and Regulatory Committee (formerly the Audit and Risk Review Committee)

Membership of the Audit and Risk Review Committee during 2014/15 was:
Michael Pavia (Chair) Rosamund Blomfield-Smith Chris Heathcote
Membership of the new Audit, Risk and Regulatory Committee, effective from 31 March 2015, at the date of the report is:
Michael Pavia (Chair) Lorraine Baldry Chris Deacon Chris Heathcote Ian Pearson Ed Richards Dipesh Shah

The Audit, Risk and Regulatory Committee has prepared a separate report and is presented on pages 81 to 86. Attendance by Committee members is set out in the Attendance Table on page 53.

b) Health, Safety & Environment Committee (HS&E)

Membership of the Committee during 2014/15 was:

Chris Heathcote (**Chair**)
Dame Deirdre Hutton
Dipesh Shah

The Company is committed to the highest standards of health, safety and environmental compliance in the performance of its activities. The Board delegated to the Committee responsibility to regularly review, develop and oversee consistent policy, standards and procedures for managing health and safety and environmental risks to the Company's business. The Committee thoroughly reviewed, and provided appropriate challenge on, all significant health, safety and environmental incidents during the year.

As part of the Corporate Governance review it was decided to transfer the governance of the Health, Safety and Environment Committee to Executive Management, as described on page 56, with effect from 31 March 2015.

During the year the Committee met four times (with one meeting being held at Beckton Sewage Treatment Works which included an inspection of the Lee Tunnel). Attendance by Committee members is set out in the Attendance Table on page 53.

In addition to reviewing the regular performance reports, the Committee has also considered other items during the year including:

- *Health and Safety Audits*

The Committee continuously reviews and monitors the schedule of health and safety audits that are proposed to ensure that they are correctly focused and that any remedial actions that have been identified have been implemented.

Health and Safety Audits conducted during 2014/15 included manual handling, asbestos, service avoidance and the control of street & road works.

- *AMP6 Engagement Strategy*

The Committee also focused its attention on ensuring a consistent delivery of standards across all parties working within and for Thames Water during the regulatory period 2015-20. This includes areas such as the Eight20 alliance, infrastructure alliance, Thames Tideway Tunnel and the facilities management organisation.

- *Drug & Alcohol Policy and Procedures*

During 2014/15 the Company embarked on a comprehensive review of its drug and alcohol policy and testing procedures, which has been subject to regular review and feedback from the Committee.

- *Safe Use of Mobile Phones*

In order to be fully supportive of the current Thames Water "Zero Compromise" Health and Safety philosophy the Committee was requested to review and approve revisions to the Safe Use of Mobile Phone policy prohibiting the use of mobile phones while driving on company business.

- *Pollution Programme*

The Committee is updated at every meeting on the Company's pollution incident numbers and challenges executive management on the Implementation of pollution response and investigation processes. Performance improvement plans are monitored and reviewed by the Committee on a regular basis.

- *Health and Wellbeing*

A particular area of focus for the Committee during 2014/15 was employee health and wellbeing. The Committee provides direction and oversight of the Company's health and wellbeing programmes; as part of the plans to improve wellbeing and to address the issues of work related referrals to stress, anxiety and depression including 'presenteeism' (stress recognised and managed whilst in work) the Company introduced Company-wide free personal medical assessments. The assessments included tests for blood pressure, BMI, cholesterol and hydration, amongst others, and proved to be hugely popular, taken up by over 3,000 employees.

c) Regulatory Committee – until 31 March 2015

Membership of the Committee during 2014/15 was:

Chris Heathcote (Chair)
Ed Beckley
Ed Richards
Dipesh Shah

As a regulated utility, the Board established the Regulatory Committee to provide oversight and guidance in respect of significant regulatory issues affecting the Company. The Committee provided assistance to the Board in reviewing economic regulatory matters as well as issues of compliance with, and any amendments to, the statutory instrument of appointment. As part of the Company's revised corporate governance arrangements the Regulatory Committee was merged with the Audit and Risk Review Committee to form the Audit, Risk and Regulatory Committee with effect from 31 March 2015.

During the year the Committee met ten times. Attendance by Committee members is set out in the Attendance Table on page 53. The Committee also held a joint meeting with the Audit and Risk Review Committee in order to comprehensively review the preparations for the submission of the Annual Return 2014 and to recommend it for approval by the Board.

The main area of focus for the Committee during the year was the submission to Ofwat of the Business Plan in support of the Price Review 2014 (PR14). The Committee regularly reviewed the approach and structure of the Company's submission prior to its final approval by the Board, providing direction and guidance on such matters as Outcomes & Delivery Incentives (ODIs) and uncertainly mechanisms, financeability, sewer flooding proposals and the status and scope of the Thames Tideway Tunnel price control.

Following the Company's submission in June 2014, Ofwat issued its Final Determination ('FD') on the Company's PR14 submission on 12 December 2014. This was followed by a comprehensive review of the FD over the following weeks by both the Board and the Committee and resulted in the Company's acceptance of the FD in January 2015.

Other business considered by the Committee included:

- *Market Reform*

The Committee focused on the key risks of market reform. The Water Act 2014 received Royal Assent in May 2014 and will extend competition in retailing of water and/or sewerage services to all non-household customers from 1 April 2017 and the Committee considered the implications of this in depth throughout the year.

It considered key risks such as wholesale readiness, wholesale compliance, retail readiness and the Open Water Programme, further details of which follows.

- *Open Water Consultations*

On 2 January 2014, Open Water consulted on a Market Blueprint for retail competition arrangements in water and sewerage services, the new arrangements are proposed to be implemented for April 2017. The Open Water programme focused on delivering the market architecture/design, the market codes and any central systems needed to implement the retail and upstream market arrangements. The Market Blueprint was the first formal opportunity for the Company to comment on the proposed arrangements and also provided an indication of the requirements Thames Water will be expected to comply with by 2017.

Following consideration and comment on the draft response to Open Water by the Committee, the Company submitted a final response which was supportive of the Open Water programme and retail market competition and broadly agreed with the core elements of the proposed Market Blueprint whilst highlighting potential areas of concern especially around certain governance aspects.

On 11 December 2014 Open Water published the 'Market Architecture Plan 2.' (MAP2), the latest iteration of its programme. MAP2 provided a clear message that an expanded retail market will open in April 2017 and set out a high level plan for Open Water and companies to be prepared for this event and to be compliant with the new arrangements. The Committee has reviewed the content and provision of feedback on the documentation, which was requested by Open Water by 2 March 2015.

- *2015-16 Charges*

The Committee reviewed, and recommended to the Board, the proposed pricing structure based on price setting parameters, impact on bills and approval process for setting 2015/16 water and wastewater charges.

- *Regulatory Reporting*

The Committee regularly reviewed any regulatory reporting requirements, such as Ofwat's PR14 regulatory reporting consultation, and provided guidance to the Executive Team and recommendations to the Board on the Company's responses to such consultations.

d) Customer Service Committee

Membership of the Committee during 2014/15 was:

Dame Deirdre Hutton (Chair)
Chris Heathcote
Ed Richards

Membership of the Committee (effective from 31 March 2015) at the date of report is:

Dame Deirdre Hutton (Chair)
Lorraine Baldry
Nick Horler
Ed Richards
Dipesh Shah

The Committee was established to focus on Customer Service, Customer Engagement and Communications. The core activities of the Committee are to review and advise on areas of Performance, Strategy and Customer Consultation and Engagement.

The Committee met four times during the year. Attendance by Committee members is set out in the Attendance Table on page 53.

In addition to the regular customer service key performance measures, the Committee considered other business including:

- *New Household SIM*

The Committee reviewed the conclusions of the Ofwat consultation on Service Incentive Mechanisms (SIM) for 2015 onwards that was published in April 2014. Ofwat confirmed that 2014/15 will be used as a pilot year for the new SIM measure and that the new Household SIM measure would be implemented from 2015 onward.

The Committee has provided oversight and direction on the new reporting methodology and systems that have been established to comply with Ofwat's final definitions.

- *Competition Compliance*

In light of the market reform expected in 2017 following the implementation of the Water Act 2014, the Committee has been engaged in fully reviewing its responsibilities in respect of any potential anti-competitive activity.

- *Customer Service Metrics*

The Committee regularly reviewed the Customer Service metrics to ensure that they remained appropriate and fit for purpose and recommended any amendments to the Board.

- *Social Tariff Update*

The introduction of a social tariff, 'WaterSure Plus', was implemented in April 2014 following review by the Committee. Designed to work closely alongside the existing WaterSure tariff it is now available to all Thames Water customers, water and wastewater and measured and unmeasured, irrespective of who raises the bill with no cap on bills.

Customer experience of the scheme has been reviewed by the Committee throughout the course of the year and changes developed to enhance the 2015/16 scheme.

e) Remuneration Committee (formerly the Compensation and HR Committee)

Membership of the Compensation & HR Committee during 2014/15 was:

Sir Peter Mason (Chair)
Ed Beckley
Christopher Deacon
Michael Pavia

Membership of the Remuneration Committee (effective from 31 March 2015) at the date of report is:

Sir Peter Mason (**Chair**)
Christopher Deacon
Chris Heathcote
Michael Pavia
Ian Pearson

The Remuneration Committee has prepared a separate report and is presented on pages 62 to 80. Attendance by Committee members is set out in the Attendance Table on page 53.

f) Thames Tideway Tunnel Committee

Membership of the Committee during 2014/15 was:

Sir Peter Mason (**Chair**)
Martin Baggs
Chris Heathcote
Michael Pavia
Stuart Siddall

Membership of the Committee (effective from 31 March 2015) at the date of report is:

Sir Peter Mason (**Chair**)
Martin Baggs
Chris Heathcote
Michael Pavia
Ian Pearson
Stuart Siddall

The Committee was created in order to progress matters in respect of the development and delivery of the Thames Tideway Tunnel project ('TTT' or the 'Project').

The Committee has a delegation of authority from the Board to take all the necessary decisions in respect of advancing the Project. The Committee's membership is carefully monitored in order to address any potential conflict concerns.

During the year the Committee met thirteen times. Attendance by Committee members is set out in the Attendance Table on page 53.

Over the course of the year the Committee has provided direction and oversight to the Project, including specifically in relation to:

- *Main Works Construction Contracts ('MWCC')*

The tender for the MWCC got underway in the summer of 2013 and reached a satisfactory conclusion in February 2015 with the selection of preferred tenderers for the West, East and Central packages of work.

- *Delivery Model Development*

The Infrastructure Provider (IP) was identified by all stakeholders as the preferred delivery model for the Project, and successfully developed to the point at which in June 2014 the Secretary of State for Defra specified the Project under the Flood and Water Management Act (2010) – Special Infrastructure Project Regulations (2013). The Delivery Model includes several agreements to be entered by TWUL at the time Ofwat awards a licence to the IP. These include a Revenue Agreement and an Interface Agreement with the IP.

- *Infrastructure Provider Tender*

Following extensive pre-marketing, the tender for the IP was launched in June 2014 and the Invitation to Negotiate was issued in October. The tender is expected to be concluded during the summer of 2015.

- *Establishment of Thames Tideway Tunnel Limited ('TTTL')*

Thames Tideway Tunnel Limited was formed (as a subsidiary of Kemble Water Eurobond Plc) in 2013 to recruit the board and senior management team for the construction phase of the Project. Sir Neville Simms was appointed Chairman in November 2013 and Andy Mitchell was appointed CEO in May 2014. TTTL has developed its management and corporate capability throughout the 2014-15 transition period, so as to be business-ready by the time that Ofwat awards a licence to the IP – which is expected to happen during the summer of 2015.

Relations with shareholders

Dialogue with shareholders

The Board considers that there is sufficient dialogue with shareholders and that shareholders' are engaged on all major shareholder issues and concerns. The current structure of the Board ensures that all of the shareholders are directly represented on the Board.

The Chairman, the Senior Independent Director, the Chief Executive Officer, Chief Financial Officer and the Chairs of the Board's Committees are available to meet shareholders on request. The Senior Independent Director has a specific responsibility to be available to shareholders who have concerns and for whom contact with the Chairman, Chief Executive Officer or Chief Financial Officer has either failed to resolve their concerns, or for whom such contact is inappropriate.

Shareholders receive regular updates on the Company's performance via the monthly Management Report. During 2014/15 shareholders were also widely consulted on proposed amendments to the constitutional documents that were required to give effect to the corporate governance changes.

Remuneration Committee Report

Chairman's Statement



On behalf of the Remuneration Committee, I am pleased to present our annual report on executive remuneration.

As part of the comprehensive corporate governance review that was undertaken by the Board during this year, it was agreed with shareholders that the Compensation and HR Committee would be restructured in order to comply with the Corporate Governance Code 2012 and Ofwat's governance principles. As a result, the Compensation and HR Committee was disbanded and separate Remuneration and Nominations Committees were established.

The Remuneration and Nominations Committees each have a majority of independent non-executive directors. Details of the membership of the Remuneration and Nominations Committees are given on pages 59 and 55 respectively.

2014/15

The Remuneration Committee's responsibilities during the last year included making recommendations to the Board on the Company's executive remuneration policy and directors' terms of appointment. In fulfilling its duties the Remuneration Committee has sought advice from external consultants (namely, PricewaterhouseCoopers LLP) and from the Company's Chief Executive Officer, Human Resources Director and specialist staff within the Company.

This year marked the final performance year of our Long Term Incentive Plan ("2010 LTIP") which covered the five year regulatory period between 2010 and 2015. Performance was relatively strong and stable throughout 2014/15. Operational efficiencies and performance improvements were achieved through successful implementation of a business improvement plan, with increased resources allocated to key areas of customer service and asset stability. Health and safety performance also showed a notable improvement. Looking at the full five years of the scheme, the payments reflect the strong overall performance they were designed to incentivise, particularly in capital expenditure efficiencies, cash flow and health and safety.

The final payment under the 2010 LTIP scheme is reported below (page 74). This payment will be made in accordance with the rules of the scheme, in three equal instalments, in July 2015, 2016 and 2017. Having reported the full payment this year, we will not show the 2016 and 2017 instalments made under this scheme in future annual reviews.

2015/16 & the future

The water industry is poised to undergo significant changes in the 2015-2020 regulatory period. The Remuneration Committee has therefore sought to provide appropriate remuneration for executives and focus their efforts on transforming our business for a very different future. We need our business to be in the best possible position to succeed when the retail non-household market is opened to competition, whilst delivering outstanding customer service and securing long term sustainability in terms of our infrastructure and financial position.

Following the completion of the previous incentive schemes, the Remuneration Committee has designed and the Board has approved, new bonus and LTIP schemes. These aim to ensure that the directors and senior leaders of the Company are incentivised to deliver plans which balance the long term sustainability and financial strength of the Company with delivering the best value for money to our customers. These schemes include claw back arrangements to ensure that the incentives available will only reward genuine sustained performance improvements.

PricewaterhouseCoopers LLP were engaged to advise on the structure of the annual bonus scheme and the 2015 LTIP. Their role was:

- to carry out a benchmark of salaries and variable pay elements of agreed comparator groups; and
- to assist the Company and the Remuneration Committee to design the new LTIP and annual bonus scheme ensuring that the measures outlined would complement each other in delivering the required long term outcomes for the business, our customers and shareholders.

Report Overview

This report has been structured in two parts:

- a) the directors' remuneration policy, setting out the Company's policy on remuneration during the 2015-2020 (AMP 6) regulatory period. An extensive review of this policy was undertaken during 2014/15 in order to ensure our remuneration strategy continues to reflect our business drivers given the changing environment in which we are operating.
- b) the annual report on remuneration, which sets out payments and awards made to the directors and details the link between the Company's performance and remuneration for 2014/15.

This section also includes the total remuneration awarded for services to the Group, the element of this total that is awarded for services to the Company and the element that relates to regulatory performance.

We believe that the remuneration policies and practices outlined in this report fairly reward our executives, support the delivery of the Company's strategy, and delivery of shareholder and customer value.

Remuneration Policy

The Remuneration Committee formulates its position on remuneration policy against the following list of principles:

- the policy should promote the long term success of the Company and ensure that it clearly links with Company strategy;
- remuneration should be aligned with the interests of the Company's stakeholders, in particular our customers and shareholders;
- remuneration should be commensurate with packages provided by other companies of similar size and complexity, taking into account individual contribution and experience;
- the remuneration policy should establish firm links between an executive's performance, total remuneration and the Company's performance; and
- remuneration should include a mix of fixed and variable pay comprising of basic salary plus performance related incentives.

Comparator groups

As part of the Committee's overall review of the executive reward strategy during 2014/15, we reviewed the comparator groups against which we benchmark ourselves. The review resulted in some minor changes from previous years, with the groups below being identified as the most appropriate comparators on this occasion. The selected companies either operate within similar industries, with adjustments being made for size, or reflect the size and complexity of Thames Water. In determining suitable benchmarks for the remuneration of executive directors, base salaries and total compensation were reviewed. The comparators used were:

- all water and sewerage companies, and other appropriately sized utilities; and
- large water and sewerage companies and other appropriate sized utilities.

Advisors to the Remuneration Committee

During the year, the Remuneration Committee was assisted by PricewaterhouseCoopers LLP who also act as our advisors on pensions including investment and actuarial matters. They were re-appointed by the Remuneration Committee and advised on the design of the new LTIP and management bonus plan, and provided benchmarking on executive pay. They were paid a total of £55,410 on a time/cost basis. The Remuneration Committee is satisfied that the advice they received from the PricewaterhouseCoopers LLP is objective and independent.

Balancing short and long term remuneration

We have a clearly defined strategy to identify incentives and measures that will drive sustained high performance across all aspects of the Company's activities. The Remuneration Committee carefully considers the blend of remuneration linked to regulatory, financial, customer, operational and health and safety performance in order to produce well balanced short-term and long-term incentive plans. Fixed annual elements, such as salary, pension and benefits, are set to ensure market competitiveness, enabling us to attract and retain high performing executives.

Short term incentives are used to drive performance primarily over the forthcoming year. To complement this, the long term incentives, measuring performance over a three year rolling basis, are in place to encourage behaviours and performance that contribute towards the Company's longer term strategic goals.

Long term incentives are set to motivate and reward initiatives for making the Company successful on a sustainable basis whilst providing a value for money service to customers and encouraging value creation.

The Remuneration Committee will continue to review arrangements regularly to ensure that they remain effective and appropriate to the Company's circumstances and prospects, and to monitor the level of potential awards.

When designing the new bonus and 2015 LTIP, the Remuneration Committee recognised the need to set performance measures that are sufficiently stretching to stimulate value creation for customers and shareholders, but not so stretching that incentivisation is weakened.

The Remuneration Committee selected performance conditions which are central to the Company's overall strategy. These are the key metrics used by the Board and Executive Team to oversee the operation of the business. Performance targets are proposed by management and approved by the Board through the Remuneration Committee. The Remuneration Committee is of the opinion that the performance targets for the annual bonus and LTIP are commercially sensitive and that it would be detrimental to the Company to disclose them before the start of the financial year. Disclosure of these targets will be take place retrospectively. Our targets for 2014/15 are disclosed on page 75 of this report.

Changes to remuneration policy and link to business strategy

Whilst the overall principles to the remuneration policy remain unchanged, 2014/15 marked the final year of the 2010 LTIP. Consequently, the Remuneration Committee has designed a new three year rolling LTIP scheme coming into effect from 1 April 2015, in addition to reviewing the design and measures of the annual bonus scheme for management.

The details of the new schemes and how they link to business strategy are outlined below. A comparison between the new schemes and how they differ from the previous schemes is provided in the future policy table (pages 67-68).

Future policy report

We present below the key elements of remuneration for Executive Directors. This outlines the policy for 2015/16 and where this differs from the policy for 2014/15, this is clearly indicated.

A significant change is the inclusion of claw back arrangements in our key incentive schemes. The Remuneration Committee has reviewed the requirement for applying claw back clauses to the Executive incentives. It has been decided that claw back clauses should apply for a period of two years after the vesting of LTIP payments and two years after a bonus becomes payable.

Long Term Incentive Plan ("LTIP")

The new LTIP is a rolling scheme over three years, rather than the previous five. This will allow us to set and review targets more frequently during a period of considerable change.

A key consideration in the design of the 2015 LTIP was ensuring simplicity and appropriateness, so that senior executives are clear about the outcomes that will be rewarded. A customer measure and a financial measure will each have a weighting of 50%. A third measure, Asset Health, will act as an underpin to these two measures.

Customer measure

Customer service is a key priority of the Company; we have selected the Service Incentive Mechanism ("SIM") as the most appropriate and readily understood measure of this. The SIM measure is prescribed by our regulator and is a combination of customer satisfaction ("CSAT") as scored by an independently sampled selection of customers on a scale of 1-5 and a measure of customer complaints. It provides a relative measure against the performance of other water and sewerage companies. The Remuneration Committee's focus on this measure reflects the Company's commitment to improve customer and operational performance.

Financial measure

The second priority incentivised by the 2015 LTIP is ensuring that the business remains an attractive proposition to shareholders, both current and prospective, based on the financial performance of the business. The Remuneration Committee has determined the most appropriate indicator to measure the long term financial position of the Company is an adjusted regulated capital value ("RCV") less net debt. The RCV is the value of the capital base of the Company and was developed by Ofwat for the purposes of setting price limits. This is now regarded as a proxy measure for the market value of the regulated business. If necessary this metric will be adjusted to reflect events or relevant changes in capital structures, which occur during the LTIP period but which will only be reflected in RCV or income in a future period.

Asset health underpin

Both of the above measures will be underpinned by 'Asset Health' which defines the condition of the business's infrastructure assets, as measured by Ofwat's serviceability measure across the four key asset classes of our wholesale business. We consider this a fundamental priority in ensuring our business remains sustainable. It is therefore important that the customer and financial measures are not improved through means which are detrimental to the longer term condition of the business assets, either within this AMP period or in the longer term. The underpin will determine the proportion of the payment calculated from the customer and financial measures which will be payable, with the payment being reduced if Asset Health does not achieve and maintain all four asset classes at "Stable" classification.

Management bonus scheme

The new management annual bonus scheme has been designed to ensure that the performance measures drive the desired behaviours and complement the new LTIP scheme.

Five measures were selected, with Customer and Financial performance featuring prominently, underpinned by Health and Safety performance.

Customer measure

The customer measure employed is the Customer Satisfaction ("CSAT") score and equates to 25% of the total value of the bonus. This measure mirrors that used by the executive team to manage customer service on a day to day basis and so directly reflects the performance targets against which our people are measured.

Financial measures

There are two key financial measures, operating profit and cash available for distribution, with each accounting for 25% of the bonus. The operating profit measure reflects the importance to the business of the continual drive for efficiencies, whilst cash available for distribution, irrespective of whether a dividend is actually paid, reflects the need to be able to provide appropriate annual returns to shareholders in order to attract continuing investment in the Company.

Personal measures

The final 25% of the bonus structure is split into two, with 15% relating to key strategic initiatives appropriate to the executive team, and the remaining 10% based on the personal performance of each executive member.

Health & Safety Underpin

The health and safety of our people is an over-riding priority that needs to be embedded in every aspect of our operations, rather than a measure used to drive performance. It is therefore an underpin to the management bonus scheme. If health and safety performance is assessed by the Remuneration Committee as falling below acceptable levels, the underpin will be used to reduce or withhold payments generated by other elements of the scheme.

Fixed elements of remuneration: Base salary, benefits and pension

A common approach to determining and reviewing salaries applies to the Executive Directors, and to the employee population as a whole. In each case, salaries for individual roles are reviewed in the context of internal relativity, performance and the external market. Thames Water obtains benchmarking data for all roles within the organisation through participating in annual global compensation surveys, supplementing this with more specialist data for particular roles when required. This ensures a robust salary review process for all employees. The Company also aims to provide an appropriate range of competitive benefits, including access to a pension scheme, for all employees.

Base salary

Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
To attract, retain and recognise status and responsibility to deliver strategy	Base salary is paid in 12 monthly instalments during the year. Salaries are reviewed annually by the Remuneration Committee taking into account an individual's performance, the external market and internal and external economic factors. Any changes are effective from 1 July in the relevant financial year.	Annual salary increases will not normally exceed average increases for all employees. Larger increases may be applied where the Remuneration Committee considers this to be necessary e.g. • changes to the scope and responsibility of a role; • where market conditions indicate a level of under competitiveness; or • the Remuneration Committee judges there is a risk in respect of attracting and retaining executives. Where the Remuneration Committee exercises its discretion to recommend increases above the average for other employees, the resulting salary will not exceed the competitive market range. The annual rate for each Executive Director is set out in the Statement of Implementation of Remuneration Policy for 2013/14 and 2014/15 on pages 73 to 76.	Salary levels will be determined by individual performance, the external market and internal and external factors.

Benefits

Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
To provide market competitive benefits consistent with role	Benefits are paid in 12 monthly instalments during the year or are benefits that are available as and when required on a one-off basis where applicable.	Benefits will include payments for car allowance, private medical insurance, life assurance, group income protection and a general entitlement to 25 days holiday. The CEO will also receive a housing allowance.	None

Pension or pension allowance

Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
To provide cost effective saving for employees	Payments are made in 12 monthly instalments during the year, directly to the individual or into their pension scheme.	Contribution of 25% of base salary for Executive Directors.	None

Variable elements of remuneration: annual bonus & LTIP

Annual Bonus

Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable	Key differences from previous period (2014/2015)
To motivate the Executive Directors to achieve the Company's key financial, customer, operational and strategic objectives through a combination of financial, customer and personal performance targets.	Annual bonuses are paid three months after the end of the financial year to which they relate. The Remuneration Committee reserves the right to reduce bonus payments if overall Company performance does not warrant payment. In addition claw back clauses are being applied for a period of two years after the payment is made.	Annual target of 56.25% of base salary and maximum of 112.5% of base salary. There will be no minimum payment. Health and safety will act as an underpin whereby if performance falls below a certain level, the overall bonus pay-out would either be reduced in whole or in part. The Remuneration Committee could reduce incentive pay-outs on a discretionary basis if appropriate.	Performance measures are: Financial measures (50%): • Operating Profit (25%), EBIT • Cash available for dividends (25%) Customer Measures: • Customer Service (CSAT score) (25%) Strategic Programmes (15%) Personal performance (10%)	Previous performance measures were: Financial measures (45%) • Regulated operating expenditure • Group cash flow before funding • Group EBITDA Corporate Challenges (40%) • PR14 Business Plan • Customer Service • Health and Safety • Transformation programme delivery Personal performance (15%) is measured throughout the year. There was an underpin whereby if the Company's last quarter average CSAT score fell below 4.3, the total bonus would be reduced by 50%. The operation of the LTIP, and the potential pay-out levels remain unchanged.

Long Term Incentive Plan (LTIP) 2015

Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable	Key differences from previous period (2014/2015)
To reward performance over a three year period, balancing the need for excellent performance in both the short and long term.	As the Company is privately owned, the LTIP is a cash scheme, not share based. The scheme is a 3 year rolling scheme which commenced in April 2015. The first payments will be made in July 2018. Claw back clauses are being applied for a period of two years after the LTIP payments vest.	Annual target award of 75% of base salary. Annual maximum award of 150% of base salary. Award determined by performance set out in the plan and as set out by the Remuneration Committee. There will be no minimum payment but Asset Health (the condition of our assets) will act as an underpin determining the proportion of the final award payable. The Remuneration Committee also have the discretion to reduce incentive pay-outs if considered appropriate.	Vesting is conditional on performance conditions including: Financial measures (50%) - Adjusted Geared Regulatory Capital Value (RCV) less net debt Customer Measures (50%) - Customer Service (relative SIM)	Previous performance measures were: Financial measures (40%): - Regulated net capital expenditure - Group cash flow before funding - Group EBITDA - Operating expenditure Customer measures (20%) Sustainability (40%) The plan was a 5 year plan as opposed to a 3 year plan but the potential pay-out levels remain unchanged.

Differences in remuneration policy for all employees

All employees in the Company are entitled to a base salary, benefits and corporate pension scheme, which is either a defined benefit or defined contribution scheme depending on when the employee joined. Employees in management grades also receive a car allowance and are eligible to receive private medical insurance and participate in the annual bonus scheme. The maximum opportunity available is based on the grade of the role. The Long Term Incentive Plan is only available to certain members of the senior management team and participation is by recommendation from the CEO to the Remuneration Committee.

Consideration of employment conditions elsewhere in the Company

The Remuneration Committee invites the HR Director to present proposals for the annual salary review for managers and employees in either February or May along with any other changes to remuneration policy within the Company as and when they arise. The Remuneration Committee takes into account the salary increases and remuneration arrangements for the wider employee population when approving the salary increases for Executives. Although employees are not consulted directly on executive remuneration policy, employee engagement surveys are carried out on an annual basis and regular discussion takes place with union representatives on matters of pay and remuneration for employees covered by collective bargaining or consultation arrangements.

The HR Director consults with the Remuneration Committee on approving the performance targets for all bonuses and Long Term Incentive arrangements along with the remuneration packages offered to senior managers within the Company. The Remuneration Committee approves any payments made under these schemes to Executives and also approves the levels of payments under the corporate elements of these schemes for all levels of management.

Approach to Remuneration on Recruitment

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment and takes the approach that offers will be in line with the market and that it will pay no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements, and be subject to the same constraints, as those for existing Executive Directors, as shown below. It is not the Company's policy to make any additional payments arising from forfeited payments from a previous employer. Should the situation arise it would be done on a like for like basis and would need to be approved by the Committee.

Element of remuneration	Policy/Maximum Percentage of Salary
Salary	-
Benefits	£12,500 car allowance (£15,000 for CEO) 25 days holiday Life assurance and income protection Family medical cover
Annual bonus maximum opportunity	112.5%
Long-term incentive annual maximum opportunity	150%
Pension contribution/allowance	25%

Service contracts and policy on payment for loss of office

The following table sets out the key features of the service contracts for Executive and Non-Executive Directors:

Standard Provision	Policy	Details
Notice Periods in Executive contracts	12 months' notice from Company 6 months' notice from Executive	Executives may be required to work during the notice period or may be provided with pay in lieu of notice or placed on gardening leave at the discretion of the Company.
Compensation for loss of office in service contracts /	No payment unless in the case of redundancy whereby only statutory redundancy payments are made.	In the event that the Company wishes to terminate an Executive Director's contract, other than in circumstances where the Company is entitled to summarily dismiss an Executive Director, it would need to give either 12 months' notice or make a payment in lieu of salary. If the reason for dismissal is redundancy then the Executive would be entitled to a statutory redundancy payment. For NEDs, no compensation would be payable in the event of early termination.
Non-Executive Directors (NEDs)	No notice period. Independent NEDs are appointed for an initial three year term. NEDs are appointed without a fixed end date.	Good leavers will be entitled to a payment pro-rated to the period of service during the year, in line with the specific plan rules on pro-rata. Payments will be made on the normal payment date and based on actual performance. The Remuneration Committee has discretion to vary the level of vesting.
Treatment of unvested long-term incentive awards on termination under the plan rules.	No payment unless employed on the date of vesting except for 'good leavers', death, ill-health, retirement, redundancy, TUPE (Transfer of Undertakings Protection of Employment), change of control and other circumstances at the Remuneration Committee's discretion.	Leavers through ill health or death will be entitled to a bonus pro-rated to the period of service during the year. Leavers who have left through compulsory redundancy having completed the full bonus year remain eligible for a payment even if they are not employed on the payment date. Payments are made on normal payment date and be based on actual performance.
Treatment of annual bonus on termination under plan rules.	No payment unless employed on the date of payment of bonus except for 'good leavers', death, ill-health, redundancy and other circumstances at the Remuneration Committee's discretion.	The Remuneration Committee has discretion to vary the level of payment. This is intended to be used only to provide flexibility in unusual circumstances.
Outside appointments	Executive Directors may accept external appointments with consent. Consideration is given to the appropriateness of the outside appointment and whether it may impact on their ability to perform the role appropriately.	The Chairman's approval must be sought before accepting an external appointment. Fees may be retained by the Executive for services relating to outside appointments. Martin Baggs is currently a director of Water UK and Stuart Siddall was a Director at The Marketing Room although this position ceased on 25 November 2014. No fees were received for these roles.

Dates of directors service contracts/letters of appointment

The dates of the service contracts for the Executive Directors and their notice periods are set out below:

	Contract Start Date	Service Period	Notice Period
M Baggs, CEO	05/03/2010	N/A	6 months by employee 12 months by Company
S Siddall, CFO	20/09/2011	N/A	6 months by employee 12 months by Company

The dates of the service contracts for the Non-Executive Directors and their notice periods are set out below:

	Initial contract start date	Length of each period of appointment	Expiry date of current contract
Chairman:			
Sir P Mason	01/12/2006	3 Years	01/04/2017
Independent Non-Executive Directors:			
Dame D Hutton	22/07/2010	3 Years	21/07/2018
M Pavia	01/12/2006	3 Years	21/07/2016
E Richards	22/07/2010	3 Years	21/07/2018
L Baldry	01/09/2014	3 Years	31/08/2017
I Pearson	01/09/2014	3 Years	31/08/2017
Non-Executive Directors:			
E Beckley ¹	26/03/2008	N/A	N/A
R Blomfield-Smith ⁴	29/11/2012	N/A	N/A
C Deacon	01/12/2006	N/A	N/A
Dr P Dyer ⁴	31/07/2013	N/A	N/A
S Eaves ²	20/01/2012	N/A	N/A
C Heathcote	21/06/2013	N/A	N/A
N Horler	14/04/2014	N/A	N/A
G Lambert	15/10/2014	N/A	N/A
D J Shah	15/10/2007	N/A	N/A
C Van Heijningen ⁴	01/01/2015	N/A	N/A
Y Wang ⁴	01/07/2014	N/A	N/A
L Webb ⁴	21/11/2011	N/A	N/A
D Xu ³	29/10/2012	N/A	N/A
D Buffery ¹	13/12/2013	N/A	N/A

¹ D Buffery resigned with effect from 01 January 2015

² S Eaves resigned with effect from 15 October 2014

³ D Xu resigned with effect from 01 July 2014

⁴ Resigned with effect from 13 March 2015

The Chairman and Independent Non-Executive Directors have fixed appointment periods. The other Non-Executive Directors are appointed and terminated without notice by the shareholders of the Company in line with the Shareholder Agreement.

The service contracts for Michael Pavia, Dame Deirdre Hutton and Ed Richards were reviewed by the Board in March 2015 and it was agreed that Michael Pavia be invited to serve for a further 12 months and Dame Deirdre Hutton and Ed Richards for a further three years.

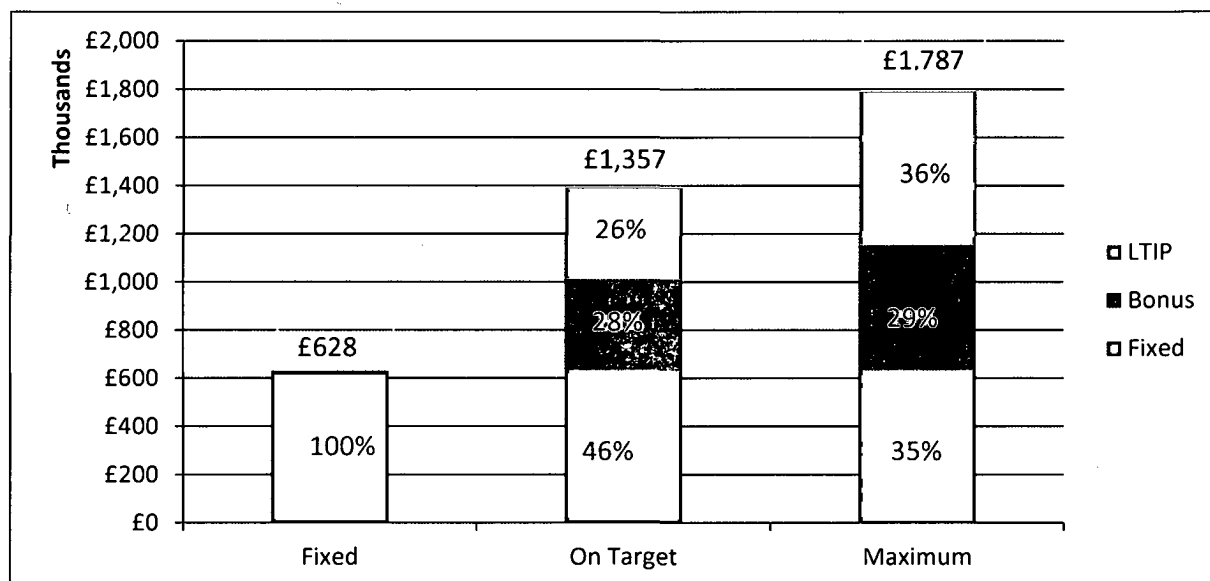
Total remuneration opportunity

The total remuneration for each of the Executive Directors that could result from the proposed remuneration policy in 2015/16 under different performance levels has been shown in this section of the report. The following information has been reflected in the data:

- fixed pay represents the base salary for 2015/16 plus the value of pension contributions and benefits. The value of pension is as a fixed percentage of the basic salary;
- on-target performance is the level of performance required to deliver 50% (56.25% of base salary) of the maximum annual bonus and 50% (75% of base salary) of the full LTIP award;
- maximum performance would result in the maximum bonus payment (112.5% of base salary) and 100% vesting of LTIP award (150% of base salary); and
- when calculating LTIP payments the salary as at the date of award has been used, in line with the scheme rules, rather than current base salary.

Martin Baggs – Chief Executive Officer

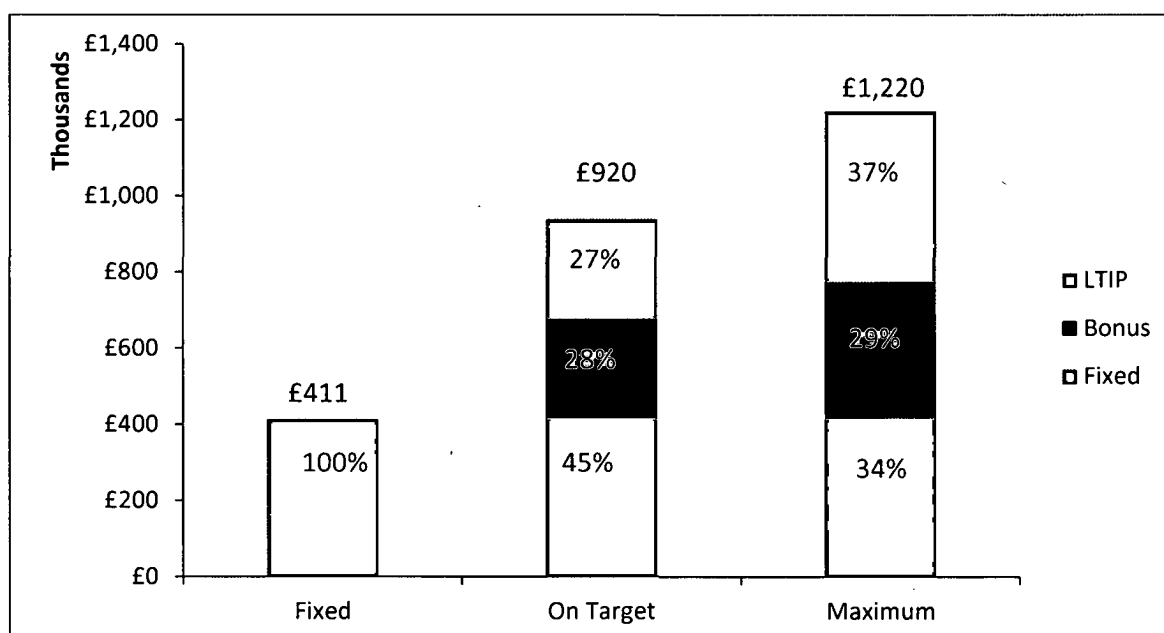
The tables below summarises the total cash elements of the package for Martin Baggs and the value as a percentage of salary.



	2015/16		2014/15	
	Value (% Salary)		Value (% Salary)	
	Target	Maximum	Target	Maximum
Salary	100.00	100.00	100.00	100.00
Pension/Allowance	25.00	25.00	25.00	25.00
Bonus	82.51	113.33	56.25	112.50
Benefits /Allowance	11.52	11.52	11.43	11.43
LTIP	76.00	138.55	68.82	137.65
Total	295.03	388.40	261.50	386.58
Variable pay – Bonus & LTIP (% total)	53.73	64.85	47.83	64.71
Long-term pay – LTIP & Pension (% total)	34.23	42.11	35.88	42.07

Stuart Siddall – Chief Finance Officer

The tables below summarises the total cash elements of the package for Stuart Siddall and it's value as a percentage of salary.



	2015/16		2014/15	
	Value (% Salary)		Value (% Salary)	
	Target	Maximum	Target	Maximum
Salary	100.00	100.00	100.00	100.00
Pension/Allowance	25.00	25.00	25.00	25.00
Bonus	82.51	113.33	56.25	112.50
Benefits/Allowance	4.73	4.73	4.70	4.70
LTIP	77.87	141.97	70.47	140.93
Total	290.11	385.03	256.42	383.13
Variable pay – Bonus & LTIP (% total)	55.28	66.31	49.42	66.15
Long-term pay – LTIP & Pension (% total)	35.46	43.37	37.23	43.31

Non-Executive Director (NED) fee policy

Remuneration levels are set to enable us to attract NEDs who have a broad range of experience and skills to oversee the performance of the Company and the implementation of our strategy. NED fees are proposed by the Remuneration Committee and approved by the Board as a whole. The Chairman's fees are also set by the Remuneration Committee and are approved by the Board. The annual fees will be paid in 12 equal monthly instalments throughout the year and are reviewed on a regular basis against those of NEDs in companies of a similar scale and complexity and requiring a similar time commitment. The fees were last reviewed and increased with effect from 1 July 2013 and are being reviewed again in June 2015. NEDs are not eligible to receive further benefits, do not participate in any performance related arrangements and do not participate in pension plans.

Statement of consideration of shareholder views

Each year, the Remuneration Committee and Board review and approve the basic salaries, bonus scheme design, bonus payments and long term incentive plan payments that are recommended for the Executives. The Board is made up of representatives of each of the shareholders therefore their views are directly taken in to account when determining these matters.

Statement of Implementation of Remuneration Policy in 2014/15

This section has been prepared in accordance with The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013. The information has been audited as indicated.

Base salary (audited)

Base salaries for the Executive Directors are reviewed annually, taking into account their individual performance, the external market and internal and external economic factors, with any changes taking effect from 1 July each year. Base salaries are a fixed sum payable monthly.

	Base Salary 01/07/2014	Base Salary 01/07/2013	Percentage Increase
Martin Baggs	£463,500	£450,000	3%
Stuart Siddall	£319,300	£310,000	3%

NED annual fees (audited)

The Chairman and NEDs receive a fixed fee for their duties which reflects their responsibilities and time commitments. They are not entitled to any annual bonus, long term incentives, pension benefits or benefits in kind. NED fees were increased with effect from 1 July 2013. Fee rates for 2013 and 2014 are shown below:

	Total Annual Fees 01/07/2014	Total Annual Fees 01/07/2013	Percentage Increase
Chairman	£325,000	£300,000	8.3%
Independent NED's	£49,000	£49,000	0%
NED's	£45,000-£49,000	£45,000-£49,000	0%
Chair of the Audit Committee ¹	£59,000	£59,000	0%

¹ This is the normal Non-Executive Director fee plus an additional £10,000 in respect of services as Chair of the Audit Committee

Remuneration for Executives and Non-Executives (audited)

Executive Directors:

The remuneration of the Executive and Non-Executive Directors during 2013/14 and 2014/15 is set out below:

	Salary/Fees		Taxable Benefits		Annual bonus		LTIP		Pension related benefit		Total Group		Total Company	
	£'000		£'000		£'000		£'000		£'000		£'000		£'000	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
Executive Directors:														
M Baggs ¹	460	450	53	53	380	274	1,049*	404	115	113	2,057	1,294	1,440	906
S Siddall ²	317	310	15	15	262	239	741*	143	79	78	1,414	785	990	550
Chairman:														
Sir P Mason	325	300	-	-	-	-	-	-	-	-	325	300	195	180
Independent NED's:														
Dame D Hutton	49	48	-	-	-	-	-	-	-	-	49	48	49	48
M Pavia	59	58	-	-	-	-	-	-	-	-	59	58	59	58
I Pearson	29	-	-	-	-	-	-	-	-	-	29	-	29	-
L Baldry	29	-	-	-	-	-	-	-	-	-	29	-	29	-
E Richards ³	49	48	-	-	-	-	-	-	-	-	49	48	49	48
Non-Executive Directors:														
C Heathcote ⁴	45	34	-	-	-	-	-	-	-	-	45	34	-	-
C Deacon	49	48	-	-	-	-	-	-	-	-	49	48	-	-
N Horler	43	-	-	-	-	-	-	-	-	-	43	-	-	-
G Lambert	23	-	-	-	-	-	-	-	-	-	23	-	-	-
D J Shah	49	48	-	-	-	-	-	-	-	-	49	48	-	-
Total	1,526	1,344	68	68	642	513	1,790	547	194	191	4,220	2,663	2,840	1,790

¹ Included within benefits and allowances is £15,000 car allowance, £36,000 housing allowance and £2,000 private medical insurance which are taxable benefits.

² Included within benefits and allowances is £12,500 car allowance and £2,000 private medical insurance which are taxable benefits.

³ Mr Richard's fee was paid directly to Ofcom.

⁴ Director's fees are paid to the shareholder's nominated Company and not to the individual.

* The table shows a total of £1,049,070 and £740,520 in 2010 LTIP value to Martin Baggs and Stuart Siddall respectively. This value is the award which will vest under the 2010 LTIP scheme. Payments to be made over the next three years following the performance period for the five year LTIP concluding at the end of March 2015. £349,690 will be paid to Martin Baggs and £246,840 to Stuart Siddall in July 2015 with equivalent amounts being paid out in July 2016 and July 2017 respectively. In exceptional circumstances these payments may be reduced for example in the event of a material deterioration in financial performance or a significant fall in service after the AMP 5 period.

There are no additional LTIP payments to be made until at least 2018 when the new 2015 LTIP may vest, depending on Company performance.

No fees are paid to Alternate Directors for their services.

The cash bonus was paid in full at the appropriate time and is not a deferred payment.

Of total executive directors' remuneration of £3,470,157 (2014: £2,079,000), £2,429,110 (2014: £1,456,000) is for the executive directors for their services to Thames Water Utilities Limited. In addition, the executive directors received total remuneration of £1,041,047 (2014: £624,000) for their services to other companies within the Group. The Group is Kemble Water Holdings Limited and the Company refers to TWUL.

Non-Executive Directors:

Non-Executive Directors that have left in the period:

	Salary/Fees		Total Group	
	£'000		£'000	
	2015	2014	2015	2014
S Eaves ⁴	23	45	23	45
D Xu ⁴	11	45	11	45
D Buffery ⁴	37	15	37	15
E Beckley*	45	45	45	45
Dr P Dyer	45	30	45	30
R Blomfield-Smith*	49	48	49	48
L Webb ⁴	45	45	45	45
C Van Heijningen	11	-	11	-
Y Wang	34	-	34	-
Total	300	273	300	273

⁴ Director's fees are paid to the shareholder's nominated Company and not to the individual.

* E Beckley left TWUL but remained a Non-executive director of the Kemble Group

During the current and prior year, none of the non-executive directors above received any taxable benefits, annual bonus, LTIPs or pension related benefits.

Additional requirements in respect of the single total remuneration figure table

Annual bonus (audited)

The 2014/15 annual bonus plan aimed to reward significant improvement in the Group's financial and corporate performance including customer performance whilst recognising individual contribution. The maximum level of award for the 2014/15 scheme for Executive Directors was 112.5% of salary based on three performance areas: financial, corporate challenge and personal.

The financial targets and corporate challenges were selected as being the most critical for the organisation during 2014/15. The personal performance element of the bonus is based on the performance of the Executive Directors against their key business objectives which link to the Group's overall key operational, customer and strategic objectives. Bonuses are earned by reference to the financial year and usually paid in July following the end of the financial year. Performance against the bonus targets and the resulting bonuses payable to the Executive Directors in respect of 2014/15 are shown below.

Performance Measures

	Detail of measure	Threshold £'000	Target £'000	Stretch £'000	Actual £'000
Regulated Net Operating Costs		844.6	834.6	809.6	843.9*
EBITDA		1,172.6	1,182.6	1,207.6	1,193.2
Group cash outflow before funding		634.5	619.0	603.5	566.4
Health and Safety Measures	Leading indicator targets	Amber	Green	Outperformed	Target
	Reduction in lagging indicators	Amber	Green	Outperformed	
Customer Service Measures	Risk and Statutory compliance	Amber	Green	Outperformed	Target
	CSAT Score	4.3	4.4	4.5	
PR14 Measures	Number 1 st stage complaints	18,627	17,627	16,627	Target
	Abandoned calls	5%	4%	3%	
Business Transformation	Submission of revised plan and final determination by Ofwat	FD acceptable to shareholders Totex efficiency < £200m	FD acceptable to shareholders Totex efficiency < £100m	FD acceptable to shareholders No totex efficiency	Target
Personal Performance	Delivery of agreed personal objectives including Thames Tideway Tunnel and corporate challenges	Key milestones achieved	Key milestones achieved	Key milestones achieved	Stretch

* - Regulated net operating costs (management basis)

Performance Outcomes

	Maximum payable % of max bonus	Maximum payable % of salary	Actual payable % of max bonus	Actual payable % of salary	Martin Baggs		Stuart Siddall	
					Max £'000	Actual £'000	Max £'000	Actual £'000
Regulated Net Operating Costs	15.00	16.87	4.01	4.51	78.21	20.91	53.88	14.41
EBITDA	15.00	16.87	10.68	12.02	78.21	55.69	53.88	38.35
Group cash flow before funding	15.00	16.87	15.00	16.88	78.21	78.21	53.88	53.88
Health and Safety Measures	10.00	11.25	7.50	8.44	52.14	39.12	35.92	26.94
Customer Service Measures	10.00	11.25	5.61	6.31	52.14	29.25	35.92	20.15
PR14 Measures	10.00	11.25	7.50	8.44	52.14	39.12	35.92	26.94
Business Transformation	10.00	11.25	7.50	8.44	52.14	39.12	35.92	26.94
Personal Performance	15.00	16.87	15.00	16.88	78.21	78.21	53.88	53.88
Totals	100.00%	112.5%	72.80%	81.90%	521.40	380.00	359.20	262.00

There must be no increase in operating expenditure creditor days for the cash flow before funding measure to pay out. Whilst there was an increase in creditor days, the resultant cash inflow has been stripped out for the purposes of calculating the performance against the bonus target and hence this has been achieved.

Furthermore, there was an underpin on the total 2014/15 bonus whereby the total payment would be reduced by 50% if the Company's last quarter average CSAT (Customer Satisfaction) score fell below 4.3. Overall a score of 4.3 was achieved so no reduction has been applied.

The payments under this scheme will be made in July 2015.

The following table sets out the amount of the bonus which is attributable to regulatory performance for 2014/15:

Executive Director	Amount Determined by Regulatory Performance
Martin Baggs, CEO	£374,717
Stuart Siddall, CFO	£258,139

LTIP (audited)

The performance measures selected for the LTIP are considered to be aligned to the creation of value for the Company, meeting and exceeding regulatory and customer performance requirements and managing key strategic initiatives to deliver improved future performance.

For threshold performance, half the award will vest, rising to two times the award for maximum performance. If performance does not reach the threshold level for any of the targets, no payment will be made under the plan.

Under normal circumstances 20% of the total award can be paid each year from 2013 to 2017, usually in July, based on performance achieved as follows:

- 20% of the award was paid in July 2013, based on performance from March 2010 to March 2013;
- 20% of the award was paid out in July 2014, based on performance from March 2010 to March 2014; and
- the remaining 60% of the award vested in March 2015 based on performance from March 2010 to March 2015 and will be paid out in three equal tranches over July 2015 – July 2017. 20% of the award will be paid out in July 2015. The full amount appears in the Single Total Remuneration table even though the remaining two thirds of the award will not be paid out until July 2016 and July 2017 respectively.

In exceptional circumstances the pay-outs in 2016 and 2017 may be reduced, for example in the event of a material deterioration in financial performance or a significant fall in service after the AMP5 period. In addition, the Remuneration Committee has the discretion not to pay under the regulatory and customer area if failure to meet targets in any area leads to regulatory action.

The Executive Directors' performance against the targets set out in the LTIP over the period 1 April 2010 to 31 March 2015 are set out overleaf:

Performance Measures

LTIP Measure	Threshold £'000	Target £'000	Stretch £'000	Actual £'000
Cumulative operational expenditure	3,735.0	3,706.0	3,600.0	3,774.0
Cumulative EBITDA	5,358.0	5,387.0	5,493.0	5,365.0
Cumulative Capital Efficiency	N/A	25.0	170.0	147.0
Cumulative cash outflow before funding	1,843.0	1,764.0	1,488.0	1,250.0
Operational KPI Dashboard				Target
Service Incentive Mechanism	No penalty under PR14	n/a	Reward of 0.5% turnover	Below Threshold
AMP 6 Planning and Outcome	Outcome determined by judgement of the Exec and Remuneration Committee based on the success of specific strategic initiatives			Target
Employee Engagement	Outcome at discretion of the Exec and Remuneration Committee based on employee engagement and activity in this area			Target
Health and Safety Engagement	Outcome at discretion of Exec and Remuneration Committee based on improvement in health and safety performance taking into account the nature and seriousness of accidents, and target accident rate below 0.3% by March 15.			Stretch
Strategic Initiatives	Outcome at discretion of Exec and Remuneration Committee based on delivery of benefits compared to costs for relevant strategic projects			Threshold

Performance Outcome

	Maximum payable % of LTIP	Maximum payable % of salary	Actual payable % of max LTIP	Actual payable % of salary	Martin Baggs		Stuart Siddall	
					Max £'000	Actual £'000	Max £'000	Actual £'000
Cumulative operational expenditure	10.00%	15.00%	0.00%	0.00%	63.75	0.00	45.00	0.00
Cumulative EBITDA	10.00%	15.00%	3.14%	4.71%	63.75	20.02	45.00	14.13
Cumulative capital efficiency	10.00%	15.00%	9.21%	13.82%	63.75	58.74	45.00	41.46
Cumulative cash flow before funding	10.00%	15.00%	10.00%	15.00%	63.75	63.75	45.00	45.00
Operational KPI dashboard	10.00%	15.00%	5.00%	7.50%	63.75	31.88	45.00	22.50
Service incentive mechanism	10.00%	15.00%	0.00%	0.00%	63.75	0.00	45.00	0.00
AMP 6 planning and outcome	10.00%	15.00%	7.50%	11.25%	63.75	47.81	45.00	33.75
Employee engagement	10.00%	15.00%	7.50%	11.25%	63.75	47.81	45.00	33.75
Health and safety engagement	10.00%	15.00%	10.00%	15.00%	63.75	63.75	45.00	45.00
Strategic initiatives	10.00%	15.00%	2.50%	3.75%	63.75	15.94	45.00	11.25
Total (per annum)	100.00%	150.00%	54.85%	82.28%	637.50	349.70	450.0	246.84
Total vesting (3 years)					1,912.50	1,049.07	1,350.00	740.52

The actual payments to be made in July 2015 under the LTIP 2010 represent a pay-out of 54.85% of the maximum in line with the table above. The values of these payments are set out overleaf.

Total pension entitlements (audited)

The Executive Directors are eligible to participate in the Company's defined contribution pension scheme, with the Company making contributions equivalent to 25% of base salary. No element of bonus or LTIP is pensionable. Where contributions in to the scheme would be in excess of the annual allowance limit, or where the individual has reached the life time allowance, a cash allowance in lieu of these pension contributions can be paid. For 2014/15, both Martin Baggs and Stuart Siddall received only a cash allowance. For 2013/14, Martin Baggs received contributions in the defined pension and a cash allowance. Neither of the Executive Directors participates in a defined benefit pension scheme.

Executive Director	2014/15: Cash Allowance in Lieu of Pension	2013/14: Total Payments
Martin Baggs, CEO	£115,031	£112,500 ¹
Stuart Siddall, CFO	£79,244	£77,500
Total	£194,275	£190,000

¹ £50,000 was paid directly into the DC scheme

Aggregate directors' emoluments (audited)

	2014/15	2013/14
Salaries	£777,100	£760,000
Taxable benefits/allowances	£68,000	£68,000
Bonuses	£641,192	£512,546
Pension payments	£194,275	£190,000
NED fees	£1,049,000	£876,000
Total	£2,729,567	£2,406,546

Note: LTIPs are not deemed to be emoluments therefore they are not included within this table. Information relating to LTIPs can be found within the Single Figure for Remuneration table and LTIP section of this report.

Payments for loss of office (audited)

There have been no changes to the Executive Directors in the year hence no payments for loss of office have been made.

Payments to past Directors (audited)

No payments were paid to any past Directors during 2014/15.

Performance Graph and CEO pay in last six financial years

As a privately held Company, total shareholder return ("TSR") is not a relevant or meaningful measure for the Company; therefore a benchmark TSR performance graph has not been included in this report.

The cascade of pay

This year, as the business has undergone structural transformation to prepare for future retail competition, the opportunity was also taken to review variable pay elements of the wider employee population, in particular to define clearly which employees should be eligible for the new LTIP. PricewaterhouseCoopers LLP assisted with the review in benchmarking against equivalent roles within the appropriate comparator groups as previously defined.

Percentage change in CEO remuneration compared to all employees

The following shows the percentage change in CEO remuneration by comparison to all employees in the Company. This has been presented to show remuneration on a like-for-like basis to the prior year.

The calculation of the change in bonus pay-out for managers for 2014/15 against last year has been calculated by comparing the level of pay-out on the financial element of the bonus which comprises 50% of the total bonus potential.

	Salary (£'000)	Benefits (£'000) ¹	Bonus (£'000)
	% change 13/14 against 14/15	% change 13/14 against 14/15	% change 13/14 against 14/15
Martin Baggs	3.00%	0%	39%
All Employees (Manager Grade)	2.50%	0%	19%
All Employees (Non-Manager Grade)	2.10%	-	-

¹ Benefits include a car allowance and private medical insurance. For the CEO this also includes a housing allowance

Relative importance of spend on pay

The following table sets out the percentage change in operating profit, shareholder distributions and overall spend on pay in the year ending 31 March 2015.

	14/15	13/14	Year on year change	
	£m	£m	£m	%
Operating Profit	684.9	655.1	29.8	4.5%
Shareholder Distributions	100.0	100.0	-	-
Total payroll costs including pensions	229.7	220.1	9.6	4.4%

The Directors believe that the distributions to the Ultimate Shareholders are the most relevant measures to use as a comparison.

Statement of Implementation of Remuneration Policy in the Following Financial Year

The remuneration policy will be implemented during 2015/16 as follows:

	Base Salary 01/07/2015 £000's	Base Salary 01/07/2014 £000's	Percentage Increase (%)
Martin Baggs	486.7	463.5	5%
Stuart Siddall	335.3	319.3	5%

Performance measures for long-term incentives to be awarded in 2015/16

As with the Company bonus scheme, performance targets for the LTIP are deemed to be commercially sensitive and will not be disclosed before the start of the financial year. These will be disclosed at the point of vesting in 2018.

Annual bonus targets for 2015/16

The performance targets for the annual bonus for 2015/16 for Executive Directors will be based on the weightings shown below:

Measurement area	Weight for 2015/16
Operating Profit	25%
Cash available for dividends	25%
Customer Service (CSAT)	25%
Strategic Programmes	15%
Individual Performance	10%

The overall annual bonus pay-out determined by the above measures is subject to a Health and Safety underpin which may result in a downward adjustment to the pure formulaic outcome. The Health and Safety outcome is determined by the Remuneration Committee on a discretionary basis for that period. The Committee is of the opinion that the performance targets for the annual bonus are commercially sensitive and it would be detrimental to the Company to disclose them before the start of the financial year. The targets will be disclosed after the end of the relevant financial year in that year's remuneration report.

Non-Executive Director Fees in 2015/16

The fees for the independent Chairman and the non-executive directors can be summarised below:

	01/07/2015 £000's	01/07/2014 £000's	Percentage Increase
Chairman	325	325	0%
Independent NED	50	49	2%
NED	50	45 – 49	11 – 2%
Chair of Audit Committee ¹	60	59	2%
Committee member	5	N/A	N/A

¹ This is the normal Non-Executive Director Fee plus an additional £10,000 in respect of services as Chair of the Audit Committee

Consideration by the Directors of Matters Relating to Directors Remuneration Committee members and attendance

The Remuneration Committee is chaired by Sir Peter Mason and consists of two further independent non-executive directors and two non-executive directors. They are appointed to the Committee on an ongoing basis. The following table sets out the attendance of the members of the Committee during the year.

Committee Member	Number of Meetings during Term	Number of Meetings Attended
Sir Peter Mason (Chair)	7	7
Michael Pavia	7	7
Christopher Deacon	7	6
Edward Beckley	7	6

Committee's key activities & responsibilities

The Committee's activities cover a range of subjects including succession planning, people strategy and executive remuneration. They are also responsible for recommending the structure of other aspects of remuneration for all employees, including the structure of annual and long term incentive arrangements for managers.

For this reporting period, the following remuneration activities in respect of Senior Executives were carried out by the Remuneration Committee:

Meeting	Activities
May 2014	Review of performance against targets 2013/14 bonus and 2010-2014 LTIP targets. Resulting payments were made in July 2014 Review of salaries for Executive Team 2014/15 Finalisation of bonus plan for 2014/15
June 2014	Board approval of bonus and LTIP pay-outs 2013/14 and any salary reviews for the Executive Team for 2014/15
September 2014	Review of executive pay trends. Discussion to agree principles for the operation of both short term and long term incentive elements
November 2014	Review of external market data to consider appropriate mix of short term versus long term and fixed versus variable remuneration
December 2014	Review of proposed performance measures and appropriate weighting for the new LTIP and Bonus scheme. Recommendation to introduce a senior management grade and introduction to concept of an employee cash savings plan
January 2015	Review of performance against targets for 2014/15 and review of further iteration on the employee cash savings plan
February 2015	Further discussion on proposed performance measures for new LTIP and Bonus Scheme and employee cash savings plan
April 2015	Detailed discussions on specific performance measures proposed for new LTIP and Bonus schemes and review of updated 2014/15 LTIP and Bonus performance forecasts. Review of draft remuneration report
May 2015	Final review and recommendation of 2015 LTIP and bonus payments and proposed LTIP/Bonus measures for new schemes. Further review of remuneration report

This year's remuneration reporting has been prepared in accordance to the remuneration reporting regulations which came into effect on 1 October 2014, and is compliant with UK listing rules, as required by Ofwat as part of our operating licence.

The director's remuneration report was approved by the Board on 4 June 2015, and signed on its behalf by:



Sir Peter Mason
Chairman

Audit Risk and Regulatory Committee Report

Chairman's statement



The Board reviews risk management arrangements and the effectiveness of the Company's internal control systems through the work of the Audit and Risk Review Committee which was in operation throughout 2014/15.

From 1 April 2015 the Committee was reconstituted as the Audit Risk and Regulatory Committee combining the Audit and Risk Review Committee and the Regulatory Committee under the Chairmanship of Michael Pavia, Senior Independent Director.

This will broaden and strengthen the skills of this Committee as well as streamlining governance processes. The newly constituted Audit Risk and Regulatory Committee continued the work of the Audit and Risk Review Committee and completed the review of the 2014/15 annual accounts.

The Committees have been involved in a variety of discussions with executive management and the Board over the last year. The Committee's primary objectives, which remain in line with prior year, were adhered to throughout our work, namely:

- exercising oversight over the accuracy and completeness of the Annual Report and Accounts ("AR&A"), including ensuring that the AR&A presents a fair, balanced and understandable view of the Company;
- ensuring the AR&A gives a true and fair view of the Company's results and is in compliance with financial reporting requirements, regulatory accounting guidance and corporate governance;
- making informed decisions regarding accounting policies, practices and disclosures, assessing whether the key estimates and judgements made by management are appropriate;
- reviewing the scope and results of internal and external audits;
- assessing the adequacy of the Company's internal control framework including prevention and detection of management override of controls to support compliance with policies approved by the Board;
- maintaining open lines of communication between the Board, management and external auditors;
- monitoring compliance with the risk management framework in relation to financial operational matters; and
- reviewing the Company's procedure for handling allegations from whistle-blowers. Allegations are brought to the attention of the Audit and Risk Review Committee (Audit Risk and Regulatory Committee from 1 April 2015) and are promptly investigated by the Head of Audit and Assurance.

Review of the year

The Audit and Risk Review Committee reviewed several presentations throughout the year from senior management to ensure the Committee was fully informed of key matters under their remit.

The Audit and Risk Review Committee was actively involved in regularly assessing the following significant issues with management throughout the year ended 31 March 2015:

- level of bad debt provision including cash collection rates;
- management's judgment of the completeness and valuation of the provisions for contractor claims; and
- management's application of the Company's policy in respect classification of costs between operating expenditure and capital expenditure.

More detail on these areas is considered within Financial Reporting and Significant Issues.

In order to gain a deeper insight into other areas, the Audit and Risk Review Committee reviewed papers throughout the year on the following additional topics:

- external assurance performed on the PR14 Business Plan submitted by the Company in June 2014 (a joint meeting with the Regulatory Committee);
- review of the Treasury and Insurance risks being controlled by the Group Treasurer;
- external assurance performed on a range of financial and non-financial data and KPIs being included in the regulatory and statutory accounts;
- review of preparations ahead of the implementation of International Financial Reporting Standards (IFRS). This included a review of the proposed opening Balance Sheet as well as proposed transition adjustments;

- review of the process and financial systems improvements to support improved visibility of performance and management accountability at a business unit level;
- review of the cyber security risk posed to the organisation led by the Chief Information Officer and Head of Audit and Assurance;
- updates on the impact of forthcoming regulatory reporting requirements;
- the top ten corporate risks for the Company including presentations from the Executive on the top 10 risks within their individual areas of responsibility on a rolling basis through the year; and
- management's processes and controls around maintaining data quality throughout the business.

This was in addition to the Audit and Risk Review Committee's continuing discussions with Internal Audit, which included detailed reviews of Internal Audit reports, closure of Internal Audit recommendations and discussions on the adequacy of Internal Audit resources.

Composition and experience

During the year the Audit and Risk Review Committee comprised two non-executive directors (Rosamund Blomfield-Smith and Chris Heathcote) and one independent non-executive director, Michael Pavia, who is the Committee Chairman. The Audit and Risk Review Committee was attended by the CEO and CFO and other senior managers as appropriate. The external auditors, KPMG LLP also attended these meetings. From 1 April 2015 the Committee was reconstituted as the Audit Risk and Regulatory Committee combining the Audit and Risk Review Committee and the Regulatory Committee.

The Audit Risk and Regulatory Committee is chaired by Michael Pavia, Senior Independent Director and comprises three non-executive directors (Chris Heathcote, Christopher Deacon and Dipesh Shah) and three additional independent non-executive directors (Lorraine Baldry, Ed Richards and Ian Pearson).

The Audit and Risk Review Committee met seven times during the financial year ended 31 March 2015. This increased number of meetings reflects the Committee's involvement in reviewing in detail our assurance in respect of the PR14 Business Plan as well as the external review of financial and non-financial data supporting the regulatory and statutory accounts. In addition to the formal meetings of the Audit and Risk Review Committee, the Chairman of the Committee also met with both the Head of Audit and Assurance and KPMG LLP as required throughout the year.

Michael Pavia is a member of the Institute of Chartered Accountants in England and Wales (ICAEW) with extensive financial and accounting experience. The Board regards Michael Pavia as the member of the Committee possessing recent and relevant financial experience. Further biographical details of the members are set out on pages 45 to 49.

Financial reporting and significant issues

The Audit Risk and Regulatory Committee considered, prior to recommending their approval to the Board, the integrity of the 2014/15 financial statements including the regulatory financial statements of the Company. In undertaking this review, the Audit Risk and Regulatory Committee discussed the critical accounting policies and judgements applied with management and the external auditors, including meetings with KPMG LLP not in the presence of the executive directors. It discussed a report from the external auditors identifying the significant accounting and judgemental issues that arose in the course of the audit. The Audit Risk and Regulatory Committee also considered the management letter for issues and judgements raised and monitored action taken by management as a result of any audit recommendations.

After discussion with both management and the external auditor, the Audit Risk and Regulatory Committee building on the work of the Audit and Risk Review Committee throughout 2014/15 reviewed work on the following key estimates and judgements within the Company's financial statements. Based on the Audit Risk and Regulatory Committee's review of papers presented, the Committee is satisfied on the appropriateness of the basis for key judgemental areas. In reaching this conclusion the members of the Audit Risk and Regulatory Committee also considered the responses received to their questions and the reporting provided by KPMG LLP in these judgemental areas. Further detail on the review of such items is provided below.

- The level of bad debt provisions recognised by the Company, including the judgemental impact of the level of historic and current cash collections, the effect of cancelling billings on expected debt recovery (for example where the property occupier has moved without informing the Company or where the Company was unable to invoice for a period of time when the property was unoccupied) and the levels of debtors due to be collected on the Company's behalf (Water-only Company debtors);

The Committees reviewed management's key assumptions underlying the bad debt provision via reviews of papers presented by management on the topic throughout the year, including a review of the debtors ageing and the basis for cash collection and write-off rates in the year. Based on this review, the Committees were satisfied that potential bad debt was adequately provided for in the financial statements.

- Management's judgment of the completeness and valuation of the provisions for contractor claims.

The Committees reviewed the levels of provisions held by the Company, questioning and challenging the basis for such provisions. A more detailed review and analysis of contractor claims against capital projects by management was completed upon the recommendation of the Committees as the risk of contractor claims tends to rise towards the end of the AMP period.

Based on this review, the Committee decided that the level of provisions for the above matters was appropriate.

- Management's application of the Company's policy in respect classification of costs between operating expenditure and capital expenditure.

Through review and discussion of the interim and year-end financial statements, and discussion of the levels of overheads capitalised in the year, the Committees concluded that adequate rigour had been applied by management to ensure appropriate application of the Company's capitalisation policy. Management has extended the review of the application of the capitalisation policy to the classification of Infrastructure Renewals Expenditure to ensure that the policy is applied consistently and appropriately across the business.

The Committees also reviewed specific judgemental areas where a more detailed review of capitalisation of certain costs was performed by management. This was further supplemented by the Committee's discussions with KPMG LLP on their audit work performed in this area at year end. Based on this review, the Committee was satisfied with management's application of the Company's capitalisation policy.

The above three items represented the key estimates and significant judgements reviewed by the Audit Risk and Regulatory Committee since 31 March 2015 and by the Audit and Risk Review Committee during 2014/15, and align to those identified by KPMG LLP in its audit report. However, the Audit and Risk Review Committee did consider other areas of estimates and judgements during the year. These included review and discussion of management's papers on any estimated costs associated with the Transformation Programme. The Audit and Risk Review Committee also considered in detail management's review of the interim results.

The consistency of accounting policies across the Company and the methods used to account for significant or unusual transactions were reviewed by the Audit Risk and Regulatory Committee. It assessed whether the Company had followed appropriate accounting standards and had made appropriate estimates and judgements, taking into account the views of KPMG LLP. The Audit Risk and Regulatory Committee further considered whether appropriate disclosure had been made in the financial statements, the strategic report and the Corporate Governance report. The Audit Risk and Regulatory Committee reviewed all statutory 2014/15 year end financial reporting prior to these being presented to the directors or Board for formal approval.

At the request of the Board, the Audit Risk and Regulatory Committee has considered whether the 31 March 2015 Annual Report is fair, balanced and understandable and whether it provides the necessary information for all stakeholders to assess the Company's performance, business model and strategy. Based on consideration of the above items and the other work performed by the Audit Risk and Review Committee during the year and Audit Risk and Regulatory Committee from 1 April 2015 as noted in this report, the Audit Risk and Regulatory Committee was satisfied that, taken as a whole, the Annual Report is fair, balanced and understandable.

Confidential reporting procedures and whistleblowing

The Committee Chairman reported formally in the year ended 31 March 2015 to the Board on the Audit and Risk Review Committee's proceedings and on all matters within its duties and responsibilities at each subsequent Board meeting. The Audit and Risk Review Committee made recommendations to the Board as it deemed appropriate on any area within its remit where action or improvement was needed and reported to the Directors on its activities through the circulation of the Committee minutes. The Head of Audit and Assurance was given direct access to the Chairman of the Committee and the Chairman of the Board.

The Audit and Risk Review Committee reviewed the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial or regulatory reporting or other matters. The Audit and Risk Review Committee ensured that these arrangements allowed proportionate and independent investigation of such matters and appropriate follow up action. It considered the Company's procedures for detecting fraud and its systems and controls for the prevention of bribery and received reports from internal audit of any investigations and the Company's compliance. In addition, the Audit and Risk Review Committee discussed the results of internal investigations conducted by the Company's internal audit department which includes specialist investigators.

Internal Audit

The Audit and Risk Review Committee monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management systems. In particular, in 2014/15 the Audit and Risk Review Committee considered and approved the remit and activities of the internal audit function (which is led by an experienced qualified member of management with nearly 15 years of audit experience), ensuring that it had adequate resources and appropriate access to information to enable it to perform its function effectively, in accordance with the relevant professional standards and was free from management or other restrictions.

It reviewed and assessed the annual internal audit plan and any reasons for changes or delays to that programme through updates received from the Head of Audit and Assurance at each Audit and Risk Review Committee meeting.

The audit plan contains a mix of risk based and cyclical reviews and is delivered through appropriately skilled and qualified internal resources supported with external resources where more specialised skill sets are required, typically within Information Systems and Treasury.

Inputs to the plan include risk registers, corporate priorities and objectives, external research and benchmarking of emerging risks and trends and discussions with members of the Executive and Senior Leadership Group. A tool that captures all auditable areas, prior coverage, audit findings and inherent process risk is also used to inform frequency of audits including those on a cyclical basis.

The plan is approved by the Audit and Risk Review Committee in January each year (Audit Risk and Regulatory Committee from 1 April 2015) with focus given to not only the areas which are being covered but also those that are not, to ensure that the plan aligns with the Committee's view of risks.

The Audit and Risk Review Committee considered reports on the Company from the internal auditors, including management's responsiveness to the findings and recommendations of the internal audit team. The Audit and Risk Review Committee Chairman discussed any internal audit report which contained high priority issues directly with the relevant members of management to ensure he had a thorough understanding of the matters raised and the process for resolution.

Based on the above work, the Audit Risk and Regulatory Committee is satisfied with the scope and effectiveness of the Internal Audit function throughout the year, and that all high priority internal audit reports were being adequately addressed by management.

External audit

The Committee is responsible for overseeing relations with the external auditors, including the approval of fees, and makes recommendations to the Board on their appointment and reappointment.

In 2014/15 the Audit and Risk Review Committee oversaw the relationship with KPMG LLP including (but not limited to) whether fees for audit or non-audit services were appropriate. It reviewed KPMG LLP's terms of engagement, engagement letter and the scope of their audit work. The Committee assessed the independence and objectivity of the external auditors, taking into account relevant UK professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services in accordance with the Policy for the Provision of Non-Audit Services.

Auditor appointment

An annual review is conducted by the Committee of the level and constitution of the external audit and non-audit fees and the effectiveness, independence and objectivity of our external auditors, KPMG LLP.

The annual review includes consideration of:

- the external audit process;
- the auditors performance;
- the expertise of KPMG LLP and our relationship with them; and
- the results of questionnaires completed by employees engaged with the audit and members of the Audit and Risk Review Committee.

A report on the conclusions was presented to the September 2014 Audit and Risk Review Committee which identified the overall effectiveness of the auditor's performance. A number of suggested improvement opportunities were raised and have been addressed within the current audit cycle.

Auditor independence and objectivity

The independence of the external auditors is essential to the provision of an objective opinion on the true and fair view presented in the financial statements. Auditor independence and objectivity is safeguarded by reviewing the nature and value of non-audit services performed by the external auditors, ensuring that employees of the external auditors who have worked on the audit in the past two years are not appointed to senior financial positions within the Company and the rotation of the lead engagement partner at least every five years and key audit partner every seven years. The current lead engagement partner has held the position for three years, and has been a key audit partner for seven years.

To support independence KPMG LLP use a separate audit team to audit Thames Water Commercial Services Limited which requires an arm's length relationship from Thames Water Utilities Limited.

The Audit and Risk Review Committee regularly monitored in 2014/15 the non-audit services provided to the Company by KPMG LLP.

The auditor does not:

- self-review;
- make management decisions for the Company;
- have a mutuality of financial interest with the Company; or
- act in the role of advocate for the Company.

Following this year's annual review, the Audit Risk and Regulatory Committee is satisfied with the effectiveness, independence and objectivity of KPMG LLP.

Non-audit services

To safeguard the objectivity and independence of the external auditors, approval from the Committee is required for any services provided by the external auditor for which the fee is likely to be in excess of £100,000. As part of this process the Committee ensures that the external auditors are not permitted to perform any work that they may subsequently need to audit, could create a conflict of interest or constitute a breach of the external auditors' independence and objectivity. Non-audit services are normally limited to assignments which are closely related to the performance of the audit or where detailed knowledge of the Company is necessary for its completion.

Details of the fees paid to the external auditor during the year ended 31 March 2015 for audit and non-audit services are set out in note 4 to the statutory financial statements.

Total fees for audit and non-audit services incurred during the year amounted to £3.6m (2014: £2.9m).

	2015 £'m	2014 £'m
Consultancy Thames Tideway Tunnel	2.4	1.8
Other assurance services	0.7	0.7
Other non-audit services	0.2	0.2
Total non-audit fees	3.3	2.7
Audit fees	0.3	0.2
Total audit and non-audit fees	3.6	2.9

Fees included £2.4m (2014: £1.8m) of fees in respect of consultancy advice provided on the Thames Tideway Tunnel. These costs have been capitalised as part of the design phase of the project. The contract for these services was subject to competitive tender in line with the Company's procurement process, where all firms that provided proposals were considered and shortlisted by reference to predetermined and objective selection criteria. The Company determined that KPMG LLP provided the most comprehensive proposal, and was satisfied that the project would be delivered by the firms' advisory division which is separated from the audit team hence not affecting their objectivity or independence. These fees will reduce as the Thames Tideway Tunnel project moves towards financial close which is currently anticipated to be in summer 2015.

Other assurance services include £0.5m (2014: £0.5m) related to work performed in the submission of the PR14 business plan to Ofwat and non-financial submissions for 2014/15 to Ofwat, where KPMG LLP was appointed based on their detailed knowledge of the Company. KPMG LLP performed specific agreed upon procedures over the financial data included within the business plan as instructed by management. In addition for the non-financial submissions, a separate team including another partner, was put in place with the appropriate skills and qualifications to deliver this work and is considered complementary to the external audit work undertaken by KPMG LLP.

The Audit and Risk Review Committee in 2014/15 and Audit Risk and Regulatory Committee from 31 March 2015 considered the level of non-audit fees and safeguards put in place relating to non-audit work, including written representations from KPMG LLP which confirmed their independence, and was satisfied that the non-audit fees incurred have not resulted in a loss of independence or objectivity of KPMG LLP.

Audit quality

To maintain audit quality and provide comfort on the integrity of financial reporting, the Audit and Risk Review Committee reviewed the proposed 2014/15 external audit plan to ensure that KPMG LLP had identified all key risks and developed robust audit procedures. The Audit and Risk Review Committee also considered KPMG LLP's response to accounting, financial control and audit issues as they arose, and met with them during the year without management present providing the external auditors with the opportunity to raise any matters in confidence.

Audit tender

The Company adopts the same approach to audit tendering as a FTSE 100 company and the Audit Risk and Regulatory Committee will therefore keep under review legislative proposals from the EU and the Competition Commission. The Audit Risk and Regulatory Committee may recommend that the Company puts the audit out to tender at any time, based on the results of the assessments of auditor independence and audit quality outlined above. KPMG LLP were appointed after a competitive tender for the 31 March 2009 financial year end audit. There are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into by the Company.

Audit information

Having made appropriate enquiries, so far as the Directors in office at the date of the approval of this report are aware, there is no relevant audit information of which the auditors are unaware and each Director has taken all reasonable steps to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Internal control, risk and compliance

The Board has overall responsibility for the Company's systems of internal control. These systems are designed to manage, rather than eliminate the risk of failure to meet business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. The key features of the systems of internal control and risk management are as follows:

- a control environment with clearly defined organisational structures operating within a framework of policies and procedures covering every aspect of the business;
- comprehensive business planning, risk assessment and financial reporting procedures, including the annual preparation of detailed operational budgets for the year ahead and projections for subsequent years;
- regular monitoring of risks and control systems throughout the year, supported by the use of risk registers;
- a self-certification process whereby management is required to note whether the system of internal control is operating effectively or, if not, what remedial action is proposed;
- an internal audit function providing independent scrutiny of internal control systems and risk management procedures; and
- a review of reports produced by internal and external audit.

The Directors routinely review the effectiveness of the systems of internal control and risk management, principally by means of:

- regular presentations to the Audit and Risk Review Committee in 2014/15 and the Executive Team by heads of individual business units and functional heads, describing their risk management strategies and detailing the status of significant business risks;
- reports of significant changes to the Company's overall risk profile, which were reported to the Audit and Risk Review Committee in 2014/15;
- regular reports on the activities of the Internal Audit function including level of required resources;
- reports to the Audit and Risk Review Committee (Audit Risk and Regulatory Committee from 31 March 2015) on the results of the self-certification process and independent reports thereon by Internal Audit; and
- an annual review of the effectiveness of the Company's systems of risk management and internal control by the Board.

The Company's risk management process is integrated within the business and is designed both to identify emerging risks and to minimise the adverse impact of emerging and existing risks.

Each business area is responsible for managing its risks and maintaining a risk register. Significant risks are escalated and reviewed by the Executive Team and Senior Leadership Group through the Risk Review Committee, and the process was reported to the Audit and Risk Review Committee in 2014/15. The Risk Review Committee is chaired by a member of the Executive Management Team on a rotational basis so that the approach to risk management is regularly refreshed.

The Audit and Risk Review Committee kept the adequacy and effectiveness of the Company's internal controls and risk management systems under review in 2014/15. The Audit Risk and Regulatory Committee approved for recommendation to the Board the statements to be included in the 2014/15 statutory and regulatory reports concerning internal controls and risk management. The Audit and Risk Review Committee reviewed the risk management strategy approved by the Board and was satisfied that the Board received regular and sufficient reports on internal controls from management.

The Audit and Risk Review Committee ensured that there were clear reporting lines for all issues associated with risk management and reviewed the adequacy of structures, processes and responsibilities for identifying and managing key risks facing the organisation. It reviewed and agreed the policies for compliance with relevant regulatory, legal and code of conduct requirements, their operational effectiveness and implementation. The Committee was satisfied that appropriate audit work was undertaken on risk management.

The Audit Risk and Regulatory Committee reviewed the material risks and uncertainties appearing on pages 37 to 41.

Directors' Report

The Directors present their report and the audited financial statements for the year ended 31 March 2015. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies and also include the Company's regulatory financial statements. The preparation of regulatory financial statements is a requirement under the conditions of appointment of the Company under the Water Industry Act 1991. This Directors' Report includes certain disclosures required under the Companies Act 2006.

The Directors consider that the annual report and the audited financial statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

The Directors have voluntarily complied with the Disclosure and Transparency Rules ("DTR"), to the extent that these can be reasonably applied to the Company. The Company is required, under its licence, to publish information about its results as if it were a company with a Listing on the London Stock Exchange. Consequently, the Company has prepared Corporate Governance, Remuneration Committee and Audit Risk and Regulatory Committee reports included within this Annual Report.

Directors and their interests

A full listing of the Directors who held office during the year, including any interest in the shares of the Company, has been included within the Remuneration Committee report on pages 62 to 80.

Corporate Governance

The Company's compliance with the UK Corporate Governance Code is reported on pages 50 to 51.

Dividends

The Company's dividend policy is to pay a progressive dividend commensurate with the long-term returns and performance of the business, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants. Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that:

- sufficient liquidity is maintained to enable the business to meet its financial obligations for at least 15 months;
- the Company maintains a minimum of 2% headroom on its Regulated Asset Ratio covenant restrictions (see page 30); and
- post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

The Company paid interim dividends of £20.0m in September 2014 and £149.9m in March 2015 (2013/14: £208.5m).

Going concern

The Directors believe, after due and careful enquiry, that the Company has sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2014/15 financial statements. In forming this assessment the Directors have considered the following information:

- The Company's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report on pages 6 to 16. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in the Strategic Report on pages 29 to 36;
- Day to day working capital requirements are funded by the business. During the year, £600m, gross of issuance costs, of new external debt was secured and £200m of debt repaid. There is no current requirement to raise additional finance to meet future project obligations. There are also cash balances and liquid resources of £798.1m and undrawn committed facilities of £1,200.0m;
- The undrawn committed facilities consist of £1,200m facilities with a group of banks made up of a £750m revolving credit facility that expires in September 2017 that is not expected to be used in the ordinary course of business, and £450m of 364-day liquidity facilities due for renewal in August 2015. The liquidity facilities can only be used if the Securitised Group is in standstill;
- The Company is in compliance with its financial covenant requirements as at 31 March 2015; and
- The Company's forecasts and projections, taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities and covenant restrictions for at least 12 months from the date of this report.

Material financial instruments

Financial risk management and information on financial instruments is covered on pages 34 to 35 within the Chief Financial Officer's Report section of the Strategic Report.

Research and development

The Company's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges for AMP5 and also provide specialist technical support to the business. Expenditure on research and development totalled £4.0m for the year (2014: £3.9m).

Political donations

No political donations were made by the Company (2014: £nil).

Greenhouse gas emissions

The disclosures concerning greenhouse gas emissions required by law have been included within the strategic report on pages 27 to 28.

Intellectual property

The Company protects intellectual property of material concern to the business as appropriate, including the filing of patents where necessary.

Directors' indemnities

The Company has made qualifying third party indemnity provisions for the benefit of its Directors and for the benefit of other persons who are directors of associated companies and these remain in force at the date of this report.

Insurance

The Company maintains a comprehensive insurance programme, renewed annually. This includes cover for a range of insurance classes including Public Liability, Property, Employers Liability, Construction, Motor, and Directors & Officer liability cover.

The insurance coverage has been reviewed and approved by an independent insurance adviser retained to ensure that the Company's insurances are consistent with good industry practice, have regard to the risk being covered and address the interests of the Company.

Statement of directors' responsibility in respect of the annual report and the financial statements

The directors are responsible for preparing the annual report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law, the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these 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 UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Company and to prevent and detect fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware and each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Auditor

Pursuant to section 487 of the Companies Act 2006, the auditor will be deemed to be reappointed and KPMG LLP will therefore continue in office.

The Directors' Report was approved by the Board of Directors on 4 June 2015 and signed on its behalf by:



David Hughes
Company Secretary

Thames Water Utilities Limited
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Statutory Financial Statements

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Independent Auditor's Report to the Members of Thames Water Utilities Limited Only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Thames Water Utilities Limited for the year ended 31 March 2015 set out on pages 95 to 125. In our opinion the financial statements:

- give a true and fair view of the state of the Company's affairs as at 31 March 2015 and of its profit for the year then ended;
- have been properly prepared in accordance with UK Accounting Standards; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Provision for doubtful debts (included within trade debtors of £228.2 million)

Refer to page 82 (Report from the Audit Risk and Regulatory Committee), page 101 (accounting policy), page 110 (financial disclosures).

The risk – The doubtful debt provision covers amounts billed directly by the Company, amounts billed by the Water Only Companies ('WOCs') on behalf of the Company, and accrued income not yet billed.

A significant level of judgement is needed to select the key inputs used in the calculation of the doubtful debt provision such as the expected level of future cash collection and billing cancellation rates, including any loss on amounts cancelled and then re-billed; the forecast level of Water Only Companies ('WOC') write offs; and the appropriate period of historic write offs used to calculate the WOC provision. A change in any of these key assumptions could give rise to a material variance in the level of the doubtful debt provision recognised in the financial statements.

Given the ageing profile of the Company's debtor balances and the complexity of the provision calculations, the adequacy of the bad debt provision is considered a key audit risk.

Our response – For amounts billed directly by the Company, the provision is calculated using the year end debtor ageing report. For each ageing category, management extrapolate the historic trend, both in the cash collection rate and billing cancellations over the previous 12 months, into the future to determine the amount of debt not considered recoverable. Management adjusts the collection and cancellation rates applied where there is a material difference between the historic trend and the expected future performance. The provision calculation takes into account the anticipated loss on future cancellations as a result of cancelling unpaid customer bills after the balance sheet date and then issuing a new bill for the same property at a lower value than the original bill. A cash collection rate is applied to any amounts expected to be re-billed on the basis that not all amounts re-billed are fully recoverable.

For amounts billed by Water Only Companies ('WOCs') on behalf of the Company, where the Company provides waste water services only, the provision is calculated based on the historic and forecast trends of bad debt write offs.

In this area our audit procedures included, among others:

- Assessing whether the bad debt provision calculation incorporates all relevant information, risks and data. This includes:
 - Assessing, based on our understanding of the industry, whether the provision methodology incorporates the necessary components and appropriate steps to calculate accurately the level of irrecoverable debt;
 - Comparing the provision methodology to the prior year and assessing the reason for any changes;
 - With assistance from our own IT specialists, testing the completeness and accuracy of the data extracted from the Company's billing system used to calculate the provision, including the data in respect of historic cash collection, cancellation and loss on re-bill rates;
- Challenging the assumptions over the expected cash collection and cancellation rates as well as the anticipated loss on re-bill, based on our own analysis of historic trends, operational performance, historic write offs, and the level of provisioning across the industry;
- Challenging the Company on the level of forecast WOCs write offs and whether the period of historic write offs used in the calculation is appropriate, including a comparison between the total WOC provision and WOC industry provisioning levels.

Classification of costs between operating expenditure (£1,348.8 million) and capital expenditure (£1,375.5 million):

Refer to page 83 (Report from the Audit Risk and Regulatory Committee), page 99 (accounting policy), pages 104 and 109 (financial disclosures).

The risk – The Company's tangible fixed assets include infrastructure and non-infrastructure assets. Initial and subsequent expenditure, including employee and other internal expenditure, on non-infrastructure assets is capitalised if it is directly attributable to the asset, provides probable economic benefit and can be measured reliably.

All expenditure incurred on infrastructure assets is initially capitalised. The maintenance element is expensed through the Infrastructure Renewals Charge ("IRC") based on the Company's expenditure plans for the period 2010 to 2025. The Directors use their experience and judgement to determine whether:

- the costs incurred on infrastructure assets represent expenditure required to maintain the operating capability of the network within defined service standards, and therefore form part of the projected IRC expenditure; and
- the current level of that expenditure requires a change in the anticipated IRC charge over the period 2010 to 2025.

Given the high degree of judgement involved in determining whether costs meet the relevant criteria for capitalisation; the significant expenditure the Company incurs with respect to the development and maintenance of these assets; and the risk of management override, the appropriate recording of costs between operating expenses and capital expenses is considered a key audit risk.

Our response – In this area our audit procedures over infrastructure and non-infrastructure assets included, among others:

- Assessing the compliance of the Company's Capitalisation Policy with relevant accounting standards;
- For a sample of projects, testing controls over management's review and authorisation of capital projects, and the consistency of the coding of capital projects, in the underlying accounting system, with the Company's Capitalisation Policy;
- With assistance from our own IT specialists, testing IT controls over the automated calculation of internal costs recharged to capital;
- Considering the appropriateness of a sample of manual journals posted between capital and operating expenditure.

In addition for infrastructure assets:

- Comparing the IRC to the long-term average projected Infrastructure Renewals Expenditure ('IRE') over the period 2010 to 2025 and challenging the IRE forecasts against the Company's business plan.

Completeness and valuation of the accruals for contractor claims (included within accruals and deferred income of £275.3 million):

Refer to page 83 (Report from the Audit Risk and Regulatory Committee), page 102 (accounting policy), page 111 (financial disclosures).

The risk – The Company uses contractors for the development and maintenance of its assets. Contractor claims arise when there is a dispute between the Company's and the contractors' view of the cost of a particular, or multiple, contracts. The risk of contractor claims arising increases towards the end of the regulatory period as contracts are completed and commercial negotiations for the following regulatory period commence. Given that the financial year ended 31 March 2015 is the final year of the regulatory period 2010 – 2015; the negotiations can take a number of months; and the difference between the Company's and the contractors' initial view regarding the settlement of existing contracts can be material, contractor claims is a key audit risk.

Our response – In this area our audit procedures includes, among others:

- Performing controls testing over the processes that the Company has in place for identifying and reporting material claims;
- Inquiring of Directors and the company's internal legal advisers and quantity surveyors regarding the nature of claims and the judgements applied in recording any accruals;
- Based on the information obtained from these inquiries, as well as any other information obtained during our wider audit procedures, assessing the completeness of the claims included in management's internal reporting on material claims and the appropriateness of the related accruals recognised;
- Inspecting supporting evidence, including the claims from the contractors, any relevant correspondence between the contractors and the Company and any third party advice on the claims if obtained by the Company;
- Reviewing the Company's historical accuracy of providing for and resolving these claims.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the financial statements as a whole was set at £22 million. This has been determined with reference to a benchmark of the Company's total assets (of which it represents 0.15%), which we consider to be one of the principal considerations for members of the Company in assessing its financial performance.

Our audit of the Company was undertaken to the materiality level specified above and was performed at the Company's head office in Reading and at the customer service centre in Swindon.

We agreed with the Audit Risk and Regulatory Committee to report to it all corrected and uncorrected misstatements we identified through our audit with a value in excess of £1 million, in addition to other audit misstatements below that threshold that we believe warranted reporting on qualitative grounds.

4. Our opinion on other matters prescribed by the Companies Act 2006 and under the terms of our engagement is unmodified

In addition to our audit of the financial statements, the Directors have engaged us to audit the information in the Directors' Remuneration Report that is described as having been audited, which the Directors have decided to prepare as if the Company were required to comply with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (SI 2008 No. 410) made under the Companies Act 2006.

In our opinion:

- the part of the Directors' Remuneration Report which we were engaged to audit has been properly prepared in accordance with the requirements of Schedule 8 to The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 made under the Companies Act 2006, as if those requirements were to apply to the Company; and
- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

5. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy; or
- the Report from the Audit Risk and Regulatory Committee does not appropriately address matters communicated by us to the Audit, Risk and Regulatory Committee.
- Under the Companies Act 2006 and under the terms of our engagement we are required to report to you if, in our opinion:
 - adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
 - the financial statements and the part of the Directors' Remuneration Report which we were engaged to audit are not in agreement with the accounting records and returns; or
 - certain disclosures of Directors' remuneration specified by law are not made; or
 - we have not received all the information and explanations we require for our audit.

In addition to our audit of the financial statements, the Directors have engaged us to review their Corporate Governance Statement as if the Company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review:

- the Directors' statement, set out on page 87, in relation to going concern; and
- the part of the Corporate Governance Statement on pages 50 to 61 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope of report and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 88, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014b, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.



William Meredith (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL
4 June 2015

Profit and loss account

For the year ended 31 March

	Note	2015 £m	2014 £m
Turnover		2,026.8	1,943.7
Operating costs	2	(1,348.8)	(1,300.4)
Other operating income	6	6.9	11.8
Operating profit		684.9	655.1
Profit on sale of fixed assets	7	16.4	22.0
Interest payable and similar charges	8	(449.5)	(470.8)
Interest receivable and similar income	9	90.2	62.4
Other finance costs	27	(6.2)	(9.4)
Profit on ordinary activities before taxation		335.8	259.3
Tax on profit on ordinary activities	10	0.3	87.4
Profit for the financial year	22	336.1	346.7

All of the Company's activities above are derived from continuing activities.

Statement of total recognised gains and losses

For the year ended 31 March

	Note	2015 £m	2014 £m
Profit for the financial year		336.1	346.7
Actuarial (loss)/gain recognised in the pension schemes	27	(149.3)	41.8
Deferred tax arising on (loss)/gain in the pension schemes		29.7	(21.7)
Total recognised gains in the year		216.5	366.8

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

The accounting policies and notes on pages 98 to 125 are an integral part of these financial statements.

Balance sheet

As at 31 March

	Note	2015 £m	2014 £m
Fixed assets			
Tangible assets	12	10,719.7	9,914.9
Investments	13	0.1	0.1
		10,719.8	9,915.0
Current assets			
Stocks	14	8.6	8.9
Debtors (including £2,115.0m (2014: £2,015.0m) due after one year)	15	2,699.7	2,600.7
Investments	18	788.2	857.2
Cash at bank and in hand	18	9.9	6.6
		3,506.4	3,473.4
Creditors: amounts falling due within one year	16	(1,606.7)	(1,335.5)
Net current assets		1,899.7	2,137.9
Total assets less current liabilities		12,619.5	12,052.9
Creditors: amounts falling due after more than one year	17	(10,019.6)	(9,527.7)
Provisions for liabilities	19	(911.8)	(978.3)
Net assets excluding net pension liabilities		1,688.1	1,546.9
Total of defined benefit schemes: with net assets	27	16.6	25.3
with net liabilities	27	(266.1)	(180.2)
Net pension liability		(249.5)	(154.9)
Net assets including net pension liability		1,438.6	1,392.0
Capital and reserves			
Called up share capital	20	29.0	29.0
Share premium account	21	100.0	100.0
Profit and loss account	22	1,309.6	1,263.0
Shareholders' funds	23	1,438.6	1,392.0

The accounting policies and notes on pages 98 to 125 are an integral part of these financial statements.

The financial statements were approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

Stuart Siddall
Chief Financial Officer



Company registered number: 02366661 (England and Wales)

Cash flow statement

For the year ended 31 March

	Note	2015 £m	2014 £m
Net cash inflow from operating activities	28(a)	1,231.6	1,158.5
Returns on investments and servicing of finance			
Interest received		88.9	107.6
Interest paid		(362.7)	(353.9)
Interest element in finance lease payments		-	(4.2)
		(273.8)	(250.5)
Taxation		0.9	(0.9)
Capital expenditure			
Gross cost of purchased fixed assets		(1,158.4)	(1,000.9)
Infrastructure renewals expenditure		(155.1)	(167.6)
Receipt of grants and contributions		58.9	49.7
Sale proceeds of tangible fixed assets		17.3	16.0
		(1,237.3)	(1,102.8)
Equity dividends paid	11	(169.9)	(208.5)
Cash outflow before management of liquid resources and financing		(448.5)	(404.2)
Management of liquid resources			
Decrease/(increase) in current asset investments	28(b)	69.0	(108.5)
Net cash outflow before financing		(379.5)	(512.7)
Financing			
Capital element in finance lease payment		-	(107.0)
New loans		593.5	830.4
Repayment of loans		(218.1)	(137.1)
Derivative collateral liability	18	7.4	-
	28(b)	382.8	586.3
Increase in cash	28(d)	3.3	73.6

The cash flow statement should be read in conjunction with the notes on pages 124 to 125. The accounting policies and notes on pages 98 to 125 are an integral part of these financial statements.

Accounting policies

The following accounting policies have been adopted in the preparation of these financial statements. They have been applied consistently in dealing with items which are considered material, except as noted below.

Basis of preparation

The financial statements on pages 95 to 97 are 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, with the Companies Act 2006. An explanation of this departure from the requirements of the Act is given in the fixed asset section below.

The Directors have considered the financial position of the Company and have concluded that it has sufficient resources for its present requirements and is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

The Company has exercised the exemption under section 400 of the Companies Act 2006 from the requirement to prepare group financial statements as the Company and its subsidiaries are included within the consolidated financial statements of its ultimate parent company Kemble Water Holdings Limited, an entity registered in the United Kingdom. These financial statements present information about the Company as an individual undertaking and not about its group.

Changes to accounting policies

There have been no changes to the accounting policies from those used in the preparation of the prior period financial statements.

Revenue recognition

Turnover represents the fair value of the income receivable in the ordinary course of business for goods and services provided which is recognised in accordance with FRS 5 "Reporting the Substance of Transactions". Turnover is recognised at the time of delivery of the service. Should the Company consider that the criteria for revenue recognition are not met at the time of a transaction, recognition of the associated turnover would be deferred until such time as the criteria have subsequently been met. No adjustment is made to turnover for estimated bad debt charges. These are charged to operating expenses.

For metered customers, turnover includes an estimate of the sales value of water supplied and waste water charges to customers between the date of the last meter reading and the period end, exclusive of value added tax. The estimated usage is based upon historical data, judgment and assumptions; actual results could differ from these estimates, which would result in turnover being adjusted in the period for which the revision to the estimates is determined. The amounts recognised in turnover, but unbilled at the balance sheet date are recorded within accrued income.

When a new property is connected to the Company's networks, an estimate is made of the sales value of water supplied and waste water charges to customers between the date of connection and the period end.

For customers who do not have a meter, the amount billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is held in deferred income and is apportioned in turnover over the period to which the bill relates.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors fees, are not recognised in turnover. They are recognised as a reduction in operating costs when payment is received, offsetting the associated costs which have already been incurred.

The Company only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied, but cannot confirm the name of the occupier. When the Company identifies the occupants, the bill is cancelled and re-billed in the customer's name. If the Company has not identified an occupant within six months, the bill is cancelled and the property is classified as empty. A provision charge is recognised as a reduction in revenue for differences between the amount initially billed and the amount rebilled.

Tangible fixed assets

Tangible fixed assets are comprised of infrastructure assets (mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-infrastructure assets (plant and equipment, land and buildings, and assets in the course of construction).

The Company capitalises the directly attributable costs of procuring and constructing tangible fixed assets in accordance with FRS 15. These costs include employee costs and other internal costs that are incremental to the business due to the scale and nature of the capital implementation programme of the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. Interest costs are not capitalised.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

a) Infrastructure assets

Infrastructure assets comprise networks of below ground systems (water and sewage networks). All expenditure on infrastructure assets is capitalised at cost. The planned element incurred in maintaining the operating capability of the network in accordance with defined service standards is expensed as Infrastructure Renewals Charge ("IRC"). This is included within the total depreciation charge recognised in the profit and loss account.

The IRC recognised for the year ended 31 March 2015 reflects the Company's expenditure plans for infrastructure assets for the period 2010 to 2025 (regulatory periods 5 to 7) as presented in the 2014 Final Business Plan. The level of charge is kept under review and updated annually to reflect the current level of infrastructure renewals expenditure and forecasts including those contained within our business plan submissions.

Capital contributions received in respect of the infrastructure assets have been deducted from the cost. This is not in accordance with Schedule 1 to Statutory Instrument 2008/410 made under the Companies Act 2006, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the contributions being 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 because infrastructure assets do not have a determinable finite life. As infrastructure assets are accounted under renewals accounting, related capital contributions are not recognised in the profit and loss account.

The effect of this treatment on the value of tangible fixed assets is disclosed in note 12, and is consistent with industry practice.

Grants and capital contributions received towards the cost of non-infrastructure assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

b) Land and Buildings

Land and buildings are stated at cost less accumulated depreciation. Freehold land is not depreciated. Freehold buildings are depreciated down to their residual value over 15 to 60 years on a straight-line basis. Long leasehold buildings are depreciated on a straight line basis over the terms of the lease.

c) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Plant and equipment consists of operational structures, operational assets, fixtures, fittings, vehicles and computers, and fixed and mobile plant. These assets are depreciated down to their residual values on a straight-line basis as follows:

Operational structures	15 – 100 years
Other operational assets	5 – 40 years
Fixtures and fittings	5 – 7 years
Vehicles	4 – 5 years
Computers	3 – 7 years
Fixed and mobile plant	3 – 40 years

The estimated useful economic lives of fixed assets and their residual values are based on management's judgment and experience of the type of asset. These judgments are reviewed annually and when management identifies that the actual useful lives of a specific asset or group of assets differ materially from the estimates used, the depreciation charge is adjusted prospectively.

d) Assets in the course of construction

Assets in the course of construction represent the directly attributable costs of projects that are expected to result in a tangible fixed asset being commissioned and capitalised at the end of the project. The balance is not depreciated as assets are not considered to commence their economic lives until they are commissioned (and transferred into the appropriate classification of tangible fixed assets).

e) Impairment of tangible fixed assets

Fixed assets including those with lives greater than 50 years, are assessed for impairment whenever there is an indication of impairment to determine whether any assets may have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use represents the net present value of expected future cash flows discounted on a pre-tax basis using a rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. Impairment of fixed assets is recognised in the profit and loss account within operating costs.

Where an impairment loss subsequently reverses, it is recognised in the profit and loss account and the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but not so as to exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years.

The calculation of estimated future cash flows and residual values is based on the directors' best estimates of future prices, output and costs and is subjective.

Fixed Asset Investments

Investments in subsidiary undertakings are stated at cost less any provisions for impairment.

Stocks

Stocks are stated at the lower of cost and net realisable value. Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Taxation

The total tax expense or credit for the year represents the sum of current tax and deferred tax.

a) Current taxation

Current taxation, including UK corporation tax, is based on the taxable profit for the period and is provided at amounts expected to be paid or recovered using the tax rates and laws that have been enacted or substantively enacted at the balance sheet date.

Taxable profit differs from the profit on ordinary activities before tax as reported in the profit and loss account because it excludes items of income or expense that are taxable or deductible in other years, includes the effect of tax allowances and further excludes items that are never taxable or deductible.

b) Deferred taxation

Deferred taxation is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes, which have arisen but not reversed by the balance sheet, except as otherwise required by FRS 19 "Deferred tax".

A net deferred tax asset is recognised only when it is regarded as recoverable, in that it is considered more likely than not that there will be suitable taxable profits against which to recover carried forward tax losses and from which the future reversal of underlying timing differences can be deducted.

Deferred taxation is measured at the tax rates that are expected to apply in the periods in which the timing differences are expected to reverse based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is charged or credited in the profit and loss account except when it relates to items directly charged or credited to the statement of total recognised gains and losses.

Leased assets

Leases are classified according to the substance of the transaction. A lease that transfers substantially all the risks and rewards of ownership to the lessee is classified as a finance lease. All other leases are classified as operating leases.

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

Pensions

The Company operates two defined benefit pension schemes. These schemes are closed to new employees. The Company accounts for these schemes in accordance with FRS 17 "Retirement Benefits".

These schemes are independently administered funds. Actuarial valuations are carried out as determined by the pension scheme Trustees using the projected unit credit method for both pension schemes at intervals of not more than three years. The rates of contribution payable and the pension cost are determined on the advice of the actuaries having regard to the results of these valuations. The Company believes that the assumptions utilised in recording obligations under the two schemes are reasonable based on prior experience, market conditions and the advice of the scheme actuaries. However, actual results may differ from such assumptions. For any intervening reporting period, the actuaries review the continuing appropriateness of the contribution rates.

Defined benefit assets are measured at fair value while liabilities are measured at present value.

The difference between the assets and liabilities of the schemes are recognised as a surplus (to the extent that the surplus is recoverable) or obligation in the balance sheet, net of associated deferred tax.

The cost of providing pension benefits to employees is included in the profit and loss account within the cost of employee benefits. The expected return on scheme assets and interest on scheme liabilities are included within other finance expense in the profit and loss account.

Actuarial gains and losses are recognised outside the profit and loss account in retained earnings and are presented in the Statement of total recognised gains and losses.

In addition to the defined benefit schemes, the Company operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS"), managed through Standard Life Assurance Limited ("Standard Life"). From 1 April 2011, the DCSPS is the only scheme to which new entrants to the Company will be eligible. The assets of the DCSPS are held separately from those of the Company and the amounts charged to the profit and loss account represents contributions payable to the scheme.

The Company also operates two closed defined contribution pension schemes. The Company has no further payment obligations for these schemes. However, defined funds for individuals are held within these schemes.

Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange current at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling using the rate of exchange current at the balance sheet date. Gains and losses arising on retranslation are included in the profit and loss account for the year.

Cash and liquid resources

Cash and cash equivalents include cash at bank and in hand, deposits, and short-term highly liquid investments which are readily convertible on initial investment into known amounts of cash at any time without penalty or if a maturity or period of notice of not more than 24 hours or one working day has been agreed.

Provision for doubtful debts

The Company's bad and doubtful debts provision policy has remained unchanged and has been consistently applied in both the current and prior years. Included within the provision is an assessment of the recoverability of debts which will ultimately be cancelled, and may or may not be rebilled, and of debts which have not yet been billed, but are part of the metered sales accrual.

At each reporting date, the Company evaluates the recoverability of trade receivables and records provisions for doubtful receivables based on experience. These provisions are based on, amongst other things, comparisons of the relative age of the individual balance and consideration of actual write-off history. Higher provisioning percentages are applied to older categories of debt such that all debt greater than four years old is fully provided for. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data from the Company's billing system, management's expectation of future performance and industry trends.

Provision is also made for debts due from Water Only Companies ("WOCs") who bill their customers on our behalf for the sewerage service we provide. As detailed information about the debt, including the ageing is unavailable to the Company the level of provision is calculated with reference to the level of historical and forecast write-offs.

The actual level of debtors collected may differ from the estimated levels of recovery, which could impact operating results positively or negatively. At each reporting date, the Company evaluates the recoverability of cancellations that will occur in the future against turnover booked. The provision is based on history of cancellations and subsequent rebills, which could affect operating results positively or negatively.

Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management judgement on a case-by-case basis.

Financial liabilities and equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the Company after deducting all of its liabilities.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

a) Borrowings

Interest bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an amortised cost basis in the profit and loss using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise. The interest charge on index linked borrowings includes the indexation accrued to date plus the nominal coupon on the indexed principal of the borrowings. The Indexation on index-linked borrowings is calculated with reference to the current applicable UK RPI compared to the UK RPI applicable at the time of issue.

b) Financial instruments and derivatives

Interest rate swap agreements are used to manage interest rate exposure. Cross currency interest rate swaps are used to manage foreign exchange exposure associated with borrowings that are not denominated in sterling.

Foreign currency and interest rate swaps are all in economic hedging relationships and amounts payable or receivable on these derivatives are accounted for on an amortised cost basis. Swaps are included within the appropriate caption in note 18.

The Company has not adopted FRS 26 "Financial Instruments: Recognition and Measurement", and accordingly the disclosure requirements of FRS 29 "Financial Instruments: Disclosures" are not applicable. The presentation requirements of FRS 25 "Financial Instruments: Presentation" and FRS 13 "Derivatives and financial instruments: disclosures" have been applied.

c) Financial Guarantees

The Company is part of a whole business securitisation group. Companies in the whole business securitisation group raise debt in external debt markets through the issuance of secured bonds and issue of loans. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such time as it becomes probable that the Company will be required to make a payment under the guarantee.

Provisions and contingencies

The Company is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Company routinely assesses the likelihood of any adverse judgments or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgments made by management after considering information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions for insured liabilities are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts.

Related party disclosures

As the Company is a wholly owned subsidiary of Kemble Water Holdings Limited, a company registered in the United Kingdom, the Company has taken advantage of the exemption contained within FRS 8 and has therefore not disclosed transactions or balances with wholly owned subsidiaries which form part of the group.

Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Long Term Incentive Plans (“LTIP”) and bonus

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes taking into account the duration of the individual scheme and by comparing the Company's performance against the assumptions used to award payments.

Bonus payments are accrued in the year based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year once actual performance has been measured against the targets set.

Exceptional items

Items that the directors consider one-off in nature and are of such significance that individually or combined they require disclosure to understand the performance of the business are disclosed as exceptional items. There are no such items for the year ended 31 March 2015 (2014: none).

Research and development

Expenditure on research and development is written off to the profit and loss account in the year in which it is incurred.

Notes to the financial statements

1. Segmental analysis

The Directors consider that the Company has a single class of business, being the supply of water and collection and treatment of wastewater, operating in London and the Thames Valley. This business is conducted wholly within the United Kingdom.

2. Operating costs

	Note	2015 £m	2014 £m
Employment costs	3	218.3	218.4
Materials and consumables		155.8	154.1
Provision for bad and doubtful debts		71.8	60.0
Other operating charges		513.4	493.6
Depreciation – owned assets (infrastructure renewals charge)	12	165.2	165.3
Depreciation – owned assets (non-infrastructure)	12	357.0	334.8
Depreciation – assets held under finance leases (non-infrastructure)	12	-	5.6
Property development costs		0.4	-
Operating lease rental – hire of plant and machinery		3.8	3.5
Operating lease rental – other		3.8	5.2
Research and development expenditure		4.0	3.9
Gross operating costs		1,493.5	1,444.4
Own work capitalised – staff costs		(84.5)	(84.5)
Own work capitalised – other costs		(60.2)	(59.5)
Net operating costs		1,348.8	1,300.4

During the prior year the Company settled its finance leases, though still retaining title to the underlying assets, and as a result the Company no longer has any assets held under finance lease arrangements. Subsequent to this, depreciation of these assets has been included within non-infrastructure owned assets.

3. Employee information

The aggregate payroll costs of persons employed by the Company (including executive directors) during the year were as follows:

	Note	2015 £m	2014 £m
Salaries and wages		180.2	179.9
Social security costs		17.4	16.5
Pension costs – defined benefit schemes	27	15.7	20.5
Pension costs – defined contribution schemes	27	4.1	3.2
Severance costs		12.3	-
Gross employment costs		229.7	220.1
Curtailment gain	27	(10.0)	-
Less employment cost included within R&D expense		(1.4)	(1.7)
Gross employment costs charged to operating costs		218.3	218.4

From 1 June 2014, the calculation of members' benefits in the Mirror Image Pension Scheme has changed from final salary to Career Average Revalued Earnings ("CARE") which resulted in a one-off non-cash curtailment gain of £10.0m (2014: £nil).

All Company employees are based in the United Kingdom. The average number of persons employed by the Company (including executive directors) during the year, analysed by category, was as follows:

	2015 Number	2014 Number
Support	419	448
Operations	4,390	4,234
Total persons employed	4,809	4,682

4. Auditor's remuneration

Amounts receivable by the Company's auditor are shown below in respect of the following services to the Company:

	2015 £'000	2014 £'000
Fees payable for the audit of the Company's financial statements	257	241
Fees payable to the Company's auditor and its associates for other services:		
Audit related assurance services	93	85
Other assurance services	688	508
Taxation compliance services	11	9
Other tax advisory services	60	106
Corporate finance services	2,376	1,827
All other non-audit services	161	163
Total aggregate remuneration	3,646	2,939

Fees for corporate finance services include £2.4m (2014: £1.8m) in respect of advice on the Thames Tideway Tunnel. These costs have been capitalised as part of the design phase of the project. The contract was awarded to KPMG LLP in the prior year following a competitive tendering process in line with the Company's procurement processes.

No fees, other than those disclosed, were payable to KPMG LLP in respect of this Company in this year or the prior year.

5. Directors' emoluments

	2015 £'000	2014 £'000
Salary/fees	954	906
Pension & pension allowances	135	134
Bonus	449	359
Long term incentive plan ("LTIP")	418	383
Other benefits	48	48
Total aggregate emoluments	2,004	1,830

Included in the table above, is £1,594,000 (2014: £1,456,000) for the executive directors for their services to the Company. In addition, the executive directors received total remuneration of £683,000 (2014: £623,000) for their services to other companies within the Group. Included within fees is £nil (2014: £40,000) for consultancy services relating to work on the Tideway improvements project.

At 31 March 2015 no benefits were accruing to any directors (2014: £nil) under the Group's defined benefit scheme in respect of services to the Company. The Company contributed cash of £136,000 (2014: £98,000) as a pension supplement for 2 directors (2014: 2 directors). The Company made £nil contributions (2014: £35,000) into the Company's defined contribution pension scheme (2014: 1 director).

Detailed disclosures of other items of remuneration, including those accruing under LTIPs can be found within the Remuneration Committee report on pages 62 to 80.

Highest paid director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid director in respect of work done for the Company during the year were £950,000 (2014: £906,000). The highest paid director is a member of the Company's defined contribution pensions scheme and the Company made contributions of £nil to the scheme in the year (2014: £35,000) in relation to director's services to the Company. In addition, emoluments of £407,000 (2014: £388,000) were paid to the highest paid director for services to other companies within the Group.

6. Other operating income

	2015 £m	2014 £m
Income from settlement of finance leases	-	5.8
Income from sale of internally generated electricity	6.9	6.0
Other operating income	6.9	11.8

7. Profit on sale of fixed assets

	2015 £m	2014 £m
Net profit on disposal of fixed assets	19.8	6.6
(Losses)/gains on insurance claims for material damage	(3.4)	15.4
Total	16.4	22.0

The effect of the above is to increase the taxation charge by £0.9m (2014: £4.7m). Overall profit during the year relates to disposal of land and buildings offset against a loss on insurance claims arising from revised estimation of the damage caused to the Company's assets from the 2013/14 flooding incidents.

8. Interest payable and similar charges

	2015 £m	2014 £m
On bank and other financing		
Interest expense	48.0	17.7
RPI accretion on loans	17.1	52.1
Amortisation of debt issue costs	1.3	1.1
	66.4	70.9
On intercompany loans		
Interest expense	336.1	313.2
RPI accretion on loans	49.2	78.5
Amortisation of debt issue costs	(2.2)	7.8
	383.1	399.5
Finance charges in respect of finance leases	-	0.4
Total	449.5	470.8

9. Interest receivable and similar income

	2015 £m	2014 £m
Receivable from group undertakings	25.5	25.4
Swaps receivable	57.1	33.3
Other	7.6	3.7
Total	90.2	62.4

The interest receivable on swaps is the aggregate effect of all swaps held in the Company. Included within interest receivable from group undertakings is £25.5m (2014: £25.4m) receivable from Thames Water Utilities Holdings Limited. In line with the definitions contained within the whole business securitisation group agreement (see page 102) this has not been included in the adjusted interest cover ratio calculations as included within the strategic report on page 30.

10. Taxation

	2015 £m	2014 £m
Current tax:		
Amounts payable in respect of group relief for the year	-	11.2
Adjustment in respect of prior years	61.6	(16.1)
	61.6	(4.9)
Deferred tax:		
Origination and reversal of timing differences	64.8	52.1
Adjustment in respect of prior years	(132.9)	0.9
Adjustment in respect of corporation tax rate changes	-	(132.2)
Net timing difference on pension cost charge	6.2	(3.3)
	(61.9)	(82.5)
Tax credit on profit on ordinary activities	(0.3)	(87.4)

During the prior year, the water industry reached an agreement with HMRC on the availability of capital allowances on certain assets at water and waste water treatment works which resulted in the recognition of a credit in 2014 in respect of current tax for prior years. No such credit has been recognised in the current year.

Adjustment in respect of prior years of £132.9m arises due to disclaiming of previous periods' capital allowances. These capital allowances will be available to the Company in subsequent years.

The current tax charge for the year is lower (2014: lower) than the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 £m
Profit on ordinary activities before tax	335.8	259.3
Current tax at 21% (2014: 23%)	70.5	59.6
<i>Effects of:</i>		
Capital allowances in excess of depreciation and other timing differences	(68.0)	(52.1)
Pension tax relief in excess of pension costs in financial statements	(6.5)	(2.7)
Disallowable expenditure less non-taxable income	4.0	6.4
Adjustments to tax charge in respect of prior periods	61.6	(16.1)
Total current tax (credit)/charge	61.6	(4.9)

A reduction in the UK corporation tax rate from 21% to 20% (effective from 1 April 2015) was substantively enacted on 2 July 2013. This will reduce the Company's future current tax charge accordingly. The deferred tax liability at 31 March 2015 was calculated based on the rates of 20% substantively enacted at the balance sheet date.

11. Dividends

	2015 £m	2014 £m
September (2015: 68.8p per share; 2014: 442.3p per share)	20.0	128.5
March (2015: 516.4 p per share; 2014: 275.4p per share)	149.9	80.0
Dividends paid in the year (585.2 p per share; 2014: 717.7p per share)	169.9	208.5

The application of the dividends paid to the Kemble Water Holdings Group in the year are analysed as follows:

	2015 £m	2014 £m
Distribution to ultimate shareholders:		
External dividend distributions	63.1	45.1
Interest on Kemble Water Eurobond Plc debt	36.9	54.9
	100.0	100.0
Distributions not distributed to ultimate shareholders:		
Interest on Kemble Water Finance Limited debt	40.0	60.0
Distribution to Kemble Water Eurobond Plc	5.0	-
Distribution to Kemble Water Structure Limited	-	3.5
Distribution to Thames Water Utilities Holdings Limited	24.9	45.0
	69.9	108.5
Total equity dividends paid	169.9	208.5

The aggregate amount of dividends proposed but not paid nor recognised as liabilities as at the year end is £25.0m (2014: £nil). These have not been recognised in line with Company policy as they remain at the discretion of the Company.

The dividend paid to Kemble Water Finance Limited of £40.0m (2014: £60.0m) was used to enable it to continue to service its external debt.

The distribution paid to Thames Water Utilities Holdings Limited of £24.9m (2014: £45.0m) was used to fund interest payments made to the Company.

Included within the payments to Kemble Water Eurobond Plc in the prior period is a payment of £17.0m relating to interest payment falling due in the year to March 2013 but paid in September 2013. No similar payment was made in the current year.

The distribution payment to Kemble Water Eurobond Plc of £5.0m (2014: Kemble Water Structure Limited £3.5m) was used to fund the activities of Thames Water Commercial Services Limited, a company within the Group.

12. Tangible fixed assets

	Land & buildings £m	Plant & equipment £m	Infrastructure assets £m	Assets in course of construction £m	Total £m
Cost					
At 1 April 2014	3,091.5	5,694.5	5,357.0	1,847.4	15,990.4
Additions	106.6	-	-	1,268.9	1,375.5
Transfers between items	103.2	463.2	273.7	(840.1)	-
Disposals	(0.4)	(18.0)	-	-	(18.4)
At 31 March 2015	3,300.9	6,139.7	5,630.7	2,276.2	17,347.5
Contributions					
At 1 April 2014	-	-	(735.9)	-	(735.9)
Additions	-	-	(47.7)	-	(47.7)
At 31 March 2015	-	-	(783.6)	-	(783.6)
Depreciation					
At 1 April 2014	(763.0)	(3,073.4)	(1,503.2)	-	(5,339.6)
Charge in the year	(49.1)	(307.9)	(165.2)	-	(522.2)
Disposals	0.2	17.4	-	-	17.6
At 31 March 2015	(811.9)	(3,363.9)	(1,668.4)	-	(5,844.2)
Net book value					
At 31 March 2015	2,489.0	2,775.8	3,178.7	2,276.2	10,719.7
At 31 March 2014	2,328.5	2,621.1	3,117.9	1,847.4	9,914.9

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

	2015 £m	2014 £m
Freehold land and buildings	2,350.3	2,249.9
Leasehold land and buildings – under 50 years	4.7	2.4
Leasehold land and buildings – over 50 years	134.0	76.2
Land and buildings net book value	2,489.0	2,328.5

13. Fixed asset investments

	2015 £m	2014 £m
Cost of shares in subsidiary undertakings	0.1	0.1

At 31 March 2015 the companies which represent the Company's subsidiary undertakings are as follows:

	Nominal value and class of shares	Percentage of shares held	Principal activity	Country of incorporation
Thames Water Utilities Finance Limited	£1 Ordinary	100%	Finance company	United Kingdom
Thames Water Utilities Cayman Finance Holdings Limited	\$1 Ordinary	100%	Holding company	Cayman Islands
Thames Water Utilities Cayman Finance Limited	\$1 Ordinary	100%	Finance company	Cayman Islands

Both Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited were incorporated and registered in the Cayman Islands. Both are resident in the United Kingdom for tax purposes. The directors have considered the carrying value of investments for impairment and concluded no impairment is required.

14. Stocks

	2015 £m	2014 £m
Raw materials and consumables	8.6	8.9

15. Debtors

	2015 £m	2014 £m
Amounts falling due after one year		
Amounts owed by group undertakings	2,115.0	2,015.0
Amounts falling due within one year		
Trade debtors	228.2	224.2
Amounts owed by group undertakings	30.6	25.3
Amounts receivable in respect of group relief	12.7	2.9
Amounts receivable in respect of corporation tax	0.1	1.0
Other debtors	74.1	70.9
Insurance claims receivable	27.6	57.3
Prepayments and accrued income	211.4	204.1
	584.7	585.7
Total	2,699.7	2,600.7

Amounts owed by group undertakings due after more than one year are unsecured and the directors do not anticipate any repayment of principal within the next 12 months. This has not been included within the Company's net debt and covenant calculations.

Of the total, £2,015.0m relates to a loan to Thames Water Utilities Holdings Limited (2014: £2,015.0m). Interest is charged at the London Interbank Offered Rate ("LIBOR") + 0.35% amounting to £25.4m for the year (2014: £24.9m) included in the amounts due within one year. There is also a £100.0m loan advanced to Thames Water Utilities Cayman Finance Limited (2014: £nil) in 2015 on which interest is charged at a floating rate plus margin. All other amounts are unsecured, interest free and repayable on demand.

Prepayments and accrued income as at 31 March 2015 include water and wastewater income not yet billed of £176.9m (2014: £171.4m).

16. Creditors: amounts falling due within one year

	Note	2015 £m	2014 £m
Trade creditors – operating		391.8	315.1
Trade creditors – capital		207.3	146.4
Amounts owed to group undertakings		519.6	277.6
Other taxation and social security		5.4	6.6
Accruals and deferred income		275.3	290.4
Secured bank loans	18	199.9	299.4
Derivative collateral liability	18	7.4	-
Total		1,606.7	1,335.5

The derivative collateral liability relates to collateral posted by counterparties that have failed to meet minimum credit rating criteria assigned by Moody's. This restricted cash receipt of £7.4m (2014: £nil) is included in the company's cash balance of £9.9m (2014: £6.6m) and currently held within "Creditors: amounts falling due within one year" as a short term loan. The net effect of this transaction has a neutral effect on the Company's net debt.

Accruals and deferred income include £82.1m (2014: £79.3m) of receipts in advance relating to amounts received from customers for water and wastewater charges and amounts received in advance in respect of operating costs in respect of 2015/16.

Amounts due to group undertakings are comprised of the following:

	2015 £m	2014 £m
Intercompany loans	258.8	116.8
Interest payable	162.6	144.5
Settlement of group relief	71.5	-
Trading balances	26.7	16.3
Total	519.6	277.6

Settlement of group relief refers to a non-cash settlement with Thames Water Utilities Holdings Limited in the year of £71.5m for group relief which arose due to an election by the Company to disclaim capital allowances relating to previous years.

17. Creditors: amounts falling due after more than one year

	Note	2015 £m	2014 £m
Secured bank loans	18	1,742.7	1,637.9
Amounts owed to group undertakings	18	7,917.5	7,554.0
Other financing		193.8	165.8
Accruals and deferred income		165.6	170.0
Total		10,019.6	9,527.7

The secured bank loan refers to an arrangement whereby each Obligor (representing each of the companies within the securitisation group, see page 102) has entered into a Security Trust and Inter-creditor Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance documents. Additionally Thames Water Utilities Limited, and its wholly owned subsidiaries, has guaranteed the obligations of each other under the finance documents, in each case to the Security Trustee.

Amounts owed to group undertakings are unsecured and include the following:

- £2,592.6m (2014: £2,826.4) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking. Financing costs arising in Thames Water Utilities Finance Limited are directly recharged under mirrored interest terms for all loans except for one loan, a £225.0m 6.59% secured bond due in 2021, which was loaned on with a margin of one basis point.
- £5,325.0m (2014: £4,727.6m) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking. All costs are directly recharged under mirrored interest terms, and an additional margin of ten basis points.

18. Derivatives and other financing

The narrative and numerical disclosures relating to financial instruments are set out below. The Company has taken advantage of the exemption available under FRS 13 "Derivatives and other financial financing: disclosures" not to provide numerical disclosures in relation to short term debtors and creditors. Narrative disclosures with respect to the Company's treasury and risk management policies have been included within the report by the Chief Financial Officer on pages 34 to 35.

The Company's sources of borrowing for funding and liquidity purposes come from a range of committed bank facilities and through short-term and long-term bond issuances in the capital markets which includes publicly listed bonds and private placements that are issued through the financing subsidiaries Thames Water Utilities Cayman Finance Limited and Thames Water Utilities Finance Limited. A breakdown of the bank loans, derivative financial instruments and intercompany borrowings and the main terms of the borrowings are given below.

Breakdown of secured bank loans

	Note	2015 £m	2014 £m
£100.0m Class B floating rate loan due 2015 (a)		-	99.7
£200.0m floating rate loan due 2015 (a)		199.9	199.7
£150.0m floating rate loan due 2017		150.0	150.0
£200.0m 0% Index linked loan due 2017		201.3	202.1
£100.0m floating rate loan due 2018 (a)		99.8	99.7
£60.0m 1.23% Index linked loan due 2019		71.1	71.0
£60.0m 1.415% Index linked loan due 2020		70.8	70.7
£60.0m 1.513% Index linked loan due 2020		70.5	70.3
£60.0m 1.38% Index linked loan due 2020		70.3	70.0
£60.0m 1.356% Index linked loan due 2020		70.3	69.9
£100.0m floating rate loan due 2020 (a), (c)		99.7	99.6
£75.0m 1.35% Index linked loan due 2021 (e)		80.5	80.3
£100.0m floating rate loan due 2021 (a), (c)		99.5	99.9
£215.0m 0.46% Index linked loan due 2023 (a)		223.7	222.9
£215.0m 0.38% Index linked loan due 2032 (a), (b)		218.4	215.2
£100.0m 3.28% index linked loan due 2043 (a), (d)		116.8	116.3
£100.0m 0.790% Index linked loan due 2025 (a), (e)		100.0	-
Total secured bank loans		1,942.6	1,937.3
Less amounts included within creditors falling due within one year	16	(199.9)	(299.4)
Total secured bank loans falling due after more than one year	17	1,742.7	1,637.9

- (a) These loans are shown net of issue costs.
- (b) This debt amortises in equal tranches from 2017 onwards.
- (c) The interest margins of these two loans are based on a ratings grid and will increase should the Securitisation Group Senior Debt credit rating be downgraded by both Standard and Poor's and Moody's.
- (d) This debt amortises from 2023 to 2033 in tranches of £3m, followed by tranches of £0.750m until maturity where there will be a bullet payment of £25m.
- (e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range.
- (f) All loans are Class A except where highlighted.

18. Derivatives and other financing (continued)

Breakdown of amounts owed to group undertakings

These amounts are intercompany loans from Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited.

Note	2015 £m	2014 £m
£438.0m 3.64% fixed rate due 2016 (b)	438.1	438.0
£96.6m 5.20% class B due 2019 (b), (d)	95.4	95.1
£100.0m 5.05% fixed rate due 2020 (c)	100.0	100.0
£225.0m 6.59% fixed rate due 2021 (c), (e)	225.0	225.0
£175.0m 3.38% index linked due 2021 (c)	256.3	250.8
£100.0m 1.99% index linked due 2022 (b), (h)	108.6	108.3
£96.6m 4.15% due 2022 (b)	96.6	96.6
£128.7m 4.30% due 2024 (b)	128.8	128.7
£550.0m 5.37% class B Fixed rate due 2025 (b), (d), (i)	547.1	547.5
£161.1m 4.53% due 2027 (b)	161.0	161.1
£330.0m 6.75% fixed rate due 2028 (c)	327.0	328.1
£100.0m 1.79% index linked due 2029 (h), (c)	119.6	117.7
£300.0m 5.75% class B Fixed rate due 2030 (b), (j)	296.9	297.2
£200.0m 6.50% fixed rate due 2032 (c)	197.4	198.2
£300.0m 4.37% fixed rate due 2034 (b), (d)	294.9	295.0
£600.0m 5.13% fixed rate due 2037 (c)	596.1	596.7
¥20.0bn 3.28% fixed rate due 2038 (b)	112.3	116.9
£200.0m 0.21% index linked due 2015 (c), (h)	239.2	235.4
£50.0m 3.85% index linked due 2040 (b), (f)	58.6	58.3
£500.0m 5.50% fixed rate due 2041 (b)	488.9	489.6
£50.0m 1.98% index linked due 2042 (b)	62.1	61.0
£55.0m 2.09% index linked due 2042 (b), (d)	65.7	65.0
£40.0m 1.97% index linked due 2045 (b), (d)	45.6	45.1
£300.0m 4.63% fixed rate due 2046 (b), (d)	292.8	293.0
£100.0m 1.85% index linked due 2047 (b)	124.3	122.1
£200.0m 1.82% index linked due 2049 (b), (d)	248.0	243.6
£300.0m 1.68% index linked due 2053 (c)	395.4	387.2
£300.0m 1.68% index linked due 2055 (c)	395.4	387.2
£200.0m 1.77% index linked due 2057 (b), (d)	248.0	243.6
£400.0m 7.24% fixed rate due 2058 (a), (b), (d)	398.9	399.0
£100.0m index linked due 2060 (b)	99.0	116.8
£350.0m 1.76% index linked due 2062 (b), (d)	434.0	426.2
£500.0m 4.00% fixed rate due 2025 (b)	493.8	
Revolving credit facility fees	(2.1)	(3.2)
Fees (k)	(12.4)	-
Total amounts owed to group undertakings	8,176.3	7,670.8
Less amounts included within creditors falling due within one year	(258.8)	(116.8)
Total falling due after more than one year	7,917.5	7,554.0

- (a) £400m Class A bond issued with a final maturity date of 9 April 2058 with a fixed coupon of 7.241% until 9 April 2018. If at this date interest rates have risen, the bond will be "put" at par by investors and redeemed by the Company. Should interest rates have fallen, the bond will be called by the Company and either re-marketed for the remaining 40-year period at the underlying Puttable, Callable, Resetttable ("PCR") rate of 4.572% plus the prevailing credit spread or the Company will settle related derivative contracts with bank counterparties and redeem the bond at par.
- (b) These loans are back-to-back inter-group loans from Thames Water Utilities Cayman Finance Limited to the Company. Thames Water Utilities Cayman Finance Limited charges the Company a margin of ten basis points in respect of the loans.
- (c) These loans are back-to-back inter-group loans from Thames Water Utilities Finance Limited to the Company.
- (d) These loans are shown net of issue costs.
- (e) Thames Water Utilities Finance Limited charges the Company a margin of one basis point in respect of this loan.
- (f) This is a Limited Price Index (LPI) loan. Accretion charged is calculated using an adjusted UK Retail Price Index.
- (g) All debt is class A except where highlighted.
- (h) These amounts have been swapped into index linked debt within the financing subsidiary and the net proceeds lent to TWUL
- (i) In July 2017 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.96% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value
- (j) In September 2022 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value
- (k) These fees have been shown within amounts owed to group undertakings to reflect that they relate to index linked debt that was raised in Thames Water Utilities Cayman Finance Limited and passed on to TWUL.

18. Derivatives and other financing (continued)

Breakdown of other financing

The other financing recognised below refer to foreign exchange movements and RPI indexation accretion on the following derivative transactions:

	2015 £m	2014 £m
Cross currency swaps ¥20bn-£153.5m 2038 (a)	41.2	36.7
Index linked swap £94.05m 2038 (b)	3.3	1.3
Index linked swap £200m 2032 (b)	42.2	41.6
Index linked swap £600m 2037 (b)	108.6	98.9
Derivative collateral liability (included in current liabilities) (c)	7.4	-
Total other financing	202.7	178.5
Less capitalised fees	(1.5)	(12.7)
Total other financing	201.2	165.8

- (a) These swaps contain an optional break clause in August 2018, which must be exercised with 12 months' notice. On this date (and every five years thereafter) the counterparty has the right to break the contract, at which point the outstanding mark-to-market is settled to the counterparty in-the-money. The fair value of the swap at 31 March 2015 is £107.5m (2014: £60.2m) and represents an obligation to the Company, though subject to future market movement of rates. This has not been included on the balance sheet but is included in the fair value disclosures below
- (b) The accretion pay downs on these swaps are at frequencies not less than five years.
- (c) The derivative collateral liability relates to cash posted by derivative counter parties that have failed to meet minimum credit rating criteria assigned by Moody's

Capitalised debt issuance costs in relation to the debt portfolio are £71.6m (2014: £62.5m).

Interest rate risk profile of financial liabilities

The interest rate profile of the Company's financial liabilities, including the weighted average interest rate on the fixed rate and RPI linked debt and the weighted average period until maturity for which the rate is fixed at fixed rate and RPI linked debt as at 31 March 2015 is presented below:

	Period until maturity Years	Fixed and RPI linked interest rate %	Total at floating rates £m	Total at fixed rates £m	Total at RPI linked rates £m	Total book value £m
Bank loans						
£ Sterling	7.5	1.0%	633.9	15.0	1,293.8	1,942.7
Other financing						
£ Sterling	28.0	3.5%	-	4,429.7	3,947.7	8,377.4
Total	24.0	3.2%	633.9	4,444.7	5,241.5	10,320.1

18. Derivatives and other financing (continued)

The comparative information as at 31 March 2014 is presented below:

	Period until maturity	Fixed and RPI linked interest rate	Total at floating rates	Total at fixed rates	Total at RPI linked rates	Total book value
	Years	%	£m	£m	£m	£m
Bank loans and overdraft						
£ Sterling	10.8	1.1%	734.1	14.5	1,188.7	1,937.3
Other loan and finance lease						
£ Sterling	23.7	3.5%	-	3,932.5	3,904.1	7,836.6
Total	23.6	3.5%	734.1	3,947.0	5,092.8	9,773.9

Short term floating rate borrowings bear interest at rates linked to the short-term LIBOR rate prevailing at the time. All cash held at bank is benchmarked against the Bank of England base rate.

Interest rate risk profile of financial assets

The currency and interest rate profile of the Company's financial assets is presented below:

	Total Book Value	
	2015 £m	2014 £m
Cash at bank and in hand		
£ Sterling	9.9	6.6
Short term investments		
£ Sterling deposits	277.1	489.0
£ Sterling money market funds	511.1	368.2
Total	798.1	863.8

The totals in the above table are treated as available cash for covenant calculation purposes. All amounts are held at floating rates. As at 31 March 2015 the short term investments have an average maturity of 52 days.

18. Derivatives and other financing (continued)

Liquidity risk profile of financial liabilities

The maturity profile of the debt held by the Company on an amortised cost basis is presented below:

	2015 £m	2014 £m
Due within one year or repayable on demand		
Bank loans and overdrafts	199.9	299.4
Other financing including intercompany	266.2	116.8
Total due within one year or repayable on demand	466.1	416.2
Due within one to two years		
Bank loans	201.3	-
Other financing including intercompany	(2.1)	200.0
	199.2	200.0
Due within two to five years		
Bank loans	702.5	451.8
Other financing including intercompany	533.5	530.0
	1,236.0	981.8
Due after more than five years		
Bank loans	838.9	1,186.1
Other financing including intercompany	7,579.9	6,989.8
	8,418.8	8,175.9
Total due in over one year	9,854.0	9,357.7

Borrowing facilities

As at 31 March 2015 the Company had access to undrawn committed facilities of £1,200.0m (2014: £1,200.0m).

Fair value disclosures

The fair value of the financial assets and financial liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The fair value of intercompany loans disclosed as "Other financial instruments" represents the market value of the publicly traded underlying bonds. For private placements the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread. The fair value of the derivative financial instruments is adjusted for the Company's and counterparties own credit risk. The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity.

18. Derivatives and other financing (continued)

The table below sets out a comparison of the book and fair values of the Company's financing.

	Book Value		Fair Value	
	2015 £m	2014 £m	2015) £m)	2014 £m
Financial assets				
Deposits	277.1	489.0	277.1	489.0
Money market funds	511.1	368.2	511.1	368.2
Cash at bank and in hand	9.9	6.6	9.9	6.6
	798.1	863.8	798.1	863.8
Financial liabilities				
Bank loans	(1,942.6)	(1,937.3)	(1,942.6)	(1,937.3)
Other financing	(8,182.2)	(7,658.1)	(10,345.7)	(8,244.9)
Derivative financial instruments				
Interest rate swaps	-	-	(157.6)	(79.9)
Cross currency swaps	(41.2)	(36.6)	(107.5)	(60.2)
Index linked swaps	(154.1)	(141.9)	(311.8)	(313.5)
Total	(9,522.0)	(8,910.1)	(12,067.1)	(9,772.0)

Other financing includes bonds issued by group undertakings, which are publically traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The notional value of the cross currency swaps is £153.5m (2014: £153.5m). Index linked swaps have a notional value of £894.1m (2014: £894.1m). Total accretion on the index linked swaps is £154.1m (2014: £141.9m).

The total book value of debt (£9,522.0m) includes a loan from the intermediate subsidiary, Thames Water Utilities Cayman Limited of £99.0m for which there is no related external debt issuance.

19. Provisions for liabilities

	Deferred Tax £m	Insured Liabilities £m	Restructuring Provision £m	AMP4 Provision £m	Other Provisions £m	Total £m
At 1 April 2014	882.0	57.3	0.6	8.5	29.9	978.3
Utilised during the year	-	(19.3)	(0.6)	(0.8)	(8.9)	(29.6)
(Credit)/charge to profit and loss	(68.1)	7.7	12.3	-	11.2	(36.9)
At 31 March 2015	813.9	45.7	12.3	7.7	32.2	911.8

The elements of deferred taxation are as follows:

	2015 £m	2014 £m
Accelerated capital allowances	820.6	888.1
Other timing differences	(6.7)	(6.1)
	813.9	882.0

The total deferred tax position is as follows:

	2015 £m	2014 £m
Included above	813.9	882.0
Net deferred tax asset on net pension deficit	(62.3)	(38.7)
Total	751.6	843.3

The insured liability provision is in respect of insurance claims notified. A debtor in respect of these obligations is included in note 15 representing the reimbursement value from captive and third party insurance companies net of retentions.

The restructuring provision principally relates to severance costs and onerous lease provisions recognised as a result of the Company's restructuring and reorganisation. These costs relate to reorganisation that was announced prior to 31 March 2015 but is still in progress at the year end.

The AMP4 provision represents agreed settlement in respect of an information request received from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. This provision was utilised against contributions made to various charity schemes during the year.

Other provisions principally relate to a number of legal claims against the Company and represents management's best estimate of the value of settlement and costs. It is estimated that some claims will be settled in more than one year.

20. Called up share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
29,050,000 ordinary shares of £1 each	29.0	29.0

21. Share premium account

	2015 £m	2014 £m
At 1 April and 31 March	100.0	100.0

22. Profit and loss account

	Note	2015 £m	2014 £m
At 1 April		1,263.0	1,104.7
Profit for the year		336.1	346.7
Actuarial movement recognised in the pension schemes	27	(149.3)	41.8
Deferred tax arising on movement in the pension schemes		29.7	(21.7)
Dividends paid	11	(169.9)	(208.5)
At 31 March		1,309.6	1,263.0

23. Reconciliation of movements in shareholder's funds

	Note	2015 £m	2014 £m
At 1 April		1,392.0	1,233.7
Profit for the year		336.1	346.7
Actuarial movement recognised in the pension schemes	27	(149.3)	41.8
Deferred tax arising on movement in the pension schemes		29.7	(21.7)
Dividends paid	11	(169.9)	(208.5)
At 31 March		1,438.6	1,392.0

24. Capital commitments

	2015 £m	2014 £m
Contracted for but not provided	325.7	547.6

25. Contingent Liabilities

There are claims arising in the normal course of business, which are in the process of negotiation. The Company has set aside amounts considered appropriate for all legal and similar claims as per note 19.

As explained in note 18 (a), in April 2018, if interest rates are below a certain level a bond with a par value of £400m will either be remarketed for the remaining 40 year period or the Company will settle the related derivative contract (low strike call option) and the bond will be redeemed at par. If the Company decided to settle the derivative at this date, it would result in the cash outflow which reflects the fair value of the derivative at that date. As at 31 March 2015, the fair value of the derivative is £255.1m. The Company expects that should it wish to take the opportunity it will be able to successfully remarket the bonds at fair value and a cash settlement will not be required. Accordingly, no provision has been reflected to record this potential liability in these financial statements.

26. Operating leases

At 31 March 2015 the Company was committed to making the following annual payments in respect of non-cancellable operating leases:

	Land & Buildings		Other	
	2015 £m	2014 £m	2015 £m	2014 £m
Leases which expire				
Within one year	0.2	0.1	0.1	0.9
In the second to fifth year inclusive	-	0.1	-	0.1
Over five years	7.3	6.8	-	-
Total	7.5	7.0	0.1	1.0

27. Pension

The Company operates three pension schemes, one of which is a defined contribution scheme and the other two are defined benefit.

In addition to the cost of the UK Pension arrangements, the Company operates arrangements under which it augments benefits on retirement in certain circumstances of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year ended 31 March 2015 the related payments amounted to £0.3m (2014: £0.2m).

Defined contribution pension scheme

This scheme was set up in April 2011, managed through Standard Life, and is open to all new employees of the Company. The pension cost charge for the period represents contributions payable by the Company to the scheme and amounted to £4.1m (2014: £3.2m). There were no outstanding or prepaid contributions either at the beginning or end of the financial year.

Defined benefit pension schemes

Pension arrangements for the majority of the Company's employees are provided through two defined benefit Group pension schemes:

- (a) Thames Water Pension Scheme ("TWPS")
- (b) Thames Water Mirror Image Pension Scheme ("TWMIPS")

Both represent career average pension schemes. Their assets are held separately from those of the rest of the Group in independently administered funds in the United Kingdom. On 1 April 2011 the defined benefit arrangements were closed to new entrants and replaced with a defined contribution scheme.

From 1 June 2014, the method of calculating members' benefits in TWMIPS has been changed to be based on members' Career Average Revalued Earnings ("CARE") rather than final salaries. Consequently, there has been a reduction to the normal contributions into the scheme as well as a one-off non-cash curtailment gain of £10.0m.

Both schemes cover employees within the Group. However, the Company is the principal employer in both schemes and hence funds the vast majority of the contributions into the schemes. Accordingly, the directors have decided it is appropriate to recognise the total net deficit of the two Group pension schemes within these financial statements.

The service cost of the Company, as included in the profit and loss account, represents the net of the total service cost of the Group schemes and the pension contributions made by the other group companies into the schemes in the financial period.

The most recent full actuarial valuation was as at 31 December 2013 on behalf of the pension Trustees by AON Hewitt Limited ("Hewitt"), the independent and professionally qualified consulting actuary to the schemes. The 2013 valuation has been updated to 31 March 2015 by PricewaterhouseCoopers LLP ("PwC"), an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts.

The Company expects to contribute approximately £34.8m in aggregate to the defined benefit pension schemes in the next financial year.

Net pension liability

	TWPS		TWMIPS	
	2015 £m	2014 £m	2015 £m	2014 £m
Present value of defined benefit obligations	(1,478.8)	(1,202.0)	(748.8)	(657.7)
Fair value of plan assets	1,146.2	976.8	773.9	709.4
(Deficit)/surplus	(332.6)	(225.2)	25.1	51.7
Effect of asset limit	-	-	(4.3)	(20.1)
Related deferred tax asset/(liability)	66.5	45.0	(4.2)	(6.3)
Net pension (liability)/asset	(266.1)	(180.2)	16.6	25.3

27. Pension (continued)

Movement in the present value of defined benefit obligations

	TWPS		TWMIPS	
	2015	2014	2015	2014
	£m	£m	£m	£m
At 1 April	1,202.0	1,235.0	657.7	681.2
Current service cost	12.6	15.0	3.1	5.5
Interest cost	54.8	52.8	27.8	28.7
Contributions by members	0.1	0.1	-	-
Benefits paid	(37.2)	(30.4)	(38.7)	(34.3)
Termination benefits	0.2	0.7	-	0.6
Curtailment	-	-	(10.0)	-
Actuarial losses/(gains)	246.3	(71.2)	108.9	(24.0)
At 31 March	1,478.8	1,202.0	748.8	657.7

Movements in fair value of plan assets

	TWPS		TWMIPS	
	2015	2014	2015	2014
	£m	£m	£m	£m
At 1 April	976.8	956.4	709.4	736.9
Expected return on scheme assets	47.8	39.9	28.6	32.2
Contributions by contributing employers	35.2	31.5	7.7	10.2
Contributions by members	0.1	0.1	-	-
Benefits paid	(37.2)	(30.4)	(38.7)	(34.3)
Contributions for termination benefits	0.3	0.7	-	0.6
Actuarial gains/(losses)	123.2	(21.4)	66.9	(36.2)
At 31 March	1,146.2	976.8	773.9	709.4

(Expense)/income recognised in the profit and loss account

	2015	2014
	£m	£m
Current service cost	3	(15.7)
Curtailment gain	3	10.0
Interest on defined benefit pension scheme obligations	(82.6)	(81.5)
Expected return on defined benefit pension scheme assets	76.4	72.1
Total	(11.9)	(29.9)

The net expense is recognised in the following line items in the profit and loss account:

	Note	2015	2014
		£m	£m
Operating costs		(5.7)	(20.5)
Other finance costs		(6.2)	(9.4)
Total		(11.9)	(29.9)

27. Pension (continued)

Analysis of amount recognised in the statement of total recognised gains and losses

	2015 £m	2014 £m
Actuarial (losses)/gains immediately recognised	(165.1)	37.6
Adjustment relating to irrecoverable surplus	15.8	5.7
Adjustment in respect of prior periods	-	(1.5)
Total	(149.3)	41.8
Cumulative actuarial losses recognised	(543.6)	(394.3)

Fair value of scheme assets and long-term expected return on these assets

The fair value of the assets held by the pension schemes, the long-term expected rate of return on each class of assets and the average expected long-term rate of return obtained by weighting the individual rates in accordance with the anticipated balance in the schemes' investment portfolio are shown in the following two tables:

	TWPS		TWMIPS	
	2015 %	2014 %	2015 %	2014 %
Equities	N/A	7.50%	N/A	7.35%
Corporate bonds	N/A	4.60%	N/A	4.35%
Fixed interest government bonds	N/A	3.50%	N/A	3.35%
Index linked government bonds	N/A	3.25%	N/A	3.10%
Property	N/A	6.50%	N/A	6.35%
Cash	N/A	3.50%	N/A	3.35%
Weighted average expected return	N/A	5.40%	N/A	4.35%

For the year ending 31 March 2016 the Company will be presenting its financial statements in accordance with IFRS as endorsed by the EU. Under this standard the net interest charge is calculated based on a single high quality corporate bond rate rather than by reference to the expected returns on relevant asset classes. Consequently the directors have elected not to present the expected return on assets for the year ended 31 March 2015.

The schemes' investment portfolio is as shown below:

	TWPS		TWMIPS	
	2015 £m	2014 £m	2015 £m	2014 £m
Equities	435.0	419.0	160.1	151.0
Corporate Bonds	73.5	68.2	70.8	65.8
Fixed interest government bonds	99.9	38.7	204.1	35.2
Index linked government bonds	452.5	380.0	287.7	398.7
Property	62.1	61.2	46.3	45.6
Cash	23.2	9.7	4.9	13.1
Total fair value of scheme assets	1,146.2	976.8	773.9	709.4

27. Pension (continued)

Principal actuarial assumptions

The main financial assumptions used for FRS 17 purposes are as follows:

	TWPS		TWMIPS	
	2015	2014	2015	2014
	%	%	%	%
Price inflation – RPI	3.05%	3.45%	2.95%	3.35%
Price inflation – CPI	2.05%	2.50%	1.95%	2.40%
Rate of increase in salaries	-	-	-	3.85%
Rate of increase to pensions in payment – RPI	3.05%	3.45%	2.95%	3.35%
Rate of increase to pensions in payment – CPI	2.05%	2.50%	1.95%	2.40%
Discount rate	3.35%	4.60%	3.20%	4.35%

Both schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlement are linked to movements in CPI therefore an assumption for increase in salary is not required.

In valuing the liabilities of the pension schemes at 31 March 2015, mortality assumptions have been made as indicated below. These mortality assumptions are based on standard mortality tables, the recent actual mortality experience of members within the schemes and the assumptions also allow for future improvements to mortality rates.

	TWPS		TWMIPS	
	2015	2014	2015	2014
	Years	Years	Years	Years
Life expectancy from age 60				
Male	28	28	27	27
Female	30	30	30	30
Life expectancy from 60, currently aged 40				
Male	30	30	29	29
Female	32	32	32	32

History of schemes

The history of the schemes for the current and prior periods is as follows:

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Fair value of scheme assets	1,920.1	1,686.2	1,693.3	1,540.0	1,403.8
Present value of scheme liabilities	(2,227.6)	(1,859.7)	(1,916.2)	(1,656.5)	(1,510.0)
Net deficit in schemes	(307.5)	(173.5)	(222.9)	(116.5)	(106.2)

The experience adjustments in the schemes for the current and prior periods are as follows:

	2015	2014	2013	2012	2011
	£m	£m	£m	£m	£m
Gains/(losses) on scheme assets					
Amount	190.1	(57.6)	108.7	77.6	14.1
Percentage of scheme assets	9.9%	3.4%	6.4%	5.0%	1.0%
Gains/(losses) on scheme liabilities					
Amount	(57.6)	-	-	11.0	-
Percentage of scheme liabilities	2.6%	-	-	0.7%	-

28. Notes to the cash flow statement

a. Reconciliation of operating profit to net cash inflow from operating activities

	2015 £m	2014 £m
Operating profit	684.9	655.1
Depreciation – infrastructure renewals charge	165.2	165.3
Depreciation – non-infrastructure	357.0	340.4
Difference between pension charge and cash contribution	(37.2)	(22.5)
Decrease/(increase) in stocks	0.2	(0.4)
Increase in debtors and prepaid expenses	(17.7)	(29.6)
Increase in creditors and accrued expenses	79.9	51.9
Increase in provisions	13.1	17.8
Release of deferred income	(13.8)	(13.7)
Gain on settlement of finance lease obligations	-	(5.8)
Net cash inflow from operating activities	1,231.6	1,158.5

Included in creditors falling due within one year (note 16) is a balance of £71.5m (2014: £nil) relating to a non-cash settlement surrender of losses under group relief with Thames Water Utilities Holdings Limited.

b. Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Increase in cash in the year	3.3	73.6
Cash outflow/(inflow) from increase in liquid resources	(69.0)	108.5
Cash inflow from movement in net debt and financing	(382.8)	(586.3)
Increase in net debt resulting from cash flows	(448.5)	(404.2)
Gain on settlement of finance leases	-	5.8
Non-cash increase in net debt	(163.4)	(139.0)
Total increase in net debt	(611.9)	(537.4)
Opening net debt	(8,910.1)	(8,372.7)
Closing net debt	(9,522.0)	(8,910.1)

The non-cash increase in net debt comprises amortisation of bond fees, non-cash intercompany loans and the carrying value of RPI accretion, of a number of RPI index-linked bonds and swaps. This adjustment for RPI index-linked bonds and swaps is in accordance with FRS 4 "Capital instruments".

c. Analysis of movement in net debt

	2014 £m	Cash flow £m	Transfer to within one year £m	Non-cash £m	2015 £m
Cash at bank and in hand	6.6	3.3	-	-	9.9
Overdraft	-	-	-	-	-
	6.6	3.3	-	-	9.9
Current asset investments	857.2	(69.0)	-	-	788.2
Debt due within one year	(416.2)	210.7	(258.8)	(1.8)	(466.1)
Debt due after one year	(9,357.7)	(593.5)	258.8	(161.6)	(9,854.0)
	(8,916.7)	(451.8)	-	(163.4)*	(9,531.9)
Total net debt	(8,910.1)	(448.5)	-	(163.4)	(9,522.0)

* Included in the non-cash net debt movement of £161.6m is an index linked intercompany loan from the intermediate subsidiary, Thames Water Utilities Cayman Limited, with a principal value of £100.0m and a carrying value of £99.0m which was entered into on 17 February 2015. There is no external debt associated with this loan.

d. Movement in cash

	2015 £m	2014 £m
Unrestricted cash movement	(4.1)	74.9
Restricted cash movement	7.4	(1.3)
Total	3.3	73.6

The restricted cash above relates to collateral posted by derivative counter parties that have failed to meet minimum credit rating criteria assigned by Moody's.

29. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included on its balance sheet. The principal off-balance sheet arrangements are listed below:

- (a) Operating leases (see note 26)
- (b) Outsourcing contracts
- (c) Guarantees

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of IT support, Legal Services, Supply Chain, Metering and Capital Delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material impact on the financial position of the Group.

The Company is part of a whole business securitisation group. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiaries are Obligor under the whole business securitization entered into in 2007. The Obligor have all entered into a Security Trust and Inter-creditor Deed. Under this document each Obligor will guarantee the obligations of each other Obligor with their future cash flows. The guaranteed debt as at 31 March 2015 was £10.2bn (2014: £9.8bn).

30. Intermediate and ultimate parent company and controlling party

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company.

Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and the smallest group to consolidate these financial statements.

The directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements.

Copies of the accounts of all of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

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Explanatory note

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines ("RAG") issued by Ofwat in February 2013. The accounts have adopted in their preparation and presentation the following subsequent changes made:

- Information notice IN14/05 issued on 7 February 2014 with further guidance effective for the financial year ended 31 March 2014;
- Information notice IN15/01 on 11 February 2015 and IN 15/02 on 17 March 2015, confirming that there are no changes to the reporting requirements for the year ended 31 March 2015 from those outlined in the RAG and IN 14/05.

There are differences between UK Generally Accepted Accounting Practice and the RAG. Where different treatments are specified under each, the RAG takes precedence.

The regulatory financial statements should be read in conjunction with the statutory Annual Report and Financial Statements ("AR&FS"). The AR&FS include:

- Strategic report (pages 6 to 41) which contains information in respect of the Company's charitable donations (page 19);
- Directors' report (pages 87 to 89), which contain:
 - a statement as to the disclosure of information to the auditor (page 89); and
 - the dividend policy of the Company which also applies to the appointed business (page 87);
- Remuneration Committee report (pages 62 to 80) which includes information linking directors' remuneration with standards of regulatory performance; and
- Corporate Governance report (pages 42 to 89). In January 2014, Ofwat published a paper setting out expectations and principles for all companies in the areas of Board leadership, transparency and governance. This included Ofwat's expectations around the composition of the Board: independent non-executive directors to be the single largest group on the Board, fewer investor representatives than independents, and fewer executives than independent non-executive directors. Changes made during the year have resulted in an increase in the number of independent non-executive directors and a reduction in the number of investor appointed directors. In accordance with the Ofwat corporate governance principles the independent non-executive directors, including the Chairman, now represent the largest single group on the Board.

Condition F: Accounts and accounting information

Further to the statutory reporting requirements of Company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and the RAG issued by Ofwat.

The purpose of Condition F is to ensure that:

- the financial affairs of the appointed business can be assessed and reported on separately from other businesses and activities of the Company, as if its sole business consisted of being a water undertaker and sewerage undertaker having its equity share capital listed on the International Stock Exchange of United Kingdom and Republic of Ireland Ltd;
- information on revenues, costs, assets and liabilities attributable to specified activities of the appointed business can be provided and reported on;
- transactions between the appointed business and any other business or activity of the Company or any, associated company can be assessed and reported on;
- there is no cross-subsidy between the appointed business and any other business of the Company or between the appointed business and any associated company;
- the transfer of assets (including the provision of financial support) to associated companies does not adversely affect the Company's ability to carry out its functions as a water and sewerage undertaker or to finance those activities;
- Ofwat is furnished with regular accounting and other information to enable it to compare the financial position and performance (including, without limitation, costs) of the appointed business and of so much of the respective businesses and activities of all other undertakers holding appointments made under Chapter I of Part II of the Water Industry Act 1991 as consists of the carrying out of the Regulated Activities; and
- the appointee has at its disposal sufficient financial and managerial resources to carry out the regulated activities (including the investment programme necessary to fulfil its obligation under the appointment).

In the opinion of the directors, the Company was in compliance with Condition F of the instrument of Appointment at the end of the financial year.

Condition K: Ring fencing and disposal of land

Paragraph 3.1 of Condition K of the Instrument of Appointment requires that the Company shall at all times ensure, so far as reasonably practicable, that if a special administration order were made in respect of the Company, the Company would have sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the company that the purposes of such order could be achieved.

In the opinion of the directors, the Company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment at the end of the financial year.

Definitions of appointed and non-appointed business

The appointed business comprises the regulated activities of the Company as defined in Condition A of its license. These are activities necessary in order for a company to fulfill the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

In addition to its duties as an appointed business, the Company also undertakes certain non-appointed activities. All of these activities are conducted on an arms lengths basis from the appointed business. These activities include third-party discharges to sewage treatment works, gravel sales and other commercial activities including property searches and Cess treatment (treatment of waste from private receptacles not linked to the network). The results of the non-appointed business include charitable donations. These donations are considered to be made out of shareholders' interests and are not funded by customers.

Statement of directors' responsibilities for regulatory information

Further to the requirements of Company law, the directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This requires the directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and methods of planning and internal control for the next 12 months;
- confirm that, in their opinion, the Company has sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company;
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F and RAG 5.05.

These responsibilities are additional to those already set out in the statutory financial statements.

Disclosure of information to the auditor

The directors who held office at the date of approval of this directors' report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each director has taken all the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

A glossary of regulatory terms is shown on pages 167 to 168.

Historic cost profit and loss account

For the year ended 31 March

	Appointed business £m	2015 Non- Appointed business £m	Total £m	Appointed business £m	2014 Non- Appointed business £m	Total £m
Turnover	1,998.6	28.2	2,026.8	1,912.5	31.2	1,943.7
Operating costs	(823.6)	(10.3)	(833.9)	(782.7)	(9.8)	(792.5)
Infrastructure renewals charge	(158.6)	-	(158.6)	(163.1)	-	(163.1)
Historical cost depreciation	(343.7)	(5.7)	(349.4)	(332.1)	(0.9)	(333.0)
Operating income	16.4	-	16.4	22.0	-	22.0
Operating profit	689.1	12.2	701.3	656.6	20.5	677.1
Other income	2.1	(2.1)	-	2.3	(2.3)	-
Net interest payable	(365.3)	(0.2)	(365.5)	(417.7)	(0.1)	(417.8)
Profit on ordinary activities before taxation	325.9	9.9	335.8	241.2	18.1	259.3
Taxation: - current	(58.1)	(3.5)	(61.6)	9.1	(4.2)	4.9
- deferred	61.0	0.9	61.9	82.2	0.3	82.5
Profit on ordinary activities after taxation	328.8	7.3	336.1	332.5	14.2	346.7
Dividends	(162.6)	(7.3)	(169.9)	(194.3)	(14.2)	(208.5)
Retained profit for the year	166.2	-	166.2	138.2	-	138.2

All of the Company's activities above are derived from continuing activities.

Statement of total recognised gains and losses (historical cost accounting) for appointed business

For the year ended 31 March

	2015 £m	2014 £m
Profit for the year	328.8	332.5
Actuarial (loss)/gain on post-employment plans	(149.3)	41.8
Deferred tax relating to actuarial (loss)/gain	29.7	(21.7)
Total recognised gains for the year	209.2	352.6

Historic cost balance sheet

As at 31 March

	Appointed business £m	2015 Non- Appointed business £m	Total £m	Appointed business £m	2014 Non- Appointed business £m	Total £m
Fixed assets						
Tangible assets	10,662.2	3.2	10,665.4	9,842.6	7.8	9,850.4
Investments						
- loan to group company	2,115.0	-	2,115.0	2,015.0	-	2,015.0
- other	0.1	-	0.1	0.1	-	0.1
Total fixed assets	12,777.3	3.2	12,780.5	11,857.7	7.8	11,865.5
Infrastructure renewals prepayment	54.3	-	54.3	64.5	-	64.5
Other current assets	1,390.5	0.9	1,391.4	1,458.4	-	1,458.4
Creditors: amounts falling due within one year:						
Borrowings	(466.0)	-	(466.0)	(416.2)	-	(416.2)
Other creditors	(1,119.7)	(4.1)	(1,123.8)	(902.5)	(7.5)	(910.0)
Total creditors: amounts falling due within one year	(1,585.7)	(4.1)	(1,589.8)	(1,318.7)	(7.5)	(1,326.2)
Net current (liabilities)/assets	(140.9)	(3.2)	(144.1)	204.2	(7.5)	196.7
Total assets less current liabilities	12,636.4	-	12,636.4	12,061.9	0.3	12,062.2
Creditors: amounts falling due after more than one year						
Borrowings	(9,854.0)	-	(9,854.0)	(9,357.7)	-	(9,357.7)
Other creditors	(40.9)	-	(40.9)	(41.9)	-	(41.9)
Total creditors: amounts falling due after more than one year	(9,894.9)	-	(9,894.9)	(9,399.6)	-	(9,399.6)
Provisions for liabilities and charges	(1,302.9)	-	(1,302.9)	(1,270.3)	(0.3)	(1,270.6)
Net assets employed	1,438.6	-	1,438.6	1,392.0	-	1,392.0
Capital and reserves	1,438.6	-	1,438.6	1,392.0	-	1,392.0

Historic cost reconciliation between statutory and regulatory accounts – Profit and loss account

	2015 Statutory accounts £m	Regulatory accounts £m	Explanation
Profit and loss account			
Turnover	2,026.8	2,026.8	There is no difference between statutory and regulatory reported turnover.
Operating costs	(826.6)	(833.9)	The difference of (£7.3m) is due to the following: 1. Regulatory operating costs include (£6.9m) of "other operating income", as detailed below, which is shown as a separate caption within the statutory profit and loss account. 2. Regulatory operating costs include £6.6m of infrastructure renewals charge in respect of customer side leakage pipe replacement. This reclassification is necessary to ensure compliance with RAG 4.04, whereby all customer side leakage should be treated as operating costs within the regulatory accounts. This reclassification has no impact on operating profit. 3. Regulatory operating costs exclude deferred grants of £7.6m, which has been netted off against depreciation.
Infrastructure renewals charge	(165.2)	(158.6)	See point 2 above.
Depreciation	(357.0)	(349.4)	See point 3 above.
Total operating costs	(1,348.8)	(1,342.0)	The difference of £6.9m relates to "other operating income" shown as a separate caption in the statutory accounts, but included within operating costs within the regulatory accounts, see below and point 1 above.
Other operating income	6.9	-	The difference of £6.9m is receipt of income from energy generation, included in operating costs within the regulatory accounts.
Operating income	-	16.4	Profit on sale of fixed assets of £16.4m is shown above operating profit within the regulatory accounts, but below operating profit within the statutory accounts as profit on sale of fixed assets.
Operating profit	684.9	701.3	See explanation for operating income above.
Profit on sale of fixed assets	16.4	-	See explanation for operating income above.
Profit before taxation	335.8	335.8	Profit before taxation is unaffected by the above reclassifications.

Historic cost reconciliation between statutory and regulatory accounts – Balance sheet

	2015 Statutory accounts £m	Regulatory accounts £m	Explanation
Balance sheet			
Fixed assets			
Tangible fixed assets (net book value)	10,719.7	10,665.4	The difference of £54.3m is due to the infrastructure renewals prepayment excluded from the fixed assets net book value in the regulatory accounts. Section 1.4.6 of RAG 1.05 disappplies elements of FRS 15, for regulatory accounting purposes, whereby the presentation of the difference between IRE and IRC is classified as an infrastructure renewals prepayment in these regulatory financial statements. For more detail see page 140.
Investments – loan to group company	-	2,115.0	A loan to the immediate parent company, Thames Water Utilities Holdings Limited of £2,015.0m and a loan to an immediate subsidiary, Thames Water Cayman Finance Limited of £100.0m are classified as an investment within the regulatory accounts, but classified as a debtor: amounts falling due after more than one year within the statutory financial statements. This difference in presentation is in accordance with RAG 3.07 and RAG 4.04.
Debtors : amount falling due after more than one year	2,115.0	-	As above.
Current Assets			
Infrastructure renewals prepayment	-	54.3	The difference of £54.3m reflects the application of section 1.4.6 of RAG 1.05. See explanation for tangible fixed assets above.
Short-term and long-term creditors			
Deferred income – grants and contributions	(141.6)	-	Deferred grants and contributions of £141.6m within the statutory accounts are analysed between creditors: amounts falling due within one year (£16.9m) and creditors: amounts falling due after more than one year (£124.7m). This is in contrast to the regulatory accounts, which shows total deferred grants and contributions within provisions for liabilities and charges. This difference in presentation is in accordance with RAG 3.07 and RAG 4.04.
Net pension liabilities	(249.5)	-	Net pension liabilities are shown as a separate caption within the statutory accounts, but are included within provisions within the regulatory accounts. This difference in presentation is in accordance with RAG 3.07 and RAG 4.04.
Provision for liabilities and charges	(911.8)	(1,302.9)	As above.

Additional information required by the regulator

Basis of preparation

In accordance with Condition F of the Instrument of Appointment, these regulatory financial statements have been prepared in order to show separately, in respect of the appointed business, non-appointed business and total business, a profit and loss account and balance sheet prepared on a historical cost basis.

In accordance with the requirements of Financial Reporting Standard ("FRS") 18, the directors review the Company's accounting policies to ensure that they remain the most appropriate to its particular circumstances for the purpose of giving a true and fair view.

The regulatory financial statements have been prepared in accordance with the historical cost convention and applicable UK accounting standards except for:

- (i) the classification of profit on the sale of fixed assets as explained in note (a) under Historic cost accounting policies below;
- (ii) the treatment of infrastructure renewals expenditure as explained in note (b) on page 135 below; and
- (iii) in accordance with the Companies Act 2006 except for the treatment of certain capital contributions as explained in note (c) on page 135 below.

These exceptions are necessary to comply with regulatory reporting requirements, within RAG 3.07 and RAG 4.04 as laid down by Ofwat.

Accounting separation - methodology

The Company has also produced an accounting separation methodology statement in respect of the operating costs and associated fixed asset book values in notes on pages 146 to 151. This separate statement has been published and is available on the Thames Water website, <http://www.thameswater.co.uk>.

This methodology statement details the assumptions used in the allocation of costs into the relevant accounting separation business units in accordance with RAG 4.04, and also includes a summary of the Company's capitalisation policy. A definition of household and non-household properties is also included within the methodology statement.

The Company's application of the capitalisation policy has remained unchanged from the prior year. The Company had, however, changed the application of the capitalisation policy in 2014 to enable the capitalisation of the replacement and relining of customer side pipes as IRE, as detailed in the 'Changes to methodology section' below. This change in the application of the capitalisation policy remains in place in 2015.

Basis of attribution and allocation

Financial information within the Company's finance system ("SAP") is recorded by expenditure type within a cost centre. Where possible, costs are attributed at the lowest level within the cost centre hierarchy i.e. the relevant process level appropriate to the type of cost and accounting separation unit. However, certain costs are recorded at a higher level in the cost centre hierarchy where they do not specifically relate to a process or if the cost is a support related cost.

The cost centre hierarchy represents the management reporting and responsibility of the business, based on an Operating Company ("OpCo") structure. However, for the preparation and reporting of operating costs (see note 3 of these regulatory accounts), an alternate structure is maintained within the Company's regulatory model.

We have reviewed and updated our allocation process to facilitate reporting at an upstream services level and reflect improvements in our operating systems. The system and process improvements were undertaken to ensure we can produce the tables required by Ofwat. Refer to the accounting separation methodology statement (published on our website, <http://www.thameswater.co.uk>) for more detailed information on the allocation process.

Changes to methodology and basis of cost allocation

Management continually reviews its accounting separation methodology as part of its continuous improvement process for regulatory reporting.

Changes to methodology as a result of management review

General and support activities

During the period, management have reviewed the basis of cost allocation for the following areas of expenditure:

General and support activity	2014/15 methodology	2013/14 methodology
General management	FTE's	Pro-rata to total direct costs
Finance	FTE's	Pro-rata to total direct costs
Human resources	FTE's	Pro-rata to direct employment costs

The Company considers that the 2014/15 basis of cost allocation more appropriately reflects the nature of the costs incurred.

Following the restructure of the business on 1st April 2015 we will again be reviewing our cost allocation methodologies to ensure they fully reflect the new business structure, are consistent with industry practice and comply with Ofwat and legislative requirements.

Pumping stations

The Company has reviewed the methodology of the basis of cost allocation of its pumping stations within sewerage services. Previously pumping station costs have been allocated to sewerage collection, irrespective of the location or classification of the pumping station. Following the review, the Company's classification of pumping stations is as follows:

- Terminal pumping stations – the last station on the network that pumps sewage directly into a sewage treatment works ("STW") for treatment, which may be inside or outside the STW boundary. These terminal pumping stations have been classified as sewage treatment, consistent with the Company's compliance with Ofwat's PR14 guidance;
- Network pumping stations – stations that pump sewage along the sewer network. These pumping stations have been classified as sewage collection; and
- Private pumping stations – there are four private pumping stations that have been adopted early by the Company; these are classified as sewage collection as these pump directly into the sewer network.

This change in methodology is consistent with our PR14 business plan submitted to Ofwat in June 2014.

There are no other changes to the methodology or any changes in management judgment that the Company has used in the accounting separation tables, see note 3 pages 146 to 148, other than those noted above.

Historic cost accounting policies

The same accounting policies as those used for the prior period ended 31 March 2014 have been applied in these current financial statements.

(a) Profit on sale of fixed assets

Profit and loss on sale of fixed assets has been included within operating profit, as operating income, in accordance with RAG 3.07. This represents a departure from FRS 3 as adopted in the Company's 31 March 2015 statutory financial statements in which profit and loss on sale of fixed assets is shown separately after operating profit.

(b) Infrastructure renewals accounting

Infrastructure renewals accounting is used for long-life network assets and is based on the operational assessment of activity needed to maintain the serviceability of the network over a medium to long-term period. Accordingly Infrastructure renewals expenditure ("IRE") net of Infrastructure Renewals Charge ("IRC") has been accounted for in accordance with RAG 3.07.

The Company's statutory financial statements disclose IRE net of IRC in accordance with FRS 15 "Tangible Fixed Assets" which requires this amount to be included within fixed assets. However, in accordance with RAG 3.07 the Company reports IRE net of IRC within the regulatory historic cost balance sheet as 'infrastructure renewals prepayment' for the year ended 31 March 2015, see 'Adjustment for infrastructure renewals accounting' table on page 140, for details of the movement in IRE and IRC in the year. This table shows the IRE spend of £155.0m compared to an IRC profit and loss account movement of £165.2m, resulting in a reduction of the opening prepayment position from £64.5m to £54.3m as at 31 March 2015.

(c) Capital contributions

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 2006, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the latter 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 because infrastructure assets do not have a determinable finite life. Accordingly, related capital contributions are not recognised in the profit and loss account.

(d) Attribution of costs

All direct costs are attributed immediately to the activity to which they relate, either within the appointed business or non-appointed business. Indirect costs and overheads are apportioned on an appropriate basis to reflect the incidence of such costs.

(e) Revenue recognition

Turnover represents the fair value of the income receivable from the regulated activities in the ordinary course of business for water and sewerage services provided and are recognised in accordance with FRS 5 "Reporting the Substance of Transactions". Turnover is recognised excluding value added tax and at the time of delivery of the service. Should the Company consider that the criteria for revenue recognition are not met at the time of a transaction, recognition of the associated turnover would be deferred until such time as the criteria have subsequently been met. No adjustment is made to turnover for estimated bad debt charges. These are charged to operating expenses.

For metered customers, turnover includes accrued income which comprises an estimated sales value of water supplied and waste water charges to customers between the date of the last meter reading and the period end, exclusive of value added tax. Historical data is used to generate estimated usage by active customer accounts; where this is not available the historical data is sampled to generate an estimate by tariff type for each account. Where there is evidence that exceptional circumstances such as weather conditions have caused historical usage to be out of alignment with current consumption trends, management will investigate and make an adjustment to accrued income if it considers that this will provide a true and fair view. When actual results differ from estimated usage, turnover is adjusted in the period for which the revision to the estimates is determined. The amounts recognised in turnover, but unbilled at the balance sheet date, are recorded as a prepayment.

Where an invoice has been raised or payment made, but the service has not been provided in the year this will be treated as a payment in advance. This will not be recognised within the current year's turnover but will instead be recognised within creditors.

When a new property is connected to the Company's networks, an estimate is made of the sales value of water supplied and waste water charges to customers between the date of connection and the period end.

For customers who do not have a meter, the amount billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is apportioned in turnover over the period to which the bill relates.

Additional charges added to a customer's account as a result of debt recovery activity, such as court costs or solicitors' fees, are not recognised in turnover. They are recognised as favourable operating costs when payment is received. There is no difference between the revenue recognition policies in the statutory financial statements and in these regulatory accounts.

Charging policy

Water and sewerage charges fall into the following three categories:

- 1) charges which are payable in full
- 2) charges which are payable in part
- 3) not chargeable (void properties)

The circumstances in which each of the above applies are set out below. All of the charges covered in parts 1 and 2 are included in turnover.

1) Charges payable in full

Charges are payable in full in the following circumstances.

- a) Occupied and furnished

Water (and sewerage) charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

- b) Unoccupied and furnished

Water (and sewerage) charges are payable in full on unoccupied, furnished premises. These include properties:

- left with bedding, a desk or other furniture;
- used for multiple occupation with shared facilities;
- used as holiday, student, hostel or other accommodation; and
- used for short-term occupation or letting where the occupation or term of tenancy is less than 6 months.

Exceptions to this, where water (and sewerage) charges are not payable, include where the customer is:

- in a care home;
- in long-term hospitalisation;
- in prison;
- overseas long-term; or
- in the event of the death of the customer.

- c) Unoccupied and unfurnished

Water (and sewerage) charges are payable in full on unoccupied, unfurnished premises where water is being consumed. This includes:

- premises where renovation, redecoration or building work is being undertaken,
- premises being used as storage,
- premises not normally regarded as being occupied such as cattle troughs and car parks; and
- non-household agricultural properties.

2) Charges payable in part

The following charges are payable only in certain circumstances:

- a) Metered standing charges

Charges are payable on unoccupied, metered properties which are still connected

- b) Surface water charge

Charges are payable on unmeasured properties which are temporarily disconnected

- c) Sewerage unmeasured tariff

Charges are payable on unmeasured, occupied properties where the water supply is disconnected but sewerage is still provided

- d) Surface water and highway drainage

Charges are payable on furnished properties where the water supply is disconnected.

3) Not chargeable

Properties which are unoccupied, unfurnished and disconnected are not chargeable for water and sewerage, therefore no billing is raised and no turnover recognised in respect of these properties.

Occupied properties policy

An occupier is any person who owns a premises or who has agreed with the Company to pay water and sewerage services in respect of the premises. No bills are raised in the name of "the occupier", other than in the circumstances outlined in the 'Unoccupied properties policy' section below. The property management process is followed to identify whether the property is occupied or not.

The property management process consists of the following:

- Physical inspections;
- Mailings;
- Customer contacts;
- Meter reading for metered properties; and
- Land registry checks.

When a new customer is identified they are required to provide documentary evidence to establish the date that they became responsible for water and sewerage charges at the property. This is normally the date on which they moved into the property. The new customer is charged retrospectively from the date at which they became responsible for water and sewerage charges of the premises.

Unoccupied properties policy

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as an unoccupied a property must meet at least one of the following criteria:

- A new property has been connected but is empty and unfurnished;
- The Company has been informed that the customer has left the property; it is unfurnished and not expected to be reoccupied immediately;
- It has been disconnected following a customer request;
- The identity of the customer is unknown; or
- The Company has been informed that the customer is in a care home, in long term hospitalisation, in prison or overseas long term.

The Company only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Company identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Company has not identified an occupant within 6 months the bill is cancelled and the property is classified as empty.

The Company has a process for dealing with empty properties. When a property is classified as empty, a defined process is followed to verify when the property becomes occupied and/or obtain the name of the customer in order to initiate billing. The empty property process comprises a number of steps which include using external and internal information for desk-top research to confirm the property status (occupied/empty) and, where possible, to identify the occupier name.

Where this is unavailable the Company also undertakes physical visits to a property to confirm whether the property is empty or occupied, and if possible confirm the name of the occupier. If the occupier name is not obtained at point of physical visit the property will remain classified as empty and a subsequent review is re-started after 1 to 6 months. If these steps confirm that a property appears to be empty then the supply may be turned off.

The property will only cease to be classified as empty when a named customer is identified and billed. The Company does not recognise income in respect of empty properties. If the Company has turned off the supply of water at the mains to a property at a customer's request then water supply charges are not payable.

A customer may request the supply to be turned off in instances such as the property is to be demolished or where a house previously converted into flats (and additional supplies made) is to be converted back into a house.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover. If the developer is no longer responsible for the property and no new occupier has been identified the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Disconnections policy

Premises listed in Schedule 4A of the Water Industry Act 1991 (eg. any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges. However, the following provisions do apply in respect of any disconnections:

- If the water supply to any premises is disconnected for any reason, but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected, in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied.
- If it is found subsequently that the premises were occupied for any period when we were advised that the premises would be unoccupied, the appropriate Sewerage Unmeasured Tariff will then apply to that period, appropriate retrospective bills are raised and revenue recognised at that point.
- In the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence and revenue be recognised. Occupier is defined to include any person who owns premises as set out in the 'Occupied properties policy' above and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (e.g. a Bulk Meter Agreement).

(f) Provision for bad debt

The Company's bad and doubtful debts provision policy has remained unchanged and has been consistently applied in the current and prior years.

The bad debt provision is charged to operating costs to reflect the Company's assessment of the risk of non-recoverability of debtors. It is calculated by applying expected collection rates to debts outstanding at the end of the accounting period. These collection rates take into account the age of the debt and type of debt.

The bad debt provision also takes into account the recoverability of debts which will ultimately be cancelled and may or may not be rebilled and of debts which have not yet been billed, but are part of the metered sales accrual.

Bad debt provisioning rates are updated annually to reflect the latest collection performance data from the Company's billing system. All debt greater than 4 years old is fully provided for. Higher provisioning percentages are applied to older categories of debt. The actual amounts recovered may differ from the estimated levels of recovery which could impact on information based on operating results. Future expected performance is also used to validate our provisions to ensure that use of historic performance will not result in a material misstatement.

We also provide for debts from Water Only Companies ("WOCs") who bill and collect for our sewage service on our behalf. Since detailed information about the debt is unavailable to us, we provide for the debt based on the historical write-offs. This provisioning methodology has remained unchanged since last year.

The Company only raises bills in the name of the "occupier" when it has evidence that a property is occupied but cannot confirm the name of the occupier. When the Company identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Company has not identified an unmeasured occupant within 6 months the bill is cancelled and the property is classified as empty. As such the level of "To the occupier" billing is very small at any given point. As the bad debt provision is based on overall information from the Company's billing system rather than specific debts, we do not specifically provide for debt such as "billed in the name of the Occupier" however small.

(g) Bad & doubtful debt write-off policy

The Company's bad debt write-off policy has remained unchanged and has been consistently applied in the current year compared with the previous year.

There has been an increase in the level of write off from £73.5m for the year ended 31 March 2014 to £75.2m for the year ended 31 March 2015. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect.

Situations where this may arise and where debt may be written off are as follows:

- Where the customer has absconded without paying and strategies to trace their whereabouts and collect outstanding monies have been fully exhausted;
- Where the customer has died without leaving an estate or has left an insufficient estate on which to levy execution;
- Where the value of the debt makes it uneconomic to pursue – all debts of less than £5 are written off;
- Where the age of the debt exceeds the statute of limitations – all debts of greater than 6 years old are written off;
- Where county court proceedings and attempts to recover the debt by debt collection agencies (multiple in some cases) have proved unsuccessful including where the customer does not have any assets/has insufficient assets on which to levy execution; and
- Where the customer has been declared bankrupt, is in liquidation or is subject to insolvency proceedings or a debt relief order and no dividend has been or is likely to be received.

For debt to be written off there must be a legitimate charge against the debtor. If it is considered that part or all of the debt is incorrect or unsubstantiated, then such elements are dealt with by cancelling the original bill and rebilling the customer.

Reconciliation of tangible fixed assets shown in the statutory financial statements and their regulatory financial equivalents

	Other assets £m	Infra- structure assets £m	Total £m
Cost			
At 31 March 2015 as per statutory accounts (FRS 15)	11,716.8	5,630.7	17,347.5
Infrastructure renewals expenditure capitalised in previous years	-	(1,568.6)	(1,568.6)
Infrastructure renewals expenditure capitalised in the year	-	(155.0)	(155.0)
Disposals in prior years	-	0.9	0.9
Cost at 31 March 2015 per regulatory accounts (RAG 3)	11,716.8	3,908.0	15,624.8
Capital contributions			
Contributions at 31 March 2015 as per statutory accounts (FRS 15)	-	(783.6)	(783.6)
Contributions at 31 March 2015 as per regulatory accounts (RAG 3)	-	(783.6)	(783.6)
Depreciation			
At 31 March 2015 as per statutory accounts (FRS 15)	4,175.8	1,668.4	5,844.2
Infrastructure renewals charge in previous years	-	(1,504.1)	(1,504.1)
Infrastructure renewals charge in the year	-	(165.2)	(165.2)
Disposals in prior years	-	0.9	0.9
Depreciation at 31 March 2015 per regulatory accounts (RAG 3)	4,175.8	-	4,175.8
Net book value			
At 31 March 2015 as per statutory accounts (FRS 15)	7,541.0	3,178.7	10,719.7
Adjustment for infrastructure renewals accounting (see below)	-	(54.3)	(54.3)
At 31 March 2015 per regulatory accounts (RAG 3)	7,541.0	3,124.4	10,665.4

Adjustment for infrastructure renewals accounting:

	£m
Net infrastructure renewals reclassification:	
Infrastructure renewals prepayment at 31 March 2014	64.5
Infrastructure renewals expenditure capitalised in the year	155.0
Infrastructure renewals charge in the year – see analysis below	(165.2)
Infrastructure renewals prepayment at 31 March 2015	54.3
Infrastructure renewals charge in the year:	
Shown within Infrastructure renewals charge in the historical profit and loss account	(158.6)
Shown within operating costs in the historical profit and loss account (i)	(6.6)
Total infrastructure renewals charge in the year	(165.2)

(i) Management have reclassified £6.6m of infrastructure renewals charge to operating costs in respect of customer side leakage pipe replacement. This reclassification is necessary to ensure compliance with RAG 4.04, whereby all customer side leakage should be treated as operating costs within the regulatory accounts. This reclassification has no impact on operating profit.

Current cost profit and loss for the appointed business

For the year ended 31 March

	Note	Water £m	2015 Sewerage £m	Total £m	Water £m	2014 Sewerage £m	Total £m
Turnover							
Unmeasured - household		508.9	523.9	1,032.8	497.6	508.1	1005.7
- non-household		7.6	8.1	15.7	7.4	7.5	14.9
Measured - household		218.3	295.8	514.1	208.6	271.9	480.5
- non-household		178.7	150.3	329.0	174.5	137.2	311.7
Trade effluent		-	8.2	8.2	-	8.4	8.4
Bulk supplies / intercompany payments		3.4	-	3.4	3.6	-	3.6
Other third party services (including non- potable water)		2.7	2.0	4.7	3.1	1.3	4.4
Other sources		42.9	47.8	90.7	40.4	42.9	83.3
Total turnover	2	962.5	1,036.1	1,998.6	935.2	977.3	1,912.5
Current cost operating costs - retail	3	(111.8)	(84.1)	(195.9)	(99.5)	(76.0)	(175.5)
Current cost operating costs – wholesale	3	(610.9)	(652.9)	(1,263.8)	(607.0)	(622.4)	(1,229.4)
Total current cost operating cost		(722.7)	(737.0)	(1,459.7)	(706.5)	(698.4)	(1,404.9)
Operating income		8.0	8.6	16.6	11.9	11.7	23.6
Working capital adjustment		1.2	1.3	2.5	4.0	3.9	7.9
Current cost operating profit		249.0	309.0	558.0	244.6	294.5	539.1
Other income		0.9	1.2	2.1	1.1	1.2	2.3
Net interest				(365.3)			(417.7)
Financing adjustment				18.5			60.2
Current cost profit before taxation				213.3			183.9
Net revenue movement out of tariff basket		1.2	2.3	3.5	0.5	0.2	0.7
Back billing amount identified				7.0			3.5

Current cost cash flow statement - Appointed business only

For the year ended 31 March

	2015 £m	2014 £m
Current cost operating profit	558.0	539.1
Working capital adjustment	(2.5)	(7.9)
Movement in working capital	55.1	18.6
Receipts from other income	2.1	2.3
Current cost depreciation net of deferred grants	477.5	459.2
Current cost profit on sale of fixed assets	(16.6)	(23.6)
Infrastructure renewals charge	165.2	163.1
Difference between pension charge and cash contribution	(37.2)	(22.5)
Other non-cash items (including movement in provisions)	17.8	9.7
Net cash inflow from operating activities	1,219.4	1,138.0
Returns on investments and servicing of finance	(273.7)	(250.4)
Taxation received	4.5	3.3
Capital expenditure and financial investment		
Gross cost of purchased fixed assets	(1,156.0)	(998.9)
Receipt of grants and contributions	58.3	49.7
Infrastructure renewals expenditure	(155.8)	(167.6)
Disposal of fixed assets	17.3	16.0
Movement on long-term group loans to group companies	(100.0)	-
Net cash outflow from investing activities	(1,336.2)	(1,100.8)
Equity dividends paid	(162.5)	(194.3)
Net cash inflow from management of liquid resources	69.0	(108.5)
Net cash outflow before financing	(479.5)	(512.7)
Net cash inflow from financing	482.8	586.3
Increase in cash	3.3	73.6

Notes to the current cost accounts

1. Current cost accounting policies

These financial statements have been prepared in accordance with guidance issued by Ofwat for modified real term financial statements suitable for regulation in the water industry. They measure profitability on the basis of real financial capital maintenance, in the context of which assets are valued at their current cost value to the business.

These financial statements have been prepared in accordance with applicable RAG. In respect of cost allocations, the Company has continued to allocate costs by cost centre as in previous years rather than on an activity based method, which is the preferred system under RAG 3.07.

The principal current cost accounting policies used are the same as those adopted in the regulatory historical cost financial statements, except as set out below.

Accounting policies

The same accounting policies, including the Company's capitalisation policy, used for the year ended 31 March 2014 have been applied in these financial statements.

(a) Valuation bases for determining the current cost of fixed assets

(i) Tangible fixed assets

The assets have been valued in accordance with RAG 1.05, on a Modern Equivalent Asset ("MEA") basis. Depreciation is charged over the estimated remaining economic life of the asset. Infrastructure assets are not depreciated.

Additions during the year are taken at their historical cost values. Disposals are stated at the value of the replacement assets.

• Land and buildings

Non-specialised operational properties are valued on the basis of estimated open market value for existing use at 31 March 1990, indexed since that date by the movement in the RPI, except for certain properties which have been valued at 31 March 1995 by professionally qualified employees of the Company.

Specialised operational properties acquired since 31 March 1990 are valued at the lower of depreciated replacement cost and recoverable amount, restated annually (between periodic reviews of replacement costs), by adjusting for inflation as measured by changes in the RPI.

• Infrastructure assets

Mains, sewers, impounding and pumped raw water storage reservoirs, and sludge pipelines are stated at their MEA value, in the manner described above. Due to the nature of these assets, the MEA value is calculated based on the length of sewer or pipe, or the capacity of the asset.

• Specialised/non-specialised assets

Specialised operational assets include those assets, used routinely in operating the business, which are directly attributable to water supply or sewerage services.

Non-specialised assets are those assets used routinely within the business, which cannot be directly attributed to either part of the business.

• Surplus land

Surplus land is valued at recoverable amounts less, where appropriate, that part of any proceeds to be passed on to customers under Condition B of the Licence.

(ii) Capital contributions

All third party capital contributions received since 31 March 1990 are carried forward as deferred income to the extent that any balance has not been credited to revenue, or deducted from net operating assets in the case of infrastructure assets. The balance carried forward is restated in accordance with the change in the RPI for the year.

(b) Real finance capital maintenance adjustments

The following adjustments are made to historical cost profit in order to arrive at profit after the maintenance of financial capital in real terms.

(i) Depreciation adjustment

This is the difference between depreciation based on the current cost value of assets in these financial statements and depreciation charged in arriving at historical cost profit.

(ii) Working capital adjustment

This is calculated by applying the change in the RPI over the year to the working capital of the Company at the beginning of the year.

(iii) Disposal of fixed assets adjustment

This is the difference between the net book values of asset disposals in the current cost financial statements and their historical cost equivalent values as shown in the historical cost financial statements.

(iv) Financing adjustment

This represents the impact of general inflation on the Company's borrowings excluding index rate linked debt, and is calculated by applying the change in the RPI over the year to the opening balance of borrowings.

(c) Operating costs

In Note 3, on pages 146 to 148, most direct costs are specific either to water, sewerage or retail services. Where costs cannot be directly attributed to a sub function within these three services, an apportionment has been made on an appropriate basis, using the most accurate allocation method available as outlined in the Company's separately disclosed methodology statement.

2. Analysis of current cost turnover

Reconciliation of actual current cost turnover compared to Final Determination (FD)

Appointed turnover for the year ended 31 March 2015 of £1,998.6m is £5.5m less than the final determination target of £2,004.1m.

The reasons for this under performance against the final determination are set out in the reconciliation below.

	2015 £m	2014 £m
Final Determination	1,879.9	1,799.2
Impact of inflation	124.2	116.2
Final Determination at 2014/15 prices	2,004.1	1,915.4
<i>Increases/(decreases) in revenue relative to the FD:</i>		
Large users and special agreements	(1.3)	(2.6)
Rechargeable works and other income	(2.9)	(4.5)
Main charges income	(0.8)	4.6
Other movements	(0.5)	(0.4)
Total movements	(5.5)	(2.9)
Actual outturn	1,998.6	1,912.5

Inflation represents the difference between actual inflation based on RPI as at 30 November 2014, applicable for the current period, and inflation assumed in the final determination.

3. Operating costs (wholesale business only) for year ended 31 March 2015

Water Services

	Water Resources £m	Raw water distribution £m	Water Treatment £m	Treated Water distribution £m	Total £m
Operating expenditure					
Power	8.7	7.2	25.1	9.1	50.1
Service charges	(0.8)	-	0.1	-	(0.7)
Bulk supply imports	0.2	-	-	-	0.2
Other operating expenditure	15.8	6.6	42.6	135.7	200.7
Local authority rates	2.5	2.9	4.5	41.6	51.5
Total operating expenditure excluding third party services	26.4	16.7	72.3	186.4	301.8
Capital maintenance					
Infrastructure renewals charge	4.1	4.4	-	101.1	109.6
Current cost depreciation	11.7	3.2	106.8	78.7	200.4
Amortisation of deferred credits	(0.1)	(0.1)	(0.3)	(1.3)	(1.8)
Total capital maintenance excluding third party services	15.7	7.5	106.5	178.5	308.2
Third party services					
Operating expenditure	-	-	-	0.9	0.9
Total operating costs	42.1	24.2	178.8	365.8	610.9

3. Operating costs (wholesale business only) for year ended 31 March 2015

Sewerage Services

	Sewerage collection	Sewerage treatment	Sludge treatment	Sludge disposal	Total
	£m	£m	£m	£m	£m
Operating expenditure					
Power	9.7	45.9	7.3	-	62.9
Income treated as negative expenditure	-	(0.5)	(6.3)	-	(6.8)
Service charges	-	5.1	0.1	-	5.2
Bulk supply imports	-	0.2	0.1	-	0.3
Other operating expenditure	87.5	74.0	43.8	22.7	228.0
Local authority rates	-	27.4	9.5	1.3	38.2
Total operating expenditure excluding third party services	97.2	152.1	54.5	24.0	327.8
Capital maintenance					
Infrastructure renewals charge	48.9	-	-	-	48.9
Current cost depreciation	52.5	176.6	47.7	3.0	279.8
Amortisation of deferred credits	(8.1)	(0.6)	(0.1)	-	(8.8)
Total capital maintenance excluding third party services	93.3	176.0	47.6	3.0	319.9
Third party services					
Operating expenditure	3.7	1.5	-	-	5.2
Total operating costs	194.2	329.6	102.1	27.0	652.9

3. Operating costs (Retail business only) for year ended 31 March 2015

	Household £m	Non-household £m	Total £m
Operating expenditure - direct costs			
Customer services	41.5	5.3	46.8
Debt management	17.0	3.7	20.7
Doubtful debts	65.3	6.4	71.7
Services to developers	-	1.6	1.6
Meter reading	6.7	3.4	10.1
Other operating expenditure	32.4	4.3	36.7
Local authority rates	0.3	-	0.3
Total operating expenditure	163.2	24.7	187.9
Capital maintenance			
Current cost depreciation	7.5	0.5	8.0
Total capital maintenance	7.5	0.5	8.0
Total operating costs	170.7	25.2	195.9
Debt written off	67.6	7.6	75.2

Total Services				
	Water £m	Waste £m	Retail £m	Total £m
Operating expenditure	301.8	327.8	187.9	817.5
Third party operating expenditure	0.9	5.2	-	6.1
Total operating expenditure	302.7	333.0	187.9	823.6
Capital maintenance				
- Infrastructure renewals charge	109.6	48.9	-	158.5
- Current cost depreciation net of deferred grants	198.6	271.0	8.0	477.6
Total capital maintenance	308.2	319.9	8.0	636.1
Total operating costs	610.9	652.9	195.9	1,459.7

The above table is not a disclosure requirement under RAG 3.07; however the Company has chosen to disclose the above Total Services table voluntarily.

Current cost analysis of fixed assets

Water Services current cost fixed assets

	Water Resources £m	Raw Water Distribution £m	Water Treatment £m	Treated Water Distribution £m	Total £m
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	419.2	67.5	3,010.9	2,065.9	5,563.5
RPI adjustment	3.8	0.6	27.2	18.6	50.2
Disposals	(19.0)	(1.3)	(94.2)	(63.0)	(177.5)
Additions	6.4	6.4	125.3	124.0	262.1
At 31 March 2015	410.4	73.2	3,069.2	2,145.5	5,698.3
Depreciation					
At 1 April 2014	252.9	41.6	1,682.2	978.6	2,955.3
RPI adjustment	2.3	0.4	15.2	8.8	26.7
Disposals	(18.9)	(1.3)	(94.1)	(62.7)	(177.0)
Charge for year	11.7	3.2	106.8	78.7	200.4
At 31 March 2015	248.0	43.9	1,710.1	1,003.4	3,005.4
Net book amount at 31 March 2015	162.4	29.3	1,359.1	1,142.1	2,692.9
Net book amount at 1 April 2014	166.4	25.9	1,328.7	1,087.3	2,608.3
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	573.7	1,293.2	0.2	11,196.4	13,063.5
RPI adjustment	5.2	11.7	-	101.1	118.0
Disposals	-	-	-	(28.5)	(28.5)
Additions	3.9	1.7	-	43.8	49.4
At 31 March 2015	582.8	1,306.6	0.2	11,312.8	13,202.4

Note: The disposal of £28.5m (2014: £28.9m) of infrastructure assets within Treated Water Distribution, shown above, relates to the MEA value of the length of main abandoned as a result of the Victorian mains replacement programme.

Sewerage Services current cost fixed assets

	Sewage collection £m	Sewage treatment £m	Sludge treatment £m	Sludge disposal £m	Total £m
Non-Infrastructure assets					
Gross replacement cost					
At 1 April 2014	2,495.7	6,233.0	1,247.9	112.3	10,088.9
RPI adjustment	22.5	56.2	11.3	1.0	91.0
Disposals	(29.6)	(132.4)	(47.5)	-	(209.5)
Additions	274.8	181.8	83.3	6.9	546.8
At 31 March 2015	2,763.4	6,338.6	1,295.0	120.2	10,517.2
Depreciation					
At 1 April 2014	1,394.6	3,470.0	509.1	29.6	5,403.3
RPI adjustment	12.6	31.3	4.6	0.3	48.8
Disposals	(29.5)	(132.1)	(47.4)	-	(209.0)
Charge for year	52.5	176.6	47.7	3.0	279.8
At 31 March 2015	1,430.2	3,545.8	514.0	32.9	5,522.9
Net book amount at 31 March 2015	1,333.2	2,792.8	781.0	87.3	4,994.3
Net book amount at 1 April 2014	1,101.1	2,763.0	738.8	82.7	4,685.6
Infrastructure assets					
Gross replacement cost					
At 1 April 2014	80,779.1	23.4	3.2	-	80,805.7
RPI adjustment	729.2	0.2	-	-	729.4
Additions	348.5	-	-	-	348.5
At 31 March 2015	81,856.8	23.6	3.2	-	81,883.6

Retail current cost fixed assets

	Household £m	Non-household £m	Total £m
Non-Infrastructure assets			
Gross replacement cost			
At 1 April 2014	150.1	11.3	161.4
RPI adjustment	1.4	0.1	1.5
Additions	11.6	0.9	12.5
At 31 March 2015	163.1	12.3	175.4
Depreciation			
At 1 April 2014	99.4	7.5	106.9
RPI adjustment	0.9	0.1	1.0
Charge for year	7.5	0.5	8.0
At 31 March 2015	107.8	8.1	115.9
Net book amount at 31 March 2015	55.3	4.2	59.5
Net book amount at 31 March 2014	50.7	3.8	54.5

Analysis of capital expenditure, grants and land sales

	2015			2014		
	Gross	Grants & contributions	Net	Gross	Grants & contributions	Net
	£m	£m	£m	£m	£m	£m
Capital expenditure - water						
Base						
Infrastructure Renewals Expenditure	83.6	9.4	74.2	91.7	9.1	82.6
Maintenance non-infrastructure (MNI)	189.8	4.0	185.8	147.0	2.8	144.2
Enhancements						
Infrastructure enhancements	49.4	19.6	29.8	41.6	11.0	30.6
Non-infrastructure enhancements	77.5	-	77.5	56.2	-	56.2
Total capital expenditure - water	400.3	33.0	367.3	336.5	22.9	313.6
Grants and contributions - water						
Infrastructure charge receipts - new connections	-	12.1	-	-	10.4	-
Total grants and contributions - water	-	12.1	-	-	10.4	-
Capital expenditure - sewerage						
Base						
Infrastructure Renewals Expenditure	91.2	10.4	80.8	86.9	9.5	77.4
Maintenance non-infrastructure (MNI)	216.7	1.2	215.5	148.0	3.2	144.8
Enhancements						
Infrastructure enhancements	185.7	-	185.7	145.7	-	145.7
Non-infrastructure enhancements	171.3	-	171.3	254.9	-	254.9
Large projects capex						
Infrastructure enhancements	162.8	-	162.8	112.9	-	112.9
Non-infrastructure enhancements	166.1	-	166.1	88.3	-	88.3
Total capital expenditure - sewerage	993.8	11.6	982.2	836.7	12.7	824.0
Grants and contributions - sewerage						
Infrastructure charge receipts - new connections	-	15.8	-	-	12.2	-
Total grants and contributions - sewerage	-	15.8	-	-	12.2	-
Total capital expenditure	1,394.1	72.5	1,321.6	1,173.2	58.2	1,115.0
Land sales - Proceeds from disposals of protected land	-	19.8	-	-	5.6	-

Analysis of working capital – appointed business only

	2015 £m	2014 £m
Stocks	8.6	8.9
Trade debtors:		
- Measured household	80.7	76.0
- Unmeasured household	99.7	94.9
- Measured non-household	36.4	38.1
- Unmeasured non-household	3.2	5.6
- Other	8.2	9.6
Total trade debtors	228.2	224.2
Measured income accrual	176.9	171.4
Prepayments and other debtors	34.5	32.7
Trade creditors	(391.8)	(315.1)
Deferred income – customer advance receipts	(82.1)	(79.3)
Capital creditors	(207.3)	(146.4)
Accruals and other creditors	(194.2)	(210.1)
Total working capital	(427.2)	(313.7)
Total revenue outstanding		
- household	316.5	309.1
- non-household	69.5	78.9

Accruals and other creditors include capital receipts in advance of £21.0m (2014: £21.6m) and external interest liabilities of £11.5m (2014: £13.5m), which are both excluded from the movement in working capital as disclosed in the current cost cash flow statement on page 142. The inclusion of these 2 items in the above table is consistent with the disclosure of accruals and deferred income, within the "Creditors: amounts falling due within one year" in the statutory accounts.

Year on year movement on trade debtors

	2015 £m
Trade debtor balance as at 31 March 2014	224.2
<i>Movements:</i>	
K and RPI increase compared to 2013/14 K and RPI movement	16.5
Reduction in bad debt provision	5.8
Lower level of billing and write offs	(10.3)
Increase in cash collection	(8.1)
Other movements	0.1
Trade debtor balance as at 31 March 2015	228.2

Retrospective review of measured income accrual

Appointed turnover for the year ended 31 March 2014 included a measured income accrual of £134.7m. The value of billing subsequently recognised in the year ended 31 March 2015, for consumption in the prior year was £130.8m. This has resulted in a decrease in the current year's turnover due to the over-estimation of the prior year's measured income accrual as detailed below.

	2015 £m
Measured income accrual as at 31 March 2014	
Measured income accrual as at 31 March 2014	171.4
Less measured income accrual from Water Only Companies ("WOC's")	(36.7)
Measured income accrual net of WOC's	134.7
Amounts actually billed during the year	
Billing, matched and unwound	125.3
Additional billing, including transfers into measured from unmeasured	5.5
Total actually billed in the year	130.8
Amount of measured income accrual unwound compared to actually billed during the year	3.9

Analysis of net debt, gearing and interest costs

	Fixed rate £m	Floating rate £m	Index linked £m	Total £m
Borrowings	(4,444.7)	(633.9)	(5,241.5)	(10,320.1)
Investment				788.2
Cash				9.9
Net debt				(9,522.0)
Regulatory capital value - average				11,741.2
Gearing				81.1%
Full year equivalent nominal interest cost	(232.3)	(10.4)	(126.1)	(368.8)
Full year equivalent cash interest payment	(232.7)	(10.4)	(78.1)	(321.2)
Indicative interest rates				
Indicative weighted average nominal interest rate	5.23%	1.64%	2.41%	3.57%
Indicative weighted average cash interest rate	5.23%	1.64%	1.49%	3.11%
Weighted average years to maturity	26.3	2.8	24.9	24.2

The gearing presented above is calculated based on Ofwat methodology and hence differs to the figure presented on page 29 of the strategic report.

Non-financial information

For the year ended 31 March

	2015		2014	
	Water	Sewerage	Water	Sewerage
Number of properties ('000s)				
Households billed	3,410.4	5,242.6	3,384.3	5,208.4
Non-households billed	213.4	294.9	213.6	296.9
Household voids	66.4	120.4	67.9	116.7
Non-household voids	20.3	31.4	21.8	32.5
Per capita consumption (excluding supply pipe leakage) l/h/d*				
Unmeasured household	159.8	-	164.6	-
Measured household	130.6	-	136.9	-
Volume (Ml/d)**				
Bulk supply export	96.6	-	85.4	-
Bulk supply input	0.2	-	0.4	1.0
Distribution input	2,572.5	-	2,567.3	-

*litres per household per day ("l/h/d")

** Megalitres per day ("Ml/d")

Supply of trade

Introduction

RAG 3.07 requires the Company to disclose transactions with associated companies in accordance with the guidance provided in RAG 5.05. The following disclosures comply with RAG 3.07.

During the period there were no contracts in excess of 0.5% (£10.1m) of the Company's turnover with any subsidiary of the Kemble group of companies.

The Company, however, has chosen to disclose voluntarily all transactions with associated companies of Kemble Water Holdings Limited, and any transactions with companies, whereby certain directors of the Company have interests in the companies listed, in the Directors' interests table on page 157.

Services provided by the Company and recharged to the following associated companies

Service	Company	Turnover of associate in the period (£'000)	Terms of supply *	Value (£'000)
Support services	Thames Water Limited	-	At cost	1,706
Support services	Thames Water Property Services Limited	429	At cost	27
Site sales and support services	Kenet Properties Limited	3,132	Third party	1,293
Support services	Thames Water Commercial Services Limited	3,811	At cost	1,081
Building repairs	Thames Water Investments Limited	65	Third Party	627
				4,734

Services provided to the Company by the following associated companies

Service	Company	Turnover of associate in the period (£'000)	Terms of supply *	Value (£'000)
Management support	Thames Water Limited	0	At cost	65
Group relief tax paid	Thames Water Utilities Holdings Limited	0	Agreed cost	71,500
Property management	Thames Water Property Services Limited	429	Third party	361
Rechargeable work	Kenet Properties Limited	3,132	Third party	323
				72,249

Payments to companies in which Directors have interests

Service	Company	Terms of supply *	Value (£'000)
Advisory fees	Macquarie capital funds (Europe) Limited	Agreed cost	4,356
Subscription fees	Water UK	Agreed cost	432
Pollution tracing	Adler & Allan	Agreed cost	244
Rent of parking spaces	National Car Parks	At cost	181
Maps	Cranfield university	Third party	88
Postage	Royal Mail PLC	Agreed cost	55
Archaeological dig & analysis	Museum of London Archaeology	Agreed cost	23
Land management	The Crown Estate	Third party	16
Consultancy	IPP Associates Limited	Agreed cost	9
Smart metering	Arqiva Limited	Third party	5
Administration fee	Office of Communications	At cost	1
			5,410

* The terms of supply as shown in the above tables are defined as:

- At cost: where the cost incorporates a discount on the external market price;
- Agreed cost: the cost is based on contractual arrangements; and
- Third party: costs based on market testing

Directorships held in associated companies

The Company discloses the following information as part of its compliance with RAG 5.05, listing those directors of the Company who were also directors of the following Group companies during the year ended 31 March 2015 and up to the date of signing the Annual report and financial statements 2015:

Director/Alternate	Thames Water Utilities Limited	Thames Water Utilities Holdings Limited	Thames Water Limited	Kemble Water Finance Limited	Kemble Water Eurobond PLC	Kemble Water Holdings Limited	Thames Water Commercial Ventures Holdings Limited	Thames Water Commercial Ventures Finance Limited	Thames Water Procurement Limited
Executive Directors									
M Baggs	✓						✓	✓	
S Siddall	✓						✓	✓	✓
Non-Executive Directors									
Sir Peter Mason KBE - Chairman	✓	✓	✓	✓	✓	✓			
E Beckley	R -13/03/2015	✓	✓	✓	✓	✓			
G I W Parsons									
R Greenleaf (appointed 11/09/14)									
R Blomfield-Smith									
R Blomfield-Smith (re-appointed 27/04/2015)		✓	✓	✓	✓	✓			
P Noble									
D Rees (appointed 27/04/2015)		✓	✓	✓	✓	✓			
D Buffery									
D Buffery (re-appointed 13/03/2015)		✓	✓	✓	✓	✓			
D Rees (appointed 22/04/14)									
R J Bakker (appointed 13/03/2015)		✓	✓	✓	✓	✓			
C R Deacon	✓								
Dr P Dyer									
R Greenleaf (appointed 11/09/14)									
S R Eaves									
M C Hill									
R Greenleaf (appointed 13/03/2015)		✓	✓	✓	✓	✓			
C J Heathcote *	✓						A - 22/07/2014	A - 22/07/2014	
G I W Parsons									
R Greenleaf (appointed 11/09/2014)									
N Horler (appointed 14/04/2014)	✓								
G Lambert (appointed 15/10/2014)	✓	✓	✓	✓	✓	✓			
M C Hill (appointed 15/10/2014)									
P Noble (appointed 13/03/2015)		✓	✓	✓	✓	✓			
P Hofbauer (appointed 13/03/2015)		✓	✓	✓	✓	✓			
K Roseke (appointed 13/03/2015)									
D Rees (appointed 13/03/2015)									
D J Shah OBE	✓								
C Van Heijningen									
D Rees (appointed 01/01/2015)									
K Roseke (appointed 01/04/2014)									
C Van Heijningen (appointed 01/01/2015)									
L Webb	R -13/03/2015	✓	✓	✓	✓	✓			
C Pham	R -13/03/2015	✓	✓	✓	✓	✓			
Y Wang (appointed 01/07/2014)	R -13/03/2015	✓	✓	✓	✓	✓			
F Sheng (appointed 01/07/2014)	R -13/03/2015	✓	✓	✓	✓	✓			
D Xu									
F Sheng									

Key: R – resigned A – appointed

In addition, C J Heathcote was also a director of:

- Kemble Water Liberty Limited
- Kemble Water Structure Limited
- Kemble Water Investments Limited
- Kemble Water Limited
- Thames Water Holdings Limited

Thames Water Utilities Limited conducts its appointed business so as to ensure arm's length trading and avoidance of cross-subsidy in the spirit of Condition F of the Instrument of Appointment. No directorships are held by Thames Water Utilities Limited directors in circumstances which might, in practice, result in conflicts of interest in intra-group trading relationships.

Borrowings

All borrowings from the Company's wholly owned subsidiaries are disclosed in Note 18 to the statutory financial statements on page 113 of the Annual report and financial statements.

Dividends paid to associated undertakings

During the period, the Company paid interim dividends totalling £169.9m (2014: £208.5m) to Thames Water Utilities Holdings Limited.

Transfer of assets by or to the appointee

There was no transfer of assets or liabilities by or to the Company in excess of the materiality limit (2014: £nil).

Guarantees or other forms of security by the appointee

The Company, as part of the Whole Business Securitisation (WBS) capital structure, guarantees unconditionally and irrevocably all the borrowings and derivatives of Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited as listed on page 113.

Omissions of rights

There were no omissions of rights during the period.

Waiver of any consideration, remuneration or other payments by the appointee

There were no waivers of any consideration, remuneration or other payments by the appointee during the period.

Directors' Certificate under Condition F6A of the Company's Appointment

This is to certify that at their meeting on 4 June 2015 the directors of Thames Water Utilities Limited ("the Appointee") resolved as follows:

- that, in the opinion of the directors, the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Appointment).
- that, in the opinion of the directors, the Appointee will, for at least the next 12 months, have available to it:
 - (a) Management resources
 - (b) Systems of planning and internal control

which are sufficient to enable it to carry out those functions as required by sub-paragraph 6A.1 (1).

- that, in the opinion of the directors, all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all of its obligations as a water and a sewerage undertaker.

The main factors the directors have taken into account in compliance with the Directors' Certificate under Condition F6A of the Company's appointment are:

- that the processes and systems of internal control operated as expected.
- that the Company operated as if it were substantially the Appointee's sole business and that the Company were a separate public limited company.
- that financial resources and facilities are adequate to enable the Appointee to meet its regulatory obligations.
- the strength of the Company's key performance indicators as shown on pages 29 of the Chief Executive Officer's Strategic Review.
- the credit ratings as shown on page 30 of the Strategic Report. Moody's affirmed its Corporate Family Rating, recognising that the incremental risks that the Company is exposed to in relation to the Thames Tideway Tunnel project are adequately mitigated through a specific mechanism for an interim price review in certain circumstances outside of the management's control.
- borrowing facilities, which include significant, undrawn bank facilities.
- the June 2014 Business Plan which has been revised to reflect the PR14 Final Determination for the five year period to 31 March 2020.
- the approved annual budget for 2015-16.
- the preparation of the accounts on a going concern basis as disclosed in the statutory accounts.



S Siddall

Chief Financial Officer
4 June 2015

Risk and compliance statement

Background and explanation

Purpose of this document

Ofwat expects every water company to produce a yearly risk and compliance statement which sets out how they have complied with relevant statutory, licence and regulatory obligations. This is one of Ofwat's key regulatory tools and allows companies to demonstrate their accountability to their customers and demonstrate to Ofwat that they are complying with their obligations.

Introduction

Thames Water is responsible for providing its customers with good quality water, sanitation and drainage services.

Since Thames Water Utilities Limited ("The Company") was privatised in 1989, a regulatory framework has been in place to ensure that consumers receive high standards of service at a fair price. We must also comply with national and European legislation.

Activities of The Company are licensed and monitored by a number of different regulatory bodies, including the European Commission, the Department for Environment, Food and Rural Affairs, Ofwat, the Environment Agency, the Drinking Water Inspectorate, the Competition and Markets Authority and the Consumer Council for Water.

This is the fourth year that Thames Water has produced a Risk and Compliance Statement and have done so in response to a requirement from Ofwat, its economic regulator.

The Company supports the use of a Risk and Compliance Statement to demonstrate that Thames Water is accountable to its customers and to demonstrate to Ofwat and that it is complying with its Obligations (as defined below).

Scope of the Statement

Ofwat expects all water companies to produce a statement setting out how they have complied with their relevant statutory, licence and regulatory obligations for which Ofwat is the relevant enforcement authority ("Obligations").

In assessing compliance with these Obligations, we have reviewed compliance against the following:

- our Instrument of Appointment ("Licence");
- key pieces of legislation for which Ofwat is the relevant enforcement authority; and
- environmental and corporate legislation which impacts on our activities.

The Statement applies to the period 1 April 2014 to 31 March 2015, unless otherwise stated.

Requirements of the Statement

In its guidance Ofwat sets out a number of details of the statements and reports which it expects companies to make. For the sake of clarity and completeness, we set these out below:

1. a statement that the Company considers it has a full understanding of and is meeting its Obligations;
2. a statement that the Company has taken steps to understand and meet customer expectations;
3. a statement confirming that the Company has satisfied itself that it has sufficient processes and internal systems of control to fully meet its Obligations, together with an explanation if it considers it is unable to make this statement;
4. a statement that the Company has appropriate systems and processes in place to allow it to identify, manage and review its risks; and
5. a report, by exception, of where delivery of outputs is materially different to our final determination, being applicable only to outputs not covered by the key indicators (for example, requirements to deliver specific schemes).

¹ Ofwat states on its website (at <http://www.ofwat.gov.uk/industryoverview/today/legislation/national>) that it considers these to be the key legislation with which water and sewerage companies must comply.

² On 29 March 2012 Ofwat published its document "Risk and Compliance Statement - guidance". In this document Ofwat sets out its expectations for all companies to produce a statement setting out how they have complied with their relevant statutory, licence and regulatory Obligations.

The Statements

Thames Water fully recognises its accountability to its customers, its regulators and its other stakeholders and is pleased to provide the following statement to demonstrate that it complies with its Obligations and is managing its risk in an appropriate manner.

1. The Company considers it has a full understanding of and is meeting its Obligations

For the reporting year 2014/15, the Company has assessed its compliance with its Obligations. A company-wide self-certification exercise was led by the Company's Corporate Compliance Team, which is part of the Audit and Assurance function. Returns are reviewed on a sample basis and continuous improvement actions are tracked to completion through a follow-up process. Additionally, the Company has employed the services of external assurance providers to independently perform agreed upon procedures over the information contained in its Annual Return and confirm compliance with its reporting obligations to Ofwat.

Based on the results of these exercises, the Company has identified (in addition to the risks raised in relation to delivery of company outputs, listed below at Statement 5), that there are no material exceptions to the statement that the Company "considers that it has a full understanding of and is meeting its Obligations".

2. The Company has taken steps to understand and meet customer expectations

The Company continually gathers customer feedback and engages with its customers in order to understand their expectations. During the reporting year 2014-15, the Company has ensured that our communications adhere with Ofwat's information principles.

In particular, the Company has:

- Reorganised and set up a Customer Experience Department reporting into a newly created role of Chief Customer Officer. This role reports into the Managing Director for Retail, however it has a far-reaching remit across Thames Water. This newly formed Department, brings together for the first time, roles critical to the success of improved customer experience delivery, i.e. Insight, Customer Strategy, Brand, Digital and Journey Development. This has enabled a clear line of sight between Insight, Action plans and Delivery.
- Undertaken a comprehensive review of all research conducted over the last two years on its Brand; and Household and Non-Household services to produce a summary, key learnings and recommendations for improvement. This holistic understanding of its customers' experience will feed into our action plans going forward.
- Undertaken its first Brand Net Promoter Survey (NPS) on Household customers to understand their views on its Brand. This is an ongoing activity which will be rolled out to Non-Household customers early in 2015/16.
- Developed a set of customer metrics and a Customer Scorecard that provide a rounded view of the service it provides and its performance against its customers' expectations. Started measuring other attributes associated with customer satisfaction including Customer Effort to gain a more holistic view of customers' expectations and the levers that need to be pulled to improve service against expectations.
- Commissioned Ofwat's research agency, McCallum Layton, to conduct weekly customer satisfaction surveys on our customers utilising the same methodology as its Regulator.
- Begun a comprehensive employee engagement programme to bring its customers closer to its employees – providing everyone with the opportunity to understand its customers' expectations and the role they play in meeting them. Extended our measurement of the success of that programme by introducing new measures of Employee Effort and Employee NPS.
- Acquired a better understanding of how its customers feel throughout their entire interactions with Thames Water. The Company has extended its measurement architecture to more customer contact channels and reasons why they would want to contact it. Where possible it has introduced real-time customer service measurement, enabling more impactful feedback and intervention or service recovery.
- Introduced new teams throughout the business whose role is to keep customers informed on those activities that are not 'once and done'. It is checking this is working through regular text messages to our customers asking for their feedback (Hold the Loop). It has introduced a Close the Loop text message as well to check that its customers are comfortable that an issue is resolved before we entirely close the activity down.

Other specific pieces of research undertaken include:

- Understanding better its customers' information requirements and how best it can meet them, including specific billing/leaflet research.
- Affordability and new social tariff research. Insight from this research was used to enable it to make its application forms more accessible to its customers.
- Complaint analysis to identify root cause and trends in order to continue to improve its service (full case management).

From listening to its customers and the feedback that they have given The Company, it has shaped its programme of improvements. Specific examples of where it has utilised customer feedback to improve its performance are:

- Extending its Call Centre Saturday opening hours.
- Extending and re-launching its Online Account Management service.
- Identifying and responding to repeat contacts – doing something different with them in its Contact Centres.
- Creating case management teams to help customers through issues that cannot be resolved first time.
- Employing more staff to speak to customers when they call.
- Improving skill levels, so that staffs answering calls are more able to resolve issues without needing to pass the caller to a colleague.
- Introducing more text message updates for some of the main issues about which customers regularly contact it. These continue to be a success, and we plan to use them more widely.

The Company understands it has some way to go, but is confident that the steps already taken, together with further changes planned, will deliver a sustained improvement in customer satisfaction. To help gauge the success of initiatives, Thames Water will continue to refine and use its existing and new customer measures.

3. The Company has satisfied itself that it has sufficient processes and internal systems of control to fully meet its Obligations

The Company has processes and internal systems of control in place to support meeting its Obligations. These controls are monitored through the Company's self-certification and risk management processes. The Audit and Assurance function provides a risk based programme of audits, which review the design, and operating effectiveness of internal controls in place to meet the Obligations.

Any control weaknesses identified during an audit are flagged to management and an action plan to mitigate the associated risks is agreed. The status of all Audit and Assurance actions is tracked monthly and reported to the Executive and Board. Evidence is required to confirm the agreed control improvements have been implemented before any audit action is closed and removed from the tracker.

Following an investigation by Ofwat into Bristol Water's potentially anti-competitive behaviour in relation to self-lay operators,³ Ofwat has asked all water companies to review their practices for the provision of infrastructure and connections to new customers.⁴ We are currently undertaking a review of our processes and procedures in this area, together with checking the information available to our customers on our website in relation to new connections. On 1 June 2015, we provided Ofwat with an update on our progress.

³ A Self-Lay Organisation is an entity engaged in the laying of water mains and service connections on behalf of developers.

⁴ Ofwat has concurrent powers with the Competition and Markets Authority to investigate potential infringements of the prohibition in Chapter II of the Competition Act 1998.

4. The Company has appropriate systems and processes in place to allow it to identify, manage and review its risks

The Company has appropriate systems to identify, manage and review its risks.

We include within this Statement any risks to delivering the Company's strategic objectives (as defined in our Statutory Annual Report and Accounts), regulatory and statutory Obligations, performance targets and specified outputs.

When identifying and assessing risks, the Company is mindful of the key outputs for customers that were required by Ofwat's 2009 Final Determination and takes into account changes agreed as part of the Final Determination 2014.

No risk management process can prevent all risks from materialising. The Company has well established processes that identify, manage and review risks including:

- monthly performance reporting, that includes regulatory measures, compiled by a central team independent of operational responsibility;
- regular review by the Company's Regulatory Performance Group, a committee of the Executive team, which looks both at performance and risk;
- oversight by the Audit, Risk and Regulatory Committee, a Board committee. This receives presentations from members of the Executive on risks within their areas of responsibility as well as in depth reviews around key risks;
- risk based Audit Plan which is regularly updated to reflect the evolving risk profile as well as stakeholder priorities;

- the corporate risk management process, which considers risks and response plans to company issues. The significant risks are reviewed by the Board and Executive team monthly and by the Audit, Risk and Regulatory Committee quarterly; and
- a programme of continuous improvement which includes the implementation of a new Risk Management System.

Each year we publish our principal risks and uncertainties within the annual report and accounts which set out the material risks the Company is currently facing, together with mitigation steps it is taking. These can be located in the strategic report section of this report on pages 37 to 41.

5. Delivery of outputs

(a) Delivery of PR09 final determination outputs – material exceptions

For 2014-15, the Company has materially delivered its outputs set by Ofwat in the final determination of 2009, taking into account changes agreed as part of the final determination 2014.

Ofwat's expectation is that companies should report by exception if delivery of outputs is materially different to its final determination. The Company's interpretation of materiality is based upon the Ofwat financial significance test of two per cent of annual turnover, combined with significant impact on its customers or its reputation.

The Company has identified two material exceptions to delivery of the final determination outputs in 2014-15. These are as follows:

- **Waste below ground asset performance** – The Company performance assessment for 2014-15 was deteriorating, meaning it remains outside the performance targets set by Ofwat. This assessment was driven by high numbers of sewer flooding and pollution incidents. It is continuing to implement its recovery and action plans to ensure it hits its target of stable asset health going in to 2015-16. It will return around £24m to customers, through a bill adjustment from April 2015 onwards, to reflect its performance in this area in recent years. The performance is also reflected in the Company KPI dashboard where pollutions and flooding have an amber status.
- **Reducing sewer flooding due to hydraulic incapacity**– The Company has achieved its target sewer flooding register size for around £145m less than was allowed for at the PR09 price review. It will therefore be returning this money to customers through a bill adjustment from April 2015 onwards.

(b) Delivery of Company KPI's – by exception

As part of its Annual Return submission to Ofwat, the Company has provided a completed KPI dashboard as required by Ofwat in which performance against key performance measures in 2014-15 is presented. This report has been reviewed by independent assurance providers, who have confirmed the reported performance.

Two measures have been given a 'red' status (performance significantly below our benchmark):

- **Greenhouse gas (GHG) emissions** – the Company was 10.2% above its 2014/15 target, thus outside of the 10% tolerance set by Ofwat on this KPI. Its absolute greenhouse gas emissions have risen by 11.5% compared to 2013/14, however circa 63% of this increase was outside of its control due to national market energy conditions. The remaining 37% of the increase was due to increased energy consumption from new wastewater plants in order to meet higher sewage treatment standards.

A full description of the Company's GHG emission performance is contained within the KPI section of the Annual Report and Financial Statements.

- **Waste below ground asset performance** – as noted above, on the basis of its AMP5 targets, its performance for this metric was assessed as 'deteriorating'.

In addition, notwithstanding the 'green' rating for its two customer service performance metrics, the Company recognises it still has further to go in respect of the level of service that it provides its customers. Accordingly, it has increased its focus on customer service, and this is reflected in its improved performance scores this year.

In particular, the number of written complaints has continued to drop each year over the last three years and now stands at 20,531 (2013/14: 21,915) from a total of 3.3 million phone calls and 0.5 million written and email enquires in 2014/15. This is a reduction of over 6% since 2013/14. The Consumer Council for Water has commended the Company on the significant progress that it has made leading the water and sewage industry by achieving the largest annual reduction in complaints (32%) across the industry from March 2013 such that it is now beating industry average levels. It has also made significant progress in reducing unnecessary customer contacts, improving performance by 8% from last year. The number of calls to its call centres abandoned by the customer has reduced by nearly 39% from last year.

The Company believes it can continue to improve upon its performance. It's key priorities are to reduce and mitigate disruption to its customers; to quickly resolve any issues; to keep its promises to customers and to make sure they are kept informed.

⁵ Assessed on a consistent basis to previous years and in line with Ofwat's guidance for the KPI dashboard.

Board endorsement

The Board confirms that, insofar as it is aware, having made reasonable enquiries, the information contained in the Risk and Compliance Statement is materially accurate at the date below.

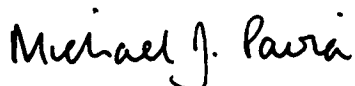
For and on behalf of the Board of Thames Water Utilities Limited



Sir Peter Mason KBE
Chairman



Martin Baggs
Chief Executive Officer



Michael Pavia
Independent Non-Executive Director

04 June 2015

Independent Auditors' report to the Water Services Regulation Authority (the "WSRA") and the Directors of Thames Water Utilities Limited

We have audited the Regulatory Accounts of Thames Water Utilities Limited ('the Company') for the year ended 31 March 2015 on pages 129 to 158 which comprise:

- the regulatory historical cost accounting statements comprising the regulatory historical cost profit and loss account, the regulatory historical cost balance sheet, the regulatory historical cost statement of total recognised gains and losses and the historical cost reconciliation between statutory and regulatory accounts; and
- the regulatory current cost accounting statements for the appointed business comprising the current cost profit and loss account, the current cost cash flow statement and the related notes to the current cost financial statements, including the statement of accounting policies.

These Regulatory Accounts have been prepared in accordance with the basis of preparation and accounting policies set out in the Statement of Accounting Policies.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewerage undertaker under the Water Industry Act 1991. Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to 2014-15 Regulatory accounts audit opinion to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA for our audit work, for this report or for the opinions we have formed.

Respective responsibilities of the directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 128, the directors are responsible for the preparation of the Regulatory Accounts and for their fair presentation in accordance with the basis of preparation and accounting policies. Our responsibility is to audit and express an opinion on the Regulatory Accounts in accordance with International Standards on Auditing (UK and Ireland), except as stated in the 'Scope of the audit of the Regulatory Accounts' below, and having regard to the guidance contained in Audit 05/03 'Reporting to Regulators of Regulated Entities' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the Regulatory Accounts

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounts sufficient to give reasonable assurance that the Regulatory Accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the Regulatory Accounts. In addition, we read all the financial and non-financial information in the regulatory accounts to identify material inconsistencies with the audited Regulatory Accounts. If we become aware of any apparent misstatements or inconsistencies, we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Regulatory Accounts are consistent with those used in the preparation of the statutory financial statements of the Company. Furthermore, as the nature, form and content of Regulatory Accounts are determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK and Ireland).

Opinion on Regulatory Accounts

In our opinion, the Regulatory Accounts:

- fairly present in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies set out on pages 135 to 139 and 143 to 144 (including the accounting separation methodology), the state of the Company's affairs at 31 March 2015 on an historical cost and current cost basis, and its historical cost and current cost profit and its current cost cash flow for the year then ended; and

- have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines and the accounting policies (including the accounting separation methodology).

Basis of preparation

Without modifying our opinion, we draw attention to the fact that the Regulatory Accounts have been prepared in accordance with Condition F of the Appointment and the Regulatory Accounting Guidelines, the accounting policies set out in the statement of accounting policies and, in the case of the regulatory historical cost accounting statements, under the historical cost convention.

The Regulatory Accounts are separate from the statutory financial statements of the Company and have not been prepared under the basis of United Kingdom Generally Accepted Accounting Practice ('UK GAAP') or International Financial Reporting Standards as adopted by the European Union ("IFRSs"). Financial information other than that prepared on the basis of UK GAAP or IFRSs does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006. Furthermore, the regulatory historical cost accounting statements on pages 129 and 130 have been drawn up in accordance with Regulatory Accounting Guideline 3.07, in that infrastructure renewals accounting as applied in previous years should continue to be applied and accordingly, that the relevant sections of UK Financial Reporting Standards 12 and 15 be disapplied. The effect of this departure from UK Generally Accepted Accounting Practice and a reconciliation of the balance sheet drawn up on this basis to the balance sheet drawn up under the Companies Act 2006 is given on pages 131 to 132.

Opinion on other matters prescribed by Condition F

Under the terms of our contract, we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounts are in agreement with the accounting records and returns retained for the purpose of preparing the Regulatory Accounts.

Other matters

The nature, form and content of Regulatory Accounts are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly, we make no such assessment. Our opinion on the Regulatory Accounts is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2015 on which we report, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our 'statutory audit') was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.



William Meredith
For and on behalf of KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL
4 June 2015

Notes:

1. The maintenance and integrity of the Company's web site is the responsibility of the directors and the maintenance and integrity of the Regulator's web site is the responsibility of the Regulator; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Regulatory Accounts since they were initially presented on the web sites.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements and Regulatory Accounts may differ from legislation in other jurisdictions

Glossary of regulatory terms

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information in the five-year Asset Management Plan process.

Appointed Business – The appointed business comprises the regulated activities of the Company which are activities necessary in order for the Company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's-length trading – Trading in which the Company treats the other party, usually an associate company on the same basis as an external party.

Asset Management Plan (AMP) – A plan agreed with Ofwat on a five-yearly basis for the management of water and wastewater assets. The plan runs for a five-year period. AMP5 covers the investment period April 2010 to March 2015.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

Capital Incentive Scheme ("CIS") – Under this mechanism Ofwat sets a baseline capital expenditure plan, which they believe companies should be able to deliver. Companies are rewarded or penalised during AMP 5 for submitting a business plan, which is lower or higher than the baseline respectively. Companies will then be further rewarded or penalised at the start of AMP 6 for underspending or overspending against that business plan. CIS will apply to capital expenditure only, not to operational expenditure and will not apply to large projects such as the Lee Tunnel.

Cost – The actual cost to the supplier, of the goods, works or services, including a reasonable rate of return on capital employed. Unless the circumstances of the transaction provide a convincing case for the use of an alternative measure, the return on capital should be consistent with the cost of capital/net retail margin as set out in Ofwat's final determination of 12 December 2014. (or any other determination applicable in the 2015-20 period).

Cost allocation – Cost allocation is the means by which all costs are allocated to appointed and non-appointed businesses, price control units, or specific supplies, works and services, ensuring a fair share of overheads, even where costs cannot be directly attributed to specific activities and associated services.

Cost driver – A cost driver is the factor or factors which cause cost to occur. This can be further divided between the driver that causes an activity to occur, and a driver that determines how often it occurs. Costs may vary in relation to the cost driver over the short or longer term, depending on the nature of cost concerned.

Cross-subsidy – Cross-subsidy in this context is monetary aid or contributions from the appointee to the associate, or between price control units, which does not reflect the value of the services received. It also relates to services provided by the appointee to associate companies where there has been an under-recovery of costs incurred by the appointee.

Customer numbers – To ensure consistency with the way in which price controls have been set for 201520, customer numbers when used as a cost allocation metric as referred to in Table 2.5.1 above is equal to 1.0 for single-service (water or wastewater only) customers and 1.3 for dual-service (water and wastewater) customers.

Final determination – The conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year AMP period. It is accompanied by a determination of the allowable K factor for the forthcoming AMP.

Financing adjustment – The impact of RPI on the real value of net finance for the business.

FTEs – For the purposes of cost allocation, FTEs (or 'full-time equivalents') should include all full-time staff, and contractors/temporary staff directly employed. Where there is an existing contractual arrangement in place with an associate or third party for example a third party billing arrangement, FTEs (or 'full-time equivalents') will include all full-time staff, and contractors/temporary staff directly employed by the associate or third party involved in providing that service to the appointee.

Households – These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances, the standing charge may be zero.) The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Mixed/commercial properties and multiple household properties – for example, blocks of flats having only one standing charge – should be excluded.

K factor – The annual increase, set by Ofwat, in charges that companies in the water industry can make. The amount by which a company can increase (or must decrease) its charges is controlled by the price limit formula $RPI + \text{or} - "K" + "U"$. RPI is expressed as the percentage increase in the Retail Price Index in the year to November before the charging year. "K" is a number determined by Ofwat for each company, usually at a price review, for each year to reflect what it needs above or below inflation in order to finance the provision of services to customers and "U" is the amount of "K" not taken up by a company in previous years.

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Thames Water Utilities Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Measured - These are properties where some or all of the charges for supplies are based on measured quantities of volumes.

Modern Equivalent Asset (MEA) – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

Non-appointed business – The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

Non-households - These are properties receiving water for domestic purposes but which are not occupied as domestic premises, or where domestic dwellings are combined with other properties, or where properties are in multiple occupation but only have one standing charge. In this case, it is the number of bills that should be counted.

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

Periodic Review (PR) – The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the K factor – see above).

Price control units - At the 2014 price review Ofwat introduced separate binding price controls. These include wholesale water, wholesale waste water, retail household and retail non household.

Price limit – The name given to the combination of the RPI and K.

Regulatory Accounting Guidelines (RAG) – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Regulatory Capital Value (RCV) – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Retail Price Index (RPI) – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.

Service Incentive Mechanism (SIM) – Ofwat's measure of customer satisfaction based on surveys of customers who have contacted the Company and the number of contacts received which express dissatisfaction.

Third-party contributions since 1989/90 – Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.

Transfer pricing - A transfer price is the price paid by one group company to another for transactions between the two companies or for transactions within the appointee between price control units or between appointed and non-appointed business.

Unmeasured - These are properties where none of the charges for supplies are based on measured quantities of volumes. These include properties which receive an assessed charge because metering is not possible or economic.

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material.

Working capital adjustment – The impact of RPI on the real value of working capital to the business.

Regulatory environment

Regulatory environment

The water and sewerage industry in England and Wales is comprised of over 50 million customers who are served by 34 privately owned companies, of which Thames Water is the largest provider of water and sewerage services.

The industry was privatised in 1989 with companies awarded licences to serve specified geographical areas. This created regional monopolies and in order to inject competition, government regulatory authorities were established.

The water industry has evolved making significant improvements in areas including customer service, promoting value for customers, drinking water quality, and environmental conservation.

Whilst considerable progress has been made, there are still a number of key challenges facing the industry including:

- Service affordability;
- Rising environmental standards;
- Increasing customer expectations;
- Population growth and lifestyle changes; and
- Climate change.

We recognise these challenges and have incorporated them into forming the Company's strategy which is designed to balance the needs of the overall industry against customers' and stakeholders' requirements to generate value from the business.

The water industry has in place a robust regulatory framework created to safeguard consumers' interests and ensure compliance with national and European legislation. Our key regulators are outlined below:

CONSUMER COUNCIL FOR



Consumer Council for Water (CCW)

The CCW is an independent body that represents customers' interests relating to price, service and value for money as well as conducting independent research and investigating customers' complaints relating to water quality.



Department for Environment Food & Rural Affairs (DEFRA)

DEFRA is a UK government department supported by 35 agencies and public bodies responsible for setting policies and regulations on environmental, food and rural issues. DEFRA sets the overall water and sewerage policy framework in England including setting standards and drafting legislation.



Drinking Water Inspectorate (DWI)

The DWI regulates the quality of drinking water quality that we supply and ensures its safety and compliance with Water Quality Regulations. They do this via reviewing the tests that we conduct on our drinking water as well as carrying out inspections on water companies as and when required.



Environmental Agency (EA)

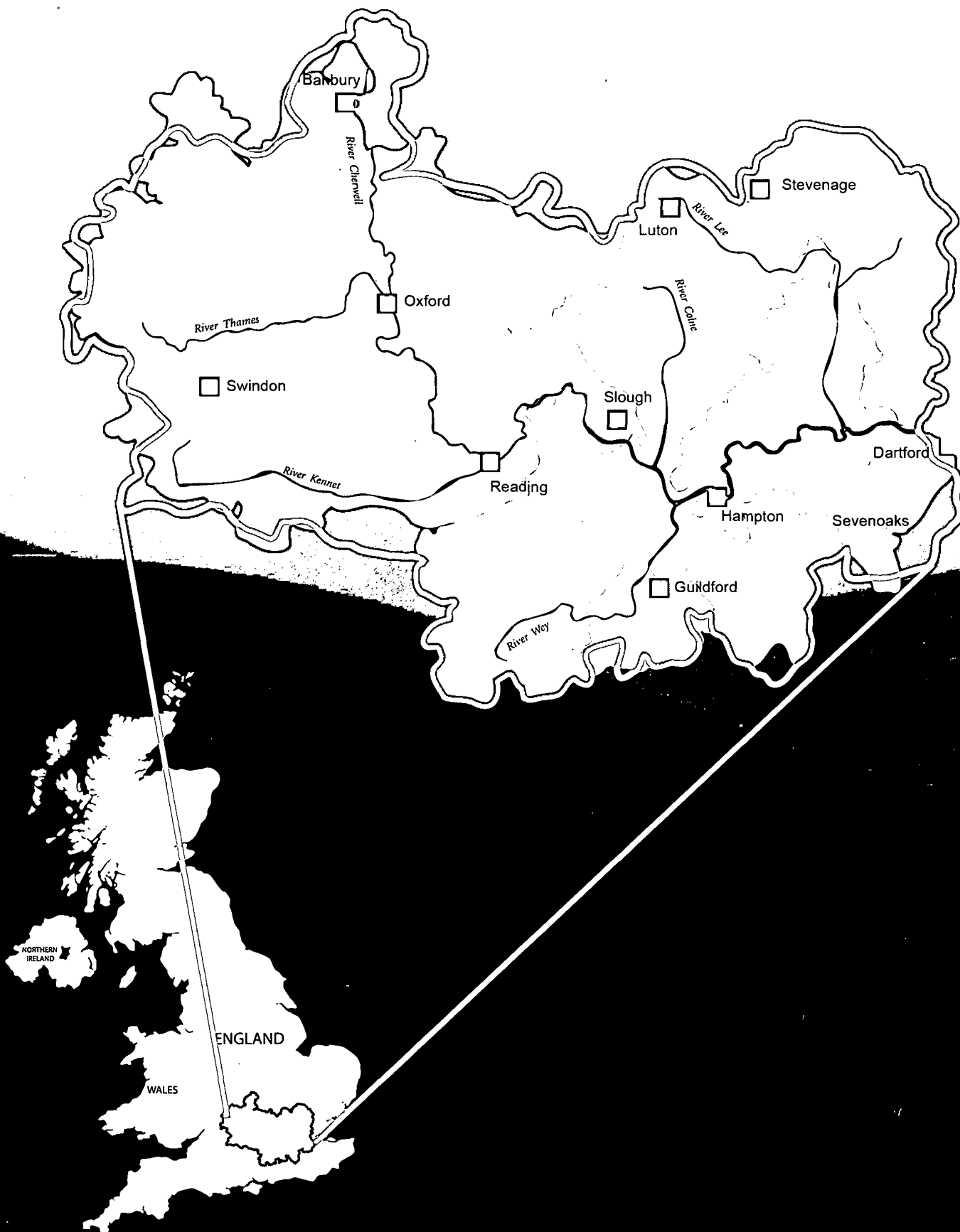
The EA is the principal adviser to the government and main body set up to protect and improve the environment in England and Wales. They work in collaboration with other organisations to reduce flood risk, promote sustainable development and secure environmental and social benefits.



Water today, water tomorrow

OFWAT

Ofwat (The Water Services Regulatory Authority) is the economic regulator of water and sewerage sector in England and Wales, responsible for protecting customers' interest whilst ensuring water companies finance and conduct their functions effectively.



- We are the UK's **largest** Water and Sewerage Company
- We serve equivalent of 23% of the population of England and Wales
- Our region spans approximately **5,000** square miles