Registered number: 5819262 (England & Wales)

Kemble Water Holdings Limited

Annual report and consolidated financial statements

For the year ended 31 March 2014

Kemble Water Holdings Limited

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Kemble Water Holdings Limited

Introduction

Kemble Water Holdings Limited (the "Company") is the ultimate parent company of the Kemble Water Holdings Group (the "Group"). The Company acts as the holding company for the Group and does not carry out any activities beyond this role.

The Group's principal activity is the regulated supply of water and sewerage services through its wholly owned subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"). This constitutes for 98% of the Group's turnover. In addition the Group also has a property business, which manages the Group's property portfolio and the sale of property and land that is no longer required by the regulated business, and a commercial water retail business, which has been set up to take advantage of the opening up of the water industry to competition.

The Group's performance is therefore dependent largely upon the performance of TWUL, which in turn is largely dependent upon the regulated business. This report makes reference to the performance of TWUL in order to provide appropriate explanations as to the performance of the Group. The key financial performance indicators of both the Group and TWUL are presented in the strategic report on page 5 to 36.

The Group's management structure separates the management of the Group from the directors of the Company. The Company's directors are all non-executives. The executive directors of TWUL also work on behalf of the Group, in addition to their responsibilities to TWUL. There are controls in place to ensure that the day to day management of the regulated business is kept completely separate from that of the water retail business.

Unless otherwise stated, all current year data included in this report is for the year ended 31 March 2014 ("2013/14").

Directors and advisors

Directors

Sir Peter Mason KBE
E Beckley
R Blomfield-Smith
D Buffery (Appointed 13 December 2013)
C R Deacon
Dr P Dyer
S R Eaves
C Heathcote (Appointed 21 June 2013)
N Horler (Appointed 14 April 2014)
D J Shah OBE
L Webb
D Xu

Registered auditor

KPMG LLP
Chartered Accountants
15 Canada Square
London
E14 5GL

Company secretary and registered office

J E Hanson
Clearwater Court
Vastern Road
Reading
Berkshire
RG1 8DB

Kemble Water Holdings Limited

Chairman's statement

Review of the year ended 31 March 2014

Employee safety and wellbeing is the highest priority of the Kemble Water Holdings Board (the "Board") and we are focused to achieve the highly challenging target of zero safety incidents. During the year we introduced a number of initiatives, further reinforcing our zero compromise mentality as well as improved health and safety training for our employees. I am pleased that these measures have already borne fruit and work related injuries are now at their lowest ever level.

This year has been dominated by weather conditions that affected many people. Following the driest summer since 2006, parts of our region saw more than double the average rainfall between December 2013 and February 2014, contributing to the wettest winter since records began. These weather conditions have had a significant impact on many of our customers and we remain committed to assisting those affected. This includes working closely with a number of stakeholders including Local Authorities and the Environment Agency to identify and implement a series of local solutions and longer term improvements.

Despite the operational challenges caused by these weather conditions, we have not compromised on providing a safe and reliable water and wastewater service to our customers. Further opportunities to improve and develop our service remain a high priority of the Board.

We have delivered a strong financial performance, performing better than we initially expected despite the impact of the weather conditions. Total revenues have grown by 8.2% to £1,951.5 million largely driven by increased prices. The higher costs caused by the weather, have been largely offset by the positive impact of savings achieved from our business improvement plan and a reduced provision for bad and doubtful debts.

However, our performance at the operating profit level during this five year regulatory period is approximately £200m lower than expected due to the rising cost of bad debt and costs incurred in acquiring 25,000 miles of private sewers. For these reasons we felt compelled to submit an application to Ofwat to recover such costs. We were unable to convince Ofwat that we should recover these additional unfunded costs and we have accepted their ruling. We recognise for many of our customers the cost of living is rising and the affordability of household bills is an immediate cause for concern. We are very aware of our responsibilities and will continue to structure our business to deliver the best value service to our customers.

We have been subject to significant media attention and scrutiny focusing on our financial structure, levels of infrastructure investment and taxes. We are committed to being straight forward and transparent in all aspects of our operations and so we have published a separate document – 'Our Finances Explained' to describe how we structure our finances to fund our activities.

We have continued to improve the customer service we provide as measured by Ofwat's Service Incentive Mechanism score. We acknowledge that further progress in this area is a necessity and the Board is focused on supporting the Executive team in their delivery of a programme of activity, detailed in our recently submitted Business Plan, as we approach the next five-year regulatory period.

Our non-regulated business is an area we have continued to focus on this year. Total turnover for the non-regulated business has fallen by £5.7m, to £39.0m (2012/13: £44.7m). This is largely due to property land sales which have fallen by £4.6m compared to the previous year.

The commercial side of the business has been growing. The Group has focussed its strategy on growing its Scottish customer base. The total number of Scottish retail customers in supply at end of March 2014 was 35.

Kemble Water Holdings Limited

Chairman's statement (continued)

Investing in our future

At Thames Water we are aware of the economic, environmental and social benefits that we are able to bring to the region, and where we can we make a positive difference. Investment by water companies has a particularly significant role to play in contributing to the local economy including job creation and improving the quality of life of our customers. We directly employ over 4,500 people in the region, and in the year we have taken on a total of 10 new apprentices as part of our work based learning initiatives. We have now launched our 2014 Apprentice Campaign, with the aim of recruiting a further 30 apprentices.

During 2013/14 we have directly invested £1,159.9 million in additions and improvements to our capital assets. This includes a major expansion of London's sewage networks through the Thames Tideway Programme and we have also made good progress on the Lee Tunnel, London's deepest tunnel. These projects represent the largest investments in infrastructure since the water industry was privatised and are urgently needed to tackle major discharges of untreated sewerage into the River Thames.

The Thames Tideway Tunnel will be the biggest single wastewater project in the UK since Sir Joseph Bazalgette built London's combined sewage and drainage system in the 1860s. The tunnel is required to deal with the now overloaded combined sewer network in London. The Government has specified the Thames Tideway Tunnel project. Under the provisions of the Flood and Water Management Act 2010, specification means that the project is to be delivered by a separately regulated Infrastructure Provider. We will work towards getting the best deal for customers and the project and the final phase of procurement of the equity has commenced.

Effective governance

The Board supports the increased calls, including those from Ofwat, for enhanced transparency and improvements in corporate governance. We have committed to address these concerns and we will continue to work with our shareholders to obtain their approval to implement a revised governance framework by the start of April 2015.

On 28 March 2014 the Group completed transactions to simplify the corporate structure of Kemble Water Holdings Group.

Future outlook

Our industry is about to undergo the greatest level of change that it has witnessed since it was privatised in 1989, with increased competition from 2017 amongst several upcoming challenges faced by all companies in the industry. We recognise the importance of changing with the times and have embarked on a programme of transformational restructuring and reorganisation to ensure efficient delivery of our business plans to 2020 and beyond.

I do not expect the coming year to provide any less of a test for the Group. However, notwithstanding the current issues we face, I remain confident about the future success of our business and that we will continue to effectively deliver our quality service to the stringent standards our customers expect. In taking forward these plans, we will not lose sight of our essential purpose of delivering safe, reliable and cost effective services, along with fair returns for shareholders, while continuing to protect the natural environment on which our business depends.

Sir Peter Mason KBE
Chairman

10 June 2014

Kemble Water Holdings Limited

Strategic report

The Directors present their strategic report of Kemble Water Holdings Group for the year ended 31 March 2014.

Business review

Principal Activities

The principal activity in the Group, as discussed in the introduction, is the regulated supply of water and sewerage services by its wholly owned subsidiary, TWUL. The Company's principal activity is to act as the holding company for the Group.

Whilst the regulated supply of water and sewerage services provides over 98% of the Group's turnover, TWUL also has some non-regulated activities which include property searches, third-party discharges to Sewerage Treatment Works, gravel sales, CESS treatment, and other customer related activities. In addition, the Group operates a property business outside of TWUL and a commercial water retail business, Thames Water Commercial Services Limited.

Business strategy

The Group's strategy is two-fold. For the regulated business of TWUL, the aim is to deliver safe reliable services for customers while ensuring safe reliable returns for shareholders. This means keeping customers' bills as low as possible whilst investing efficiently in TWUL's assets to ensure its customers' needs are met now and in the future. From a shareholder perspective, this means meeting and outperforming our regulatory outputs and financial settlement to provide the returns they require and expect.

Outside of the regulated business, the Group's strategy aims to utilise its 400 years of experience delivering water and wastewater services in TWUL's home region of London and the Thames Valley, to offer expert insight that can help businesses cut costs, hit sustainability targets and participate in the commercial water retail market, through the development of the Group's non-regulated portfolio.

A key element of this strategy is retail competition. The Group has made a decision to ensure that the Group participates fully in the wider business retail market. This resulted in the establishment of Thames Water Commercial Services Ltd (TWCSL) in 2012 and the acquisition of retail licences for England, Wales and Scotland.

The Group continues with its programme to divest investments which are inconsistent with the Group strategy of focussing on operations in the United Kingdom with the remnant transactions remaining.

Principal Risks and Uncertainties

Our overall risk management ambition is to foster and embed a culture of risk management that is responsive, forward looking, consistent and accountable.

Debt Servicing

The Group has issued £750.0m of external debt ("holdco debt") from Kemble Water Finance Limited and Thames Water (Kemble) Finance Plc. The holdco debt is outside of the whole business securitised group, but has been serviced from dividend distributions by TWUL as shown on page 17.

TWUL is currently preparing its revised business plan for AMP 6 for submission to Ofwat in Summer 2014. Under the terms of the Whole Business Securitisation, TWUL must apply to Ofwat for a price determination which, in the reasonable opinion of the TWUL directors, would allow, at a minimum, a credit rating of BBB+ by S&P and A3 by Moody's for class A debt.

We expect to receive a draft determination in August 2014 and a final determination in December 2014.

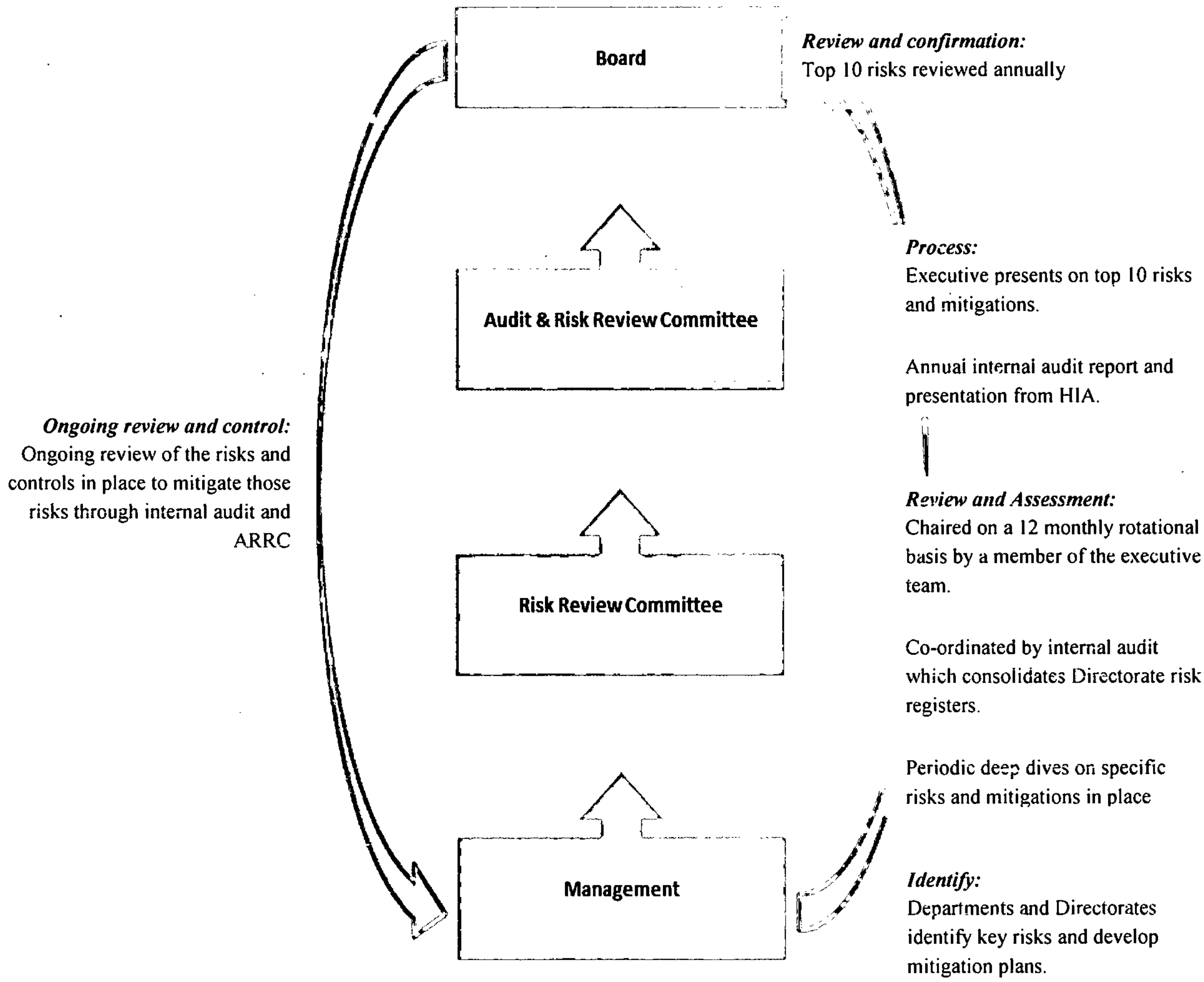
The Group has adequate cash and available facilities outside of TWUL to enable it to service the holdco debt for at least twelve months from the date of these financial statements.

Risk management framework

As the Group's principal activity is the delivery of water and waste water services through the principal wholly owned subsidiary of TWUL. The risks of the Group are therefore largely dependent on the regulated business. 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 of TWUL, and the process is overseen by the Audit & Risk Review Committee of TWUL ("ARRC") on behalf of the Board.

The ARRC is 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 Internal Audit and Assurance ("HIA").

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



Assessment of key risks

As the Group's performance is largely dependent upon the regulated business within TWUL the following risk assessments, on pages 7 to 12, are an extract from the business review contained within the TWUL annual report. All material risks and their associated controls are challenged by the Risk & Review Committee of TWUL ("RRC") and the ARRC as well as Internal Audit and Assurance. We outline below the principal risks specific to our business and how we manage and mitigate them:

Safety

Description & Impact	Mitigation	Change
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 Health and Safety Committee on a monthly basis. A number of initiatives have been put in place in 2013/14.	During 2013/14 there has been an improvement in the safety environment supported by the introduction of a number of new initiatives. These include the CEO zero compromise card and the Executive Incident reviews.

Delivery of our capital projects

Description & Impact	Mitigation	Change
Our core business requires significant capital expenditure, particularly in relation to new and replacement plant and equipment for water and wastewater networks and treatment facilities. A failure at one of the Group'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 a number of factors including adverse legacy effects of earlier capital investments (such as increased maintenance, repair, reinstatement or renewal costs) or cost and programme overruns which may put pressure on our budgets or our ability to meet our regulatory and legal obligations.	Capital investment programmes are regularly monitored to identify the risk of time, cost and quality variances from plans and budgets and to identify, where possible, any appropriate opportunities for outperformance and any necessary corrective actions. Senior management are incentivised, as part of their performance reviews, on time, cost and quality of delivery of our capital investment programme.	This remains a significant risk for us as we have the largest capital programme within the industry, at approximately £1bn per annum. We remain focused on the regulatory targets that apply to all of our water treatment, distribution, sewerage and sewage treatment assets. Measures are in place in relation to water quality, continuous supplies, sewer flooding, sewer collapses and pollution events.

Kemble Water Holdings Limited

Strategic report (continued)

Delivery of the Thames Tideway Tunnel ("TTT")

Description & Impact	Mitigation	Change
As an innovative solution to the challenge of reducing sewage discharges into the Thames, the design and construction of the Thames Tideway Tunnel present a number of major technical and logistical challenges. A key challenge is to manage the impact of the project (which is intended to be undertaken by a stand-alone Infrastructure Provider ("IP")) on TWUL's credit rating, as detailed on page 21. Failure to successfully deliver the IP model could lead to continued adverse discharges into the Thames with associated environmental and reputational impacts. In addition, there could be an adverse impact on TWUL's credit ratings.	The key mitigation and the preferred solution for key stakeholders is the establishment of a separately regulated entity to deliver the TTT. This model requires third party investment and will enable exceptional construction risks, which require support from HMG, to be ring fenced. The Group has collaborated with the Government on the development of an approved resilience plan, identifying alternative solutions that could be adopted should the preferred model fail or be delayed.	The procurement of the IP and third party equity is commencing. Market interest is good but the process may take over 12 months so risk remains.

Operational service

Description & Impact	Mitigation	Change
The Group controls and operates water and wastewater networks and maintains the associated assets with the objective of providing a continuous service. 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 the next price review if corrective actions do not restore service to the required reference levels for each of their serviceability measures and could go on to force additional operating or capital expenditure if performance were to continue to decline.	Operational processes combined with the capital investment programme are targeted to maintain stable serviceability of our water and wastewater assets and to minimise the risk of significant operational events occurring. The various indicators of performance are closely and routinely monitored by management. There are also governance and inspection regimes for key infrastructure assets such as aqueducts, dams, reservoirs and treatment works. Where adverse trends in performance or asset integrity develop, corrective action is identified and taken.	This has increased as a risk to the Group due to the two prolonged periods of adverse weather in the year which has challenged serviceability levels. Pollution reference levels do not take into account of extreme weather, increasing pressure on stabilisation levels in 2014/15.

Customer service

Description & Impact	Mitigation	Change
Failure to deliver good customer service can be caused by failures in supply and quality requirements and also the effectiveness of communication and response. The Service Incentive Mechanism (SIM), introduced by Ofwat for the 2010-15 period, compares companies' performance in terms of the number of 'unwanted' contacts received from customers and how well a company then deals with those contacts. Depending on TWUL's relative performance under SIM it could receive a revenue penalty (up to 1 per cent of turnover in 2010-15) or reward (up to 0.5 per cent of turnover in 2010-15) when price limits are next reset through the Price Determination in December 2014.	We have already improved our SIM score as detailed in our KPIs. We have an overall customer experience programme covering a range of initiatives to improve customer service, responding to our customers' requirements and focusing on people, processes and systems. TWUL's focus is on ensuring right first time service delivery to our customers, thus avoiding the need for 'unwanted' contacts and reducing associated operating costs. Where 'unwanted' contacts do arise, there is a clear focus on identifying the root causes to improve the overall customer experience and the SIM score.	TWUL's initiatives to deliver reduced 'unwanted' contacts have led to an improvement in the overall SIM score. However, the trend has been affected adversely by the recent wet weather event. An appropriate penalty will be reflected in our draft business plan to be submitted in June 2014.

Loss of customer data

Description & Impact	Mitigation	Change
We need to treat our customer data securely and only use it for the purposes intended. Loss of customer data could lead to potential regulatory and financial impacts as well as more importantly damaging our customer's trust in us.	We are continuing to undertake an 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 training.	Customer feedback is clear that protection of data is very important. Several incidents in 2013/14 indicate that our processes are working however they also underline the need to reinforce our security protocols to all our staff and contractors.

Impact of regulatory changes

Description & Impact	Mitigation	Change
There is a high level of regulatory uncertainty which will impact on the future strategy and execution of the Group. All UK water and sewerage companies must justify the operating costs and capital investment needed to deliver service to customers in the five-year period from April 2015. In addition, the draft Water Bill (2012) will enable the creation of a new market for retail water and sewerage services to non-domestic customers in England in 2017. Failure to demonstrate TWUL's case to Ofwat's satisfaction may mean that we are unable to invest in asset improvements or provide services that we believes will benefit its customers in the long term or to finance its business plans. Anti-competitive behaviour could lead to a financial fine and also divert management resource to defend any investigation or allegations.	Compliance with competition law and applicable regulation will remain a key focus. We are re-structuring our business as set out in our December PR14 submission to better respond to these challenges as well as enabling us to deliver efficient and effective customer service improvements. We remain in active dialogue with Ofwat around our PR14 resubmission as well as participating with the industry in helping to respond to the challenge for increased competition.	The risk remains significant although both the market and the Group is changing. We are committed to our proposed changes to our business model and believe this will support efficient and effective delivery of what our customers and other stakeholders want through the next AMP period and beyond.

Inflation

Description & Impact	Mitigation	Change
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. Failing 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 Group's debt is indexed to RPI, either directly in the underlying debt instrument, or by use of RPI swaps. In 2013/14 there has been a significant focus on cost reductions such that savings of approximately £60m were identified and secured.	The risk profile has increased due to failing inflation which could lead to reduced headroom when comparing our revenue to the level of debt which needs to be financed.

Levels of bad debt

Description & Impact	Mitigation	Change
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 leads to, amongst other things, an increased risk of bad debt. 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 will lead to a detrimental impact on working capital and will reduce the overall efficiency and effectiveness of the Group leading to potentially higher customer bills.	Bad debt risk is managed in-house by the customer collections department whose approach includes the adoption of best practice collection techniques and segmentation of customers based on their credit risk profile. We are implementing, in 2014/15, a new Debt Management System to further enhance management information and reporting.	No significant change in the risk profile in the year for the Group and the Cost of Living debate remains a key issue for both residential and commercial customers.

Credit downgrade risk

Description & Impact	Mitigation	Change
As a regulated utility, TWUL expects to be able to access financing, but an increase in the cost of funds may put pressure on key financial covenants. In addition TWUL is closely associated with the TTT which presents exceptional project risks. This could lead to increased borrowing costs to be serviced which could impact on TWUL's ability to invest in improving services for our customers as well as impacting on shareholder returns which could impact on future investment.	TWUL is focussed on supporting free cash flow at a level commensurate with the current credit rating. Our Funding Strategy is resilient and approved by the Board annually. We are maintaining dialogue with Rating Agencies to gauge market sentiment to emerging PR14 plans. We are keeping this under review when considering the final PR14 submission and forecast financial ratios and dividend policy. The TTT project is expected to be delivered by a separately regulated entity which should ring-fence the associated risks	The risk has increased in significance in the current period given the continuing economic backdrop and the uncertainty in the PR14 submission and returns. Credit rating agencies have noted that whilst the preferred delivery structure for the TTT is credit positive for TWUL, the TTT introduces an element of increased risk to our overall credit profile.

Impact of change of key risks

Since the 2013 Annual Report, the Board believes that there has been no material change within the relative prioritisation of the principal risks as set out above with the exception of the following risks where the Board believes the relative risk has been reduced:

Climate Change

Description	Change
As the Group continues to supply an increasing population, the effects of climate change could adversely affect its ability to maintain its Security of Supply Index (SoSI) requirements.	The Group has been working on measures to reduce demand including Progressive Metering, mounting widespread awareness campaigns and providing free water saving devices, as well as making provision for new sources of potable water and improving the integrity of its network. We also hit our leakage reduction target for the eighth year in succession.

Employee pension scheme funding

Description	Change
The Group operates two major defined benefit pension schemes. Although both are closed to new entrants, the Group remains liable for the historic rights earned by past and present employees, and both schemes are currently in deficit on a Gilts valuation basis.	Following the results of a preliminary actuarial valuation and agreed actions arising from this valuation, pension costs (subject to trustee consent) should remain at a similar level until 2016/17. In addition the Group's balance sheet is strong in terms of funding and cash reserves.

Financial Performance

Financial Key Performance Indicators (KPIs)

	Group			Thames Water Utilities Limited (Regulated business)		
	2014	2013	% Change	2014	2013	% Change
Turnover	1,951.5	1,803.6	8.2	1,912.5	1,758.9	8.7
Underlying operating expenditure	(785.5)	(775.2)	1.3	(782.7)	(769.8)	1.7
Depreciation, infrastructure renewals charge and amortisation	(572.1)	(523.9)	9.2	(495.2)	(457.5)	8.2
Underlying operating profit	593.9	504.5	17.7	655.1	543.4	20.6
Net interest expense	(516.4)	(535.8)	(3.6)	(480.2)	(415.0)	15.7
Underlying (loss)/profit before tax	99.5	(20.1)	595.0	174.9	128.4	36.2
Total net capital expenditure	1,119.0	1,038.2	7.8	1,115.0	963.2	15.8

Group turnover

Total Group turnover for the year has increased by 8.2% to £1,951.5 million (2012/13: £1,803.6 million), which has been largely driven by a combination of annual bill increases and higher water consumption impacting both domestic and commercial volumes. This increase in consumption was primarily due to an increase in demand caused by dry summer weather during 2013.

Group Underlying Operating expenditure

Effective cost control is a significant aspect of managing our business responsibly. In 2013/14 we launched our Business Improvement Plan, which identified those areas where we can either reduce costs or where we can perform aspects of our operations more efficiently. These plans have resulted in cost savings of £62.7 million in 2013/14 however; we expect recurring cost savings to reach approximately £83 million per annum from 2015 onwards. These savings are wide ranging throughout the business and are represented by reduced employment, materials and consultancy costs and further outsourcing of expenditure.

Despite the cost savings and efficiencies achieved through the Business Improvement Plan, our underlying expenditure has increased by £10.3 million when compared to 2013. This was primarily due to the increased costs that we incurred from higher than anticipated levels of activity in the Group's water and waste water networks. Following the drop in the serviceability in our waste network in 2013 we have increased spending in this area with the goal of returning to stable serviceability by March 2015. Operating costs also reflect the potential s 203 AMP4 sewer flooding settlement of £8.5 million, as discussed below.

On 5 June 2014, Ofwat published an Enforcement Order relating to an alleged breach of Condition J of our Instrument of Appointment. Ofwat has concluded that the Company misreported the number of properties alleviated from flooding in 2009/10 though has recognised that any misreporting was unintentional and did not continue post March 2010. In response, 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. We have therefore made a financial provision of £8.5m (reduced from the total of £14.1m recognised in our interim financial statements). In addition, Ofwat has proposed to make a downward adjustment to the Company's RCV of £79m (plus associated finance costs received between 2010/11 and 2014/15).

We continue to spend considerable sums of money on leakage prevention and reduction in our water networks. The wet winter weather of 2013/14 has had a significant impact on our networks and we have incurred approximately £20 million of costs, in excess of normal levels, to ensure we maintain services to customers during these difficult conditions.

Bad debt costs remain at a high level as customers continue to struggle in the current tough economic climate. In line with our expectations our bad debt provision expense was £60.0 million for the year ended 31 March 2013/14. The charge in 2012/13 of £93.7 million reflected an additional charge to bring the bad debt provision into line with the lower levels of cash collections during the recession reflecting the severity of the recession on our customers' ability to pay. The TWUL Executive and our Customer Service Management Team have implemented measures to manage the level of bad debt which has seen the proportion of our bad debt as a percentage of regulated revenue decrease from 5.3% in the previous year to 3.1%. This remains a significant issue within the wider industry and is a key focus of the Group where we ultimately aim to reduce this measure to the 2.5% average we achieved during the previous AMP4 regulatory period.

Group depreciation, infrastructure renewals charge ("IRC") and amortisation

Group depreciation, IRC and amortisation charges increased £48.2 million (2012/13: £42.3 million) reflecting the Group's continuation to invest £1 billion a year in its capital programme. The amortisation of the Group's goodwill arising on the acquisition of the Thames Water Group by the Kemble Water Holdings Group was £44.9 million (2012/13: £44.9 million).

Group underlying operating profit

Group underlying operating profit has increased by 17.7% to £593.9 million (2012/13: £504.5 million). This increase is largely attributable to the regulated business's increased turnover and reduced bad debt expense, partially offset by the increases in other areas of operating expenditure and depreciation (including the infrastructure renewals charge).

The non-regulated operating loss of the Group has increased to £61.2m (2012/13: £38.9m). Excluding the amortisation charge noted above, the operating loss of the non-regulated business was £16.3m (2012/13: operating profit of £6.1m). The major drivers of this performance were the operating profit of the Group's property businesses outside of TWUL declining £5.0m, increases in the non-regulated depreciation charge, and increases in group related costs. In addition, there was a lower level of provision releases relating to the winding down of the Group's legacy operations.

Group net interest expense

Group net interest payable and similar charges for the year was £516.4 million (2012/13: £535.8 million), a decrease of £19.4 million (3.6%) compared to the prior year. The overall decrease in net interest payable from the prior period was primarily caused by lower levels in RPI. This contributed to a lower interest charge in respect of the Group's index linked debt instruments. New borrowing was incurred to fund the Group's investment programme, repay debt maturing in the year and maintain a high level of liquidity, appropriate for the Group's future plans.

Group profit on operating activities after taxation

The increase in group profit after taxation of £193.6 million is largely attributable to the increase in group underlying operating profit, the reduction in net interest expense, and the reduction in deferred taxation which arose as a result of the reduction in UK corporation tax rates from 23% to 20%. The reduction in the deferred tax provision has not resulted in any tax refund or rebate to the Group and should, in the long term, benefit customers and not shareholders.

Group Cash flow

Group cash flow from operating activities increased to £1,157.8 million (2012/13: £1,007.3 million) primarily due to the increase in group underlying operating profit.

The net cash outflow from capital investment and financial investment activities has increased £78.0m to £1,103.0 million (2012/13: £1,025.0 million), driven by the Group's capital programme.

Net cash outflow before financing activities was £524.6 million (2012/13: outflow: £622.0 million) a reduction in cash outflow of £97.4 million. This has been largely driven by improvements in the Group's profitability reflecting the positive savings that we have achieved through the Business Improvement Plan and improvement in revenues generated by TWUL.

Balance sheet

Net assets as at 31 March 2013/14 are £1,469.2 million (2012/13: £1,319.7 million), an increase of £149.5 million since 31 March 2013, reflecting increased fixed assets and trade debtors balances and a reduction in the provision for deferred tax, partially offset by increased creditors.

Capital expenditure in the year was £1,119.0 million as the Group continues its £1 billion a year capital programme, the largest of any water company in the UK's history. Expenditure on key projects and our significant achievements in the year include:

Project	2013/14 £m
Thames Tideway Tunnel	200.8
Lee Tunnel	130.9
Beckton & Crossness Upgrade	128.0
Oxford Sewerage Treatment	21.0

In the past year we have made excellent progress on the Thames Tideway Tunnel project. Following the submission of application for Development Consent Order (DCO) in February 2013, the Planning Inspectorate conducted hearings from September 2013 to March 2014 with the final submission on 12 March 2014. We expect the final report to be issued in the Autumn of 2014. Main works procurement has progressed with tenders released for East, West and Central. During the year, the project acquired freehold land at Whiffen Wharf and the long leasehold of Camelford House. We have begun work to establish a new independent company which will deliver the project and which will be sold on to external investors. A management team has been established to manage this transition with key appointments of Sir Neville Simms as Chairman in November 2013 and Andy Mitchell as CEO in May 2014.

The tunnelling of the 7.2m diameter, 6.9km length Lee Tunnel was completed in January 2014. This was a key milestone in the project from both a progress and risk viewpoint. The project remains on track for completion in December 2015.

The construction phase of the Beckton and Crossness Thermal Hydrolysis Plant was completed on both sites during the year and pre-commissioning checks and tests have started. Process commissioning (treating sludge through the new process) will commence early 2014/15 with power generation expected later in the summer. The wind turbines, which form part of the planning requirements, were both also constructed and commissioned during the year and are generating up to 2.5MW of renewable power each.

The Oxford Sewage Treatment project was to achieve an increased 18,104 tonnes dry solid per year of sludge treatment capacity. The project was awarded in March 2012 and major construction was completed in March 2014. The innovative use of Bucher process within this project has also been used for final sludge de-watering. The project is now in its commissioning and optimization phase, with planned total completion by October 2014.

The upgrade of the sewage treatment works at Modgen was completed in May 2013. This £140m upgrade boosted the treatment capacity of the UK's third largest sewage works by 50%, and will significantly reduce the storm overflows into the River Thames, as well as improving the quality of treated effluent returned to the river.

Pensions

The net pension liability position of the Group has decreased to £150.5 million (2012/13: £186.9 million). The trustees of the schemes are working with the Company to finalise the triennial actuarial valuations of the schemes, which will set the required contributions for the next three years.

Dividends

The Group's dividend policy is to pay a progressive dividend commensurate with the long-term returns and business performance, after considering the business' current and expected regulatory and financial performance, regulatory restrictions, management of economic risks and debt covenants.

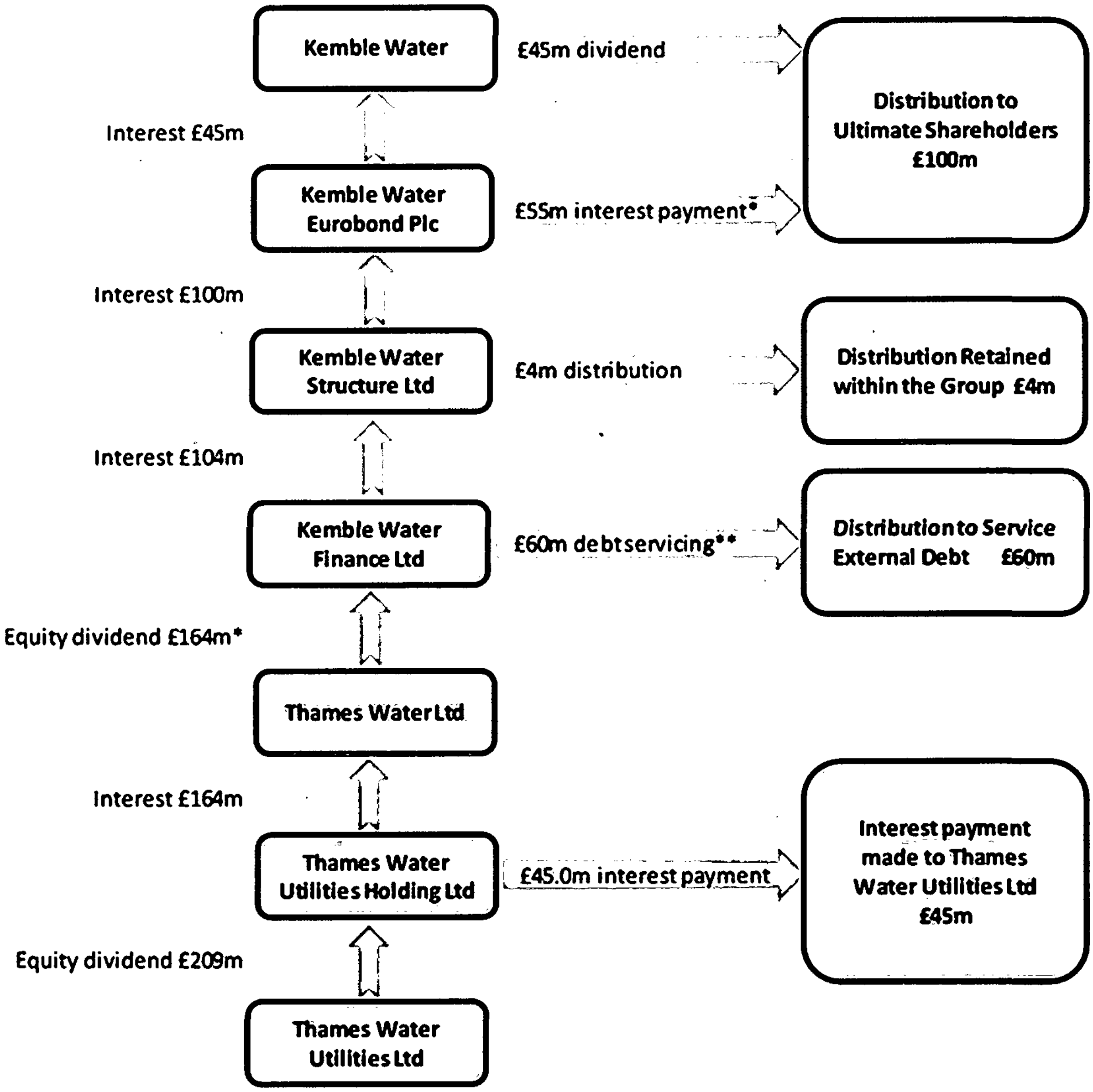
Directors, in assessing the dividend to be paid (to a maximum of statutory distributable reserves), are required to ensure that:

- Sufficient liquidity is maintained to enable the business to meet its financial obligations for 15 months.
- Post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward-looking basis.

The following diagram below shows how the KWH Group has utilised the dividends paid by TWUL for the year ended 31 March 2014:

Kemble Water Holdings Limited

Strategic report (continued)



* Thames Water Limited paid an additional £26m of dividends to Thames Water Holdings Limited during the year. Thames Water Holdings Limited used this dividend to settle an intercompany balance owed to Thames Water Limited.

** The £60m was used to service external debt held at this level.

The Group paid interim dividends totalling £45.1 million during the year (2012/13: £74.5 million). Together with the interest paid on the bonds issued by the Company's immediate subsidiary, Kemble Water Eurobond Plc ("KWE") of £54.9 million (2012/13: £17.5 million) this gave a total distribution to shareholders of £100.0 million (2012/13: £92.0 million). The interest paid by KWE of £54.9m (2012/13: £17.5m) consisted of three tranches of interest (2012/13: one tranche). Two tranches were paid in September 2013 (interest due on 30 September 2012 and 31 March 2013) and one tranche paid in March 2014 (interest due on 30 September 2014).

The Board does not recommend a final dividend (2012/13: £nil).

Taxation

As shown within our financial statements we have not paid substantial amounts of corporation tax in recent years, principally due to the capital allowances we have legitimately received to incentivise our infrastructure investments. As we are investing in excess of £1 billion a year from 2010 to 2015, more than any water firm in the UK's history, we are able to defer tax payments to future years.

The Group continues to contribute our fair share of around £150m annually in other taxes, including central and local government business rates, PAYE, national insurance and environmental taxes.

During the year the water industry has reached agreement with HMRC on the availability of capital allowances on certain assets at water and waste water treatment works. This is responsible for the recognition of a credit in the regulated business in respect of prior year's tax and this benefit has enabled the Group to commit a further sum of £10.0 million to our Customer Assistance Fund, doubling the funds available to help our customers over the next four years.

Our financial statements recognise the benefit of the reduction in deferred tax liabilities resulting from the cut in corporation tax rates from the current rate of 23% to 21 % from 1 April 2014, and to 20% with effect from 1 April 2015, which increased profits for the year by £125.1m. This benefit should eventually flow through to customers in the form of lower bills.

Debt finances the substantial majority of our investment programme and like any other UK company borrowing money to finance its activities we receive tax relief on the interest payments on this debt.

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 otherwise have been reflected within customers' bills by TWUL. The current tax credit of £1.2m is calculated after allowing for the benefit of deductions for finance costs and capital allowances.

The Group's tax department operates in accordance with policies approved by the Board of Directors. In response to the increased attention in the Group's tax affairs over the last year, the Board has carried out a review of the Group's tax arrangements and the tax policy has been updated to specifically refer to, and incorporate, the seven principles of good tax governance published by the CBI in May 2013.

Financing and financial risk management

Our treasury affairs are managed internally with the ultimate aim of managing our financial risks. The Group's operations expose it to a variety of financial risks.

Funding and treasury policy

The Group's 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 maintain liquidity. The management of interest rate risk, inflation risk and foreign exchange risk includes entering into derivative financial instruments. All funding and financing needs are managed by the Treasury function.

We use financial derivatives, including cross currency swaps, interest rate swaps and forward currency contracts solely to manage 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 Group.

Treasury policy and procedures are incorporated within the financial control procedures of the Group. 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 Group's income or the value of its holdings of financial instruments.

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

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

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 Group uses interest rate swaps which economically hedge future cash flows, thereby protecting future cash flows against interest rate movements.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from counterparties to the derivative financial instruments.

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

The Group held cash, investments and interest rate swaps outside the securitisation group which are not subject to the same restrictions as the Whole Business Securitisation ("WBS"). Controls are documented by the Group Treasury function which set credit limits and a defined list of counterparties.

At 31 March 2014 the Group held £nil (2012/13: £1.3m) of collateral cash, and a short term debtor balance of £17.5m (2012/13: £nil), representing amounts due from counterparties to the Group's derivative contracts that have failed to meet minimum short term credit rating criteria assigned by Moody's. The amount outstanding was subsequently received in April 2014.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group 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 Group also maintains a level of committed liquidity facilities.

Debt financing

Key features of the Group's debt structure are as follows;

- net debt issued by the Group (debt issued by the securitised group plus debt issued outside the securitised group at the Kemble Water Finance ("KWF") level): the ratio of net debt to Regulated Capital Value ("RCV") within the Group is limited to 92.5%;

- all debt issued by the securitised group of companies is documented pursuant to a Common Terms Agreement as part of the WBS entered into in August 2007. The Group companies within the Whole Business Securitisation ("the Securitisation Group") include Thames Water Utilities Holdings Limited and all of its wholly owned subsidiaries, including TWUL, Thames Water Utilities Cayman Finance Limited (TWUCFL) and Thames Water Utilities Finance Limited (TWUF);

- net debt issued by the Securitisation Group: Two classes of debt exist within the Securitisation Group, ("Class A") debt is the most senior debt obligation of the Group and the ratio of Class A net indebtedness to RCV is limited to 75%. Alongside this class of debt the Securitisation Group is able to issue subordinated ("Class B") debt. The ratio of Class A and Class B net indebtedness combined ("Senior net indebtedness") to RCV is limited to 85% at the TWUL level;

- each Obligor within the Securitisation Group has entered into the Security Trust and Inter-creditor Deed ("STID") with the Security Trustee pursuant to which Thames Water Utilities Holdings Limited guarantees the obligations of each other Obligor under the finance documents and the Group and its wholly owned subsidiaries guarantee the obligations of each other under the finance documents, in each case to the Security Trustee. Following an event of default, the documents provide for an automatic 18 month standstill of the claims of the creditors that have entered into the STID.

Debt financing is raised by the Group, through the Group's wholly owned subsidiaries. Subordinated debt is issued outside of the securitised group by Thames Water (Kemble) Finance PLC and KWF. The terms of the WBS do not apply to KWF and Thames Water (Kemble) Finance PLC and the debt these companies hold as they sit outside of the Securitised Group.

Thames Tideway Tunnel – changes to financial covenants regarding the securitisation group

Given the size and scale of the Thames Tideway Tunnel and its importance to UK infrastructure, TWUL has been in dialogue with Defra, Ofwat and HM Treasury as to the preferred way to deliver the Thames Tideway Tunnel Project (the "TTT Project"). TWUL, Defra, Ofwat and HM Treasury have together developed a proposal whereby the TTT Project is delivered by an independent infrastructure provider (the "IP"). Such infrastructure providers were specifically introduced by recent legislation to deliver projects that: (i) are of such a size and complexity that they threaten the incumbent undertaker's ability to provide services for its customers, and; (ii) where "specifying" the infrastructure project is likely to result in better value for money than would be the case if the infrastructure project was not specified. Projects meeting these criteria can be specified as such by Ofwat or the Secretary of State.

The IP will not be owned by TWUL but will instead be an independent entity with its own licence and separately regulated by Ofwat. The IP will also be responsible for raising its own capital. The IP will by law and by regulation be required to design, construct, finance, operate and maintain the Thames Tideway Tunnel as specified.

TWUL will collect additional revenues from customers which it will pass to the IP and its licence will be amended to include the ability and obligation to collect such additional revenues. Importantly, TWUL will only be required to pass such revenues to the IP on a "pay when paid" basis i.e. TWUL will only be required to pass to the IP the relevant proportion of its revenues (commensurate with the proportion of the IP charges to TWUL's total wastewater charges) when it has collected them. In addition to the collection of revenues, TWUL will be involved in the procurement of the IP, ensuring that the Thames Tideway Tunnel connects correctly to TWUL's existing sewer network and the completion of certain preparatory works.

TWUL has received accounting advice that, as a result of the delivery model for the TTT Project, the financial ratios will no longer operate as originally intended during the construction and operation phase (the "Accounting Effect"). This unintended accounting consequence of the delivery of the Thames Tideway Tunnel could not have been envisaged at the time TWUL's financing agreements were put in place in 2007.

The Accounting Effect in broad terms means that, during the construction phase of the TTT, TWUL's cash interest cover ratios would benefit from an increase in revenues without a corresponding increase in debt service obligations whilst conversely, during operational phase (the earliest date for which will be in 2024) of the Thames Tideway Tunnel, certain of TWUL's leverage ratios would be affected by an increased "finance lease liability" without any additional asset RCV being attributed to TWUL.

Subsequent to the financial year end, on 16 April 2014, we publically announced the commencement of a process to obtain consent from our Class A secured creditors for changes to the whole business securitisation agreement. On 16 May 2014 consent was obtained and we intend to use this amendment to enable us to utilise the preferred method for the delivery of the Thames Tideway Tunnel.

The development of the tunnel project through a specified infrastructure provider will ring-fence TWUL from the main construction risk and is credit positive. However, Moody's have placed TWUL on negative outlook. This reflects TWUL's exposure to residual reputational and financial risks associated with the TTT that other companies within the sector do not face, rather than the underlying financial performance or prospects of TWUL.

Moody's has also provided revised guidance for TWUL to meet an interest cover ratio of 1.4, which is higher than other companies in the industry, whilst maintaining an adjusted net debt to RCV ratio of 82.0% or lower.

Credit rating

Moody's Investor Service ("Moody's") rates subordinated debt (debt held outside of the Securitisation Group) at B1 with negative outlook and Fitch rates this debt at BB- with stable outlook.

TWUL has maintained its investment grade corporate family rating of Baa1 from Moody's for the year ended 31 March 2014. Investment grade means at least Baa3 from Moody's or BBB- from Standard & Poor's ("S&P"). We obtain credit rating assessments each year from both agencies which also serve as independent assessments of our performance and prospects.

A Corporate Family Rating ("CFR") is assigned by Moody's and reflects the consolidated rating of the different classes of outstanding debt obligations issued by the WBS Group. TWUL's licence requires us to maintain this with investment grade rating, as this ensures TWUL can access the debt funding that we need to ensure delivery of the investment program in an efficient and cost effective manner.

Within the WBS Group, Moody's rates the Class A debt as issued by TWUCFL, A3 long term with negative outlook. Standard and Poor's Rating Services ("S&P") rates Class A debt as issued by TWUCFL at A- with a stable outlook. The class B debt is rated as Baa3 with negative outlook by Moody's and BBB with stable outlook by S&P.

TWUL is currently preparing its revised business plan for AMP 6 for submission to Ofwat in Summer 2014. Under the terms of the Whole Business Securitisation, TWUL must apply to Ofwat for a price determination which, in the reasonable opinion of the TWUL directors, would allow, at a minimum, a credit rating of BBB+ by S&P and A3 by Moody's for class A debt.

In February 2014 Moody's changed to negative outlook from stable the notes issued by TW(K)F, reflecting the risk that the current price review will result in reduced financial flexibility and capacity to meet debt servicing obligations.

Whilst the negative outlook statements from Moody's are clearly of concern, this indicates concerns around the uncertainty of PR14 rather than representing a fundamental issue for the purposes of the KWH Group's or TWUL's going concern.

Net debt

During the year TWUL raised £715.0m of debt in the form of bilateral loans. TWUL also settled its finance leases and as a result the Group no longer has any assets held under finance lease arrangements. The overall effect, together with the indexation on the Group's inflation linked debt instruments was to increase the Group's reported net debt to £10,122.7m at 31 March 2014 (£9,606.5m at 31 March 2013).

On 21 May 2013, KWF executed an amendment on its £425.0 million Facilities Agreement after receiving unanimous lender consent. The amendments were to extend the maturity date of the £150.0 million facility from 31 March 2014 to 30 September 2015 and the margin was aligned with the other drawn element of £200.0 million which matures in March 2016. At 31 March 2014, £350.0 million of the £425.0 million Facilities Agreement were drawn (2012/13: £350.0 million).

A summary of the Group's net debt by the different types of debt (shown in the basis used for covenant calculations) is as follows:

Net debt analysis	31 March 2014 £ m	31 March 2013 £ m
Subordinated debt (Kemble Water Finance)		
Net debt (covenant basis)	721.1	725.4
Securitised group (TWUL and subsidiaries)		
Class A net debt (covenant basis)	7,925.6	7,391.4
Class B net debt (covenant basis)	1,046.6	1,046.6
Total net debt (covenant basis)	9,693.3	9,163.4
Net debt excluded from covenants	429.4	443.1
Kemble Water Holdings Group reported net debt	10,122.7	9,606.5

The net debt excluded from the covenants includes cash and investments held in companies that are excluded from covenant calculations, the bonds held in KWE (as these are owned by the Group's shareholders) and the fair value adjustment made to the Thames Water Group's borrowings on acquisition by Kemble Water consortium.

Servicing of debt

TWUL, as the principal trading subsidiary of the Group, is the entity that generates substantially all the cash needed by the Group to service borrowing made against RCV.

For the debt held outside the securitised group, TWUL's dividends are passed up the Group structure and provide the funding to TW(K)F and KWF to enable these companies to services the debt of £750.0 million (2012/13: £750.0 million) held at this level.

Within the securitised group, TWUL is an obligor, underwriting all the securitised debt which at 31 March 2014 consisted of gross borrowings of £9,835.9 million (2012/13: £9,121.4 million). In addition to the debt it holds directly, it also, through the on-lending arrangements for TWUF's and TWUCFL's borrowings, services the debt held in those companies.

The diagram on page 16 shows how the dividends paid by TWUL have been utilised within the Group:

Covenant compliance

Under the terms of its finance documents, the Group is required to comply with various covenants such as interest cover (post maintenance interest cover ratio ("PMICR")) and net debt to RCV. These covenants are measured and submitted to lenders semi-annually and involve both actual data and forecasts. The covenants are calculated for the securitised group and for the KWF group. Key financial covenants are shown below:

Covenant	Actual	Trigger	Default
Kemble Water Finance consolidated group			
Group net debt to RCV	83.8%	92.5%	95.0%
PMICR	1.47x	N/A	1.05x
Securitised group (TWUL and subsidiaries)			
Senior net debt to RCV	77.6%	85.0%	95.0%
Senior PMICR	1.8x	1.1x	N/A
Class A net debt to RCV	69%	75%	85%
Class A PMICR	2.2x	1.3x	1.1x

The Group was in compliance with all its covenants at 31 March 2014.

The Group has a number of controls in place to ensure compliance with its financial covenants. All the covenants are calculated monthly, including forward looking calculations to the end of the AMP period, and reviewed by the TWUL executive, the Group's board and the shareholders. In addition, the regulated nature of the Group's principal business gives a relatively high degree of certainty as to the forecast cash flows of the Group, which is further supported by a rigorous monthly cash flow forecasting process. The hedging policy under the Whole Business Securitisation requires 85% of debt within the Securitisation Group to be either at a fixed rate of interest, or index linked. This gives the Group a high level of certainty over the cash interest cost.

Finally, the Group assesses the ratio of Senior Net Indebtedness (TWUL Senior Debt/RCV above) to the level of both the stated RCV and the RCV taking into account the Group's best estimates of adjustments that will be made at the beginning of the next AMP period.

These factors give the Group the confidence that it can operate within the financial covenants listed above.

Equity

The Company has £1,991.6 million of share capital (2012/13: £1,991.6 million). In addition, the shareholders own, in direct proportion to their shareholdings, £310.4 million of bonds issued by the Company's immediate subsidiary, KWE. The Group considers these bonds as part of the shareholder's investment in the Group and whilst the interest on these bonds take priority over the payment of a dividend by the Company, the Board considers the payment of the interest as part of the overall distribution to shareholders under the dividend policy described on page 16. The bonds are included in the Group's net debt at 31 March 2014 of £10,122.7 million (2012/13: £9,606.5 million). However, they are excluded from the calculations of net debt for the purposes of covenant compliance calculations.

Interest of £54.9 million (2012/13: £17.5 million) was paid in 2014 on the bonds issued by KWE, which together with dividends of £45.1 million (2012/13: £74.5 million), made the total distribution to shareholders in 2014 £100.0 million (2012/13: £92.0 million).

TWUL's performance review

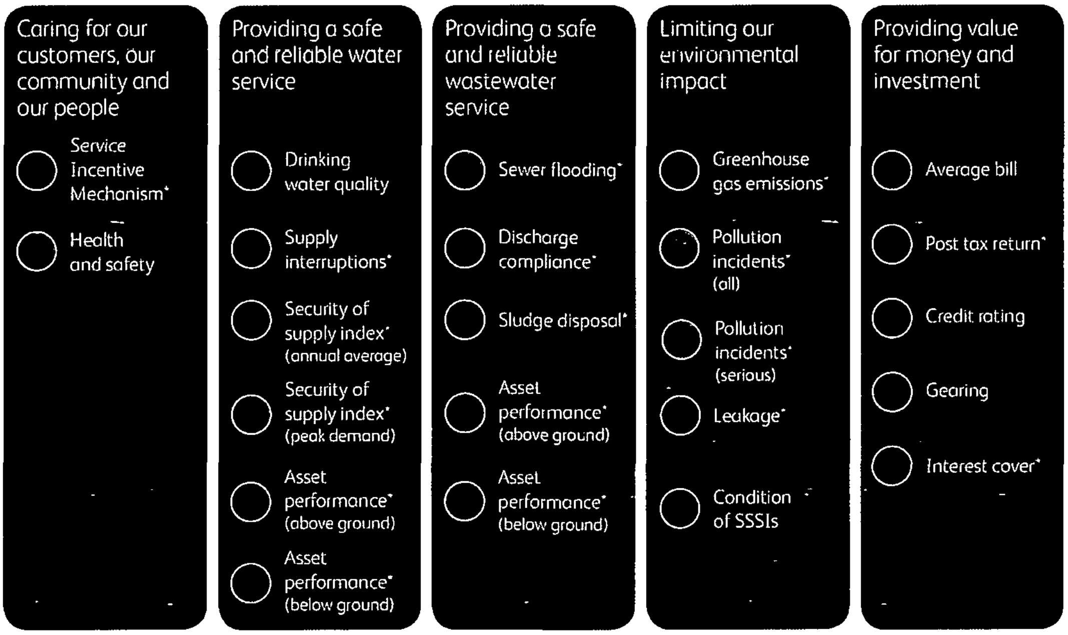
As the Group's performance is largely dependent upon the regulated business within TWUL, pages 24 to 35 of this report are an extract from the business review contained within the TWUL annual report. That section explains the operating and financial performance of TWUL.

Key performance indicator summary

The summary dashboard shown below gives an overview of some of the most important KPIs we use to measure our performance, grouped together by the outcomes we aim to achieve. We assign each indicator a red, amber or green rating to show how we've performed in the year against a benchmark set either by Ofwat or by our own criteria where we have identified other important measures. We define these ratings as follows:

Green Performance at or above our benchmark
Amber Performance slightly below our benchmark
Red Performance significantly below our benchmark (we have no measures classified as red)

In this table KPIs identified with an * represent those KPIs we are required to report on to Ofwat.



We have graded our Service Incentive Mechanism statistic as 'green' as our score in the current year of 70.67 is greater than the threshold of 50 as set by Ofwat. Although we have seen a 12.3% improvement in this metric we are well below the industry average and we recognise we need to continue to make significant improvements.

For the 2013 calendar year we have reported two different sewage treatment works discharge compliance scores. This is because on 30 April 2014, the Environment Agency ("EA") issued a revised set of compliance scores, which saw our reported compliance for 2013 reduce from 99.14% to 95.71%. The EA has recommended that we report both figures in our KPI dashboard.

The difference is due to a change in the reporting methodology. The regulations relating to the Urban Wastewater Treatment Directive define a minimum number of samples which should be taken each year. On the occasions when we could not take a sample from a sewage works because no treated effluent was being discharged, we did not reschedule these samples. The EA previously considered this an acceptable practice, but has recently told us that it has changed its position and that the revised approach should be applied retrospectively to our compliance figure for 2013. There is no suggestion that the approach we took to sampling caused any damage to the environment.

Caring for our customers

Providing a good and reliable level of service is essential to our business. We have 15 million customers and we aim to demonstrate to all that we can deliver the basics excellently, that they can trust us, we are easy to do business with and that we care.

Improving our customer service

Service Incentive Mechanism: 70.67 (2012/13: 62.9)

We measure customer satisfaction using a two part Service Incentive Mechanism (SIM). The first part allocates a penalty point for each unnecessary contact and complaint made by customers. This includes every occasion on which a caller cannot get through on our telephone lines as well as any abandoned calls. The second part gauges customer satisfaction by independently surveying a sample of those people who have contacted us. The maximum score is 100, and we have graded ourselves as 'green' status as our score is greater than or equal to 50, in line with Ofwat methodology.

Customer service continues to be a key area of focus for us given that our score remains well below the industry average. Our work throughout the year has been rewarded with a 12.3% improvement in our performance against this metric and as such 2013/14 is our best year yet.

Our written complaints are at the lowest level we have ever reported in a single year at 21,915 (2012/13: 32,232) from a total of 4.3 million phone calls and 0.6 million written enquires in 2013/14. This is a reduction of approximately a third on last year, despite the increased volume of calls during the wet winter period. The number of calls to our call centres abandoned by the customer has reduced to 3%, the lowest level we have reported since 2003.

We have also improved our response to complaints, resolving nearly 90% of cases when the customer first wrote to us. We have also made significant progress in reducing unnecessary customer contacts, improving our performance by over 25% from last year.

For those instances where we do get it wrong, 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 are available on our website.

Throughout the year, we continued to provide free extra help to customers who require assistance because of disability or other personal circumstances. Over 58,000 customers were registered for our Extra Care Services in 2013/14 which is over 1,600 more than during the previous year.

We continue to provide financial help for customers who are struggling to pay their bills. This includes donations of £2.1 million to our Customer Assistance Fund which provides help for 3,426 customers and £254K to the Thames Water Trust Fund, who have directly assisted 152 customers and provide assistance to organisations offering debt advice to local residents.

We continue to monitor our customer satisfaction ("CSAT") scores daily based on our own surveys, and have seen improving trends. Using our internal CSAT monitor, 191,515 surveys have been completed across revenue, water and waste services during 2013/14, with the key results shown overleaf compared to prior year.

Area of Internal Survey	2012/13 CSAT	2013/14 CSAT	Change
Revenue	4.21	4.47	+0.26
Waste contractor	4.09	4.42	+0.33
Waste field	2.81	3.57	+0.76
Water field	3.31	3.67	+0.36
Overall CSAT Score	**3.61**	**4.03**	**+0.42**

As can be seen, all areas have shown improvement over 2013 in their internal CSAT scores, but amongst these improvements we have noted we acknowledge that there is much more still to do – we need to improve further by consistently fixing urgent customer problems, keeping our promises and keeping our customers fully informed about service disruptions. Reaching our customer services goals is a key underpin of management's performance metrics in 2014/15.

Listening to our stakeholders and being a good neighbour

We aim to contribute positively to the community, to be a good neighbour and to act on the views of our stakeholders. We listen to our stakeholders in the community and where possible we will act on their views.

In May 2013 we began an eight week public consultation to seek views on our business plan for the period 2015-2020 including hosting 'roadshow' stands and community events. We spoke to more than 5,000 people during these events and additionally we have held regular meetings with our Customer Challenge Group. This is an independent body whose members come from a range of stakeholder groups and their role is to ensure customers views have been properly considered within our proposals. We have used this feedback to inform our plans into the future, including the Business Plan which we submitted to Ofwat in December 2013.

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 1,500 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. Our educational activities have reached a total of more than 15,000 young people including our community speaker program and the Network Challenge where we invite students to set up their own water supply network.

Our employees can each take two days leave for volunteering activities. In 2013/14, the number of volunteering opportunities taken up by staff rose from 1,074 to 1,092. The Company has made charitable donations in the year totaling £533K which has been paid to the following charitable organisations:

- £259K to Ten for Ten projects, of which £5K went to various educational and recreational projects, and £254K to the Thames Water Trust Fund for income deprived families.
- £118K to the Charities Aid Foundation.
- £61K to the Company's principal charity, WaterAid.
- £60K to Thames21, a range of charities which assist in cleaning rivers and streams in the Thames Valley.
- £35K of other donations.

Our employees also raised £120K either by taking part in fundraising for their chosen charity or through our payroll giving scheme. We are pleased to support our colleagues and matched this to a total of £45K.

Caring for our people

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.

Health, safety and wellbeing

Health & Safety: 0.25 reportable injuries per 1,000 employees (2012/13: 0.25)

Health and safety remains the top business priority for all our staff and the thousands of contractors who work with us and we are all focused on achieving our highly challenging target of zero incidents.

The Board adopts a no compromise mentality to health and safety in all aspects of the Company's operations and is committed to learning from and improving our processes whenever an incident occurs. This is our core message and is central to our vision for all staff, contractors and site visitors which is:

Zero incidents
Zero harm
Zero compromise
Keeping **you healthy** and **safe, every day** at **work**

Alongside the implementation of our vision we have further empowered our employees to challenge any unsafe act or condition without fear of reprisal. Additionally we have enhanced the profile of Health and Safety within the organisation through increasing the volume of health and safety training we provide by approximately 50%. In particular we have introduced the NEBOSH (National Examination Board in Occupational Safety and Health) General Certificate in Occupational Health and Safety as a qualification for our managers, a first for the water industry and we have already seen the first 150 managers now complete the course.

All lost time injuries to one of our employees, our contractors' employees or a member of the public is reviewed by a member of our senior management. This also includes a review of any significant incident which occurs but does not necessarily lead to injury. This approach has enabled more productive discussions to be held at the conclusion of any incident investigation providing senior management with confidence that local management actions taken are appropriate and shared across the organisation.

Additionally in the year we have introduced a series of formal health and safety risk based audits. The objective of these audits is to provide assurance that the Company is compliant with its legal obligations and is demonstrating strong governance and best practice control in relation to a number of selected risk topics. Audits conducted in the 2013/14 financial year have included: mobile plant and traffic management, oil & chemical storage, electricity management and fire management.

The implementation of our vision, alongside the associated extensive training and communication programme, has resulted in noticeable improvements in health and safety during the year. Major injuries have fallen by 36% and lost time injuries have decreased by 19% from the previous year to 106. In total all injuries have fallen by 18%. Raising the profile of occupational health along with a range of initiatives has resulted in a 20% reduction in the number of days off work following an injury.

Our key performance indicator, based on the rate of reportable incidents under RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations), has remained the same as in the year before at 0.25 injuries per 1,000 employees. Despite the other improvements in health and safety that we have achieved; as we have not achieved our target of more than a 10% improvement on our performance against this metric from the prior year we have awarded this an 'amber' rating in acknowledgement that we have further to progress in order to achieve our vision.

These metrics constitute real evidence that the continued focus on health and safety, not just by our employees, but by our contractors and suppliers, is making a difference to the way we operate as an organisation.

Developing our staff

We aim to attract a high calibre and diverse workforce and we work to make sure our people have the right skills and opportunities. We aim to ensure our reward and recognition schemes are industry leading.

During 2013/14, our people completed more than 16,000 formal learning and development days across all disciplines, including operations, health and safety, and customer service. Our commitment to developing our own talent is shown by the success of our Apprenticeship Programme which has been running for many years. We currently employ 45 apprentices and plan to take on a further 30 in 2014/15. We also have 18 employees on our Graduate Programme, which seeks to nurture future people managers and leaders, and plan to employ a further 27 later this year.

Diversity

At Thames Water our aim is to attract highly talented individuals who are innovative and can contribute to furthering Company performance. We seek to hire a cultural mix of people who can offer different but complementary attitudes, values, talents and knowledge. We understand the importance of appreciating the unique skills, experiences, background and differences that each individual possesses and that by recognising and celebrating these differences creates a better atmosphere in which everybody feels valued, talents are fully developed and organisational goals are met.

To support this we aim to provide rewarding careers and a supportive working environment that provides an opportunity for all to utilise their talents and which creates a working community that promotes inclusion and encourages individuality. These aspects are central to the growth and success of our Company.

Illustrating this diverse workforce 116 (26.4%) of our senior management team are female and across our total workforce 1,373 (29.3%) of all employees are female.

We are clear that we do not tolerate discrimination under any circumstances and that opportunities should be available to all. We have policies and procedures in place to ensure this is maintained throughout the Company, and this ethos is supported by our corporate values.

Disability

Aligned with the Company's stance on diversity the Company is fully committed to ensuring that existing or potential future employees with disabilities are not treated less favourably than any other such person without a disability and that they are fully integrated into the work environment. Disabilities are not only restricted to disabilities that can be seen, but include physical, mental and sensory impairments, such as those affecting sight or hearing.

The Company is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995 and has policies and procedures in place that aim to 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.

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

The Company acknowledges the UN Guiding Principles on Business and Human Rights and has policies and procedures in place which ensures we are compliant with these requirements and that this is enforced throughout the Company.

Our Code of Conduct publically 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.

Our contractors are required to abide by the provisions of this Code when they are operating on our behalf. We also require all suppliers and contractors to undergo health and safety assessments which are conducted independently by the Achilles UVDB organisation using their utilities verification and assessment scheme.

Ethical Behaviour

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. We are committed to the highest standards of honesty and integrity in all aspects of our operations. Our Code of Conduct helps us to meet this commitment by clearly setting out the behaviours we expect of our employees, and we have separate Honest and Ethical Behaviour policies and procedures in place. We have a confidential 24 hour whistleblowing helpline available to all employees, where individuals can ask questions or raise concerns.

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

Drinking Water Quality: 99.99% compliant (2012/13: 99.97%)

We provide 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 102 water treatment works and distributing it to our customers through our network of water mains.

Our drinking water quality remains amongst the best in the world. In 2013/14 we took approximately 420,000 samples from throughout our supply network and carried out 458,000 tests to ensure our water met stringent UK and European standards. For 2013/14 we achieved a compliance score of 99.99%, our highest ever, and as such we are ranked amongst the highest in the industry and have graded this metric 'green'.

The number of customer contacts related to drinking water quality remained at a very low level, falling from 0.69 per thousand people in 2012/13 to 0.65 in 2013/14. We have continued with our programme of lead pipe replacement and last year replaced almost 10,400 pipes to keep us on target for meeting the tightening lead standards in drinking water.

However we acknowledge the need for improvement against the Drinking Water Inspectorate's 'Reservoir Integrity Index' which monitors the quality of samples taken from underground storage reservoirs. In 2013/14, 99.93% of samples passed the relevant tests. Although this is consistent with previous years it is not as good as we would like it to be, and we have a range of measures in place to improve our score.

Providing a reliable supply of water

Security of Supply Index (average): 100 (2012/13: 100)

Security of Supply Index (peak): 99 (2012/13: 100)

We use the Security of Supply Index (SOSI) to measure the reliability of our water supplies in the long term. This compares the level of available water against demand and thus represents a measure of our ability to meet that demand. The SOSI is assessed over a full year (annual average) and over a peak week which occurs in the summer (peak period) to measure our demand in hot dry weather. The maximum score that we can achieve is 100.

Average usage per head is approximately 160 litres per person per day, which is around 10 litres above the national average. During the year the demand for water peaked for two weeks in July which represented the highest level of demand in our region since 1995. This, combined with higher than anticipated leakage levels in the Guildford area, resulted in our index score for the peak demand dropping to 99, which is below our target, however as we are on course to meet our target in the next year we have graded this as 'amber' in accordance with Ofwat methodology. We achieved the maximum level of 100 on the basis of the annual average, which is the maximum value and as such we have graded this metric as 'green'.

Population growth and climate change are likely to increase the future demand for water and we are proactively implementing solutions which will enable us to keep pace with the rapidly increasing demand. Our new 'smart' meters, which can be read remotely, will also help locate leaks on our pipes and those belonging to customers, allowing for expedient repairs and less water wastage. We began a long term project in February 2014 to progressively meter all properties, starting in Bexley. Installing more meters will be vital in ensuring we have sufficient supplies to meet demand in the future

Our water efficiency programme aims to help domestic customers and businesses reduce their water usage. We have exceeded our annual target for the past four years. During 2013/14, our activities resulted in a saving of 5.23 million litres per day, compared to the target figure of 4.42 million litres per day. As such and based on our performance in the year, we should never have to apply severe water restrictions.

We will be continuing our investment in this area with the intention of returning our peak performance score to 100; however, during prolonged periods of very dry conditions, and as a last resort, we may still be required to introduce a hosepipe ban.

Water Supply Interruptions: 0.20 hours (2012/13: 0.22 hours)

We measure the reliability of our supplies by calculating the average amount of time for which each property we supply was without water. On average each property was without supply for 12 minutes, although the majority of customers experienced no interruptions. We have awarded this metric as 'Green' status as this is below the historic average value, in line with Ofwat methodology.

However, there was a significant rise in the number of properties without water for more than 12 hours. During the year more than 6,000 properties were affected, of which over 4,000 were a result of nine events caused by burst mains and power supply issues. We will continue to focus on improving our response to burst mains and are reviewing our power resilience capability.

Looking after our assets

Asset Performance (above ground): Stable (2012/13: Stable)

Asset Performance (below ground): Stable (2012/13: Stable)

The ongoing performance of our water mains, pumping stations and treatment works (serviceability) is measured by analysing trends in performance against a range of measures. This analysis shows that the performance of our assets remained stable last year, and 'green' status has been awarded in line with Ofwat methodology.

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

Sewer Flooding: 471 incidents (2012/13: 549)

We remove and safely treat 4,400 million litres of wastewater for 15 million customers every day. This includes collecting and transferring wastewater through our network of sewer mains and pumping stations, treating it at one of our 350 sewage treatment works and safely disposing of treated sludge.

Like many other parts of the UK, our region saw the wettest winter on record, which proved very challenging. Our sewer network was overwhelmed by flood water from rivers, rain water and groundwater, causing it to overflow in some places. The sewer flooding KPI measures incidents of internal flooding at properties which have repeatedly flooded. In 2013/14 there were 471 repeat incidents, which is a reduction of 78 from the previous year. Despite the reduction, we recognise that this is an unacceptable service failure for our customers and we still have much to do. 'Amber' status is given as the number is within the range around the 2008-2010 historic average, defined as 416-547 incidents, in line with Ofwat methodology.

The wet winter caused a significant increase in cases of external flooding. However, the number of flooding incidents caused by blockages fell by a third from the previous year. We also improved our average response time to calls about flooding. Additionally we have brought forward a scheme to reduce sewer flooding in the Counters Creek catchment in west London, and will now be spending an additional £26 million before April 2015 to reduce the risk of flooding in this area.

Treating wastewater and returning it safely to the environment

Sewage Treatment Works Discharge Compliance: 99.14% and 95.71% (2012/13: 99.13%)

As discharges from our sewage treatment works often make up a major proportion of flows in rivers, it is really important that we get our treatment processes right to maintain the health of the river. The Environment Agency is responsible for setting quality standards at each of our 350 sewage treatment works. The discharge compliance KPI measures our compliance with these quality standards.

For the 2013 calendar year, we have reported two different sewage treatment works discharge compliance scores. This is because on 30 April 2014, the Environment Agency ("EA") issued a revised set of compliance scores, which saw our reported compliance for 2013 reduce from 99.14% to 95.71%. The EA has recommended that we report both figures in our KPI dashboard.

The difference is due to a change in the reporting methodology. The regulations relating to the Urban Wastewater Treatment Directive define a minimum number of samples which should be taken each year. On the occasions when we could not take a sample from a sewage works because no treated effluent was being discharged, we did not reschedule these samples. The Environment Agency previously considered this an acceptable practice, but has recently told us that it has changed its position and that the revised approach should be treated retrospectively to our compliance figure for 2013. There is no suggestion that the approach we took to sampling caused any damage to the environment.

In a letter to us dated 9 June 2014, the EA said that *"we recognise that this was a mistake due to a misunderstanding of how to deal with 'no flow' samples ... Unfortunately, we did not pick this up early enough to advise the Company to make up the shortfall. Such 'no flow' samples had been accepted in the past. We note that these failures did not result in any environmental impact."*

To ensure we can meet our standards and our customers' needs in future, we have carried out work on five major sewage works along the tidal River Thames. This has increased capacity by 41% at our Beckton works and by 62% at our Crossness works, to meet future demands and quality standards. Additionally we have increased the treatment capacity at eight other works in areas where population is growing and improved the quality of effluent at 14 other works, including three which are due for delivery in 2015.

Limiting odour

We aim to minimise the odours that can occasionally arise at our sewage treatment works and cause an issue for residents living nearby. During 2013/14 we completed work to reduce the risk of odour at our Slough site, and have ongoing work at Beckton in east London, and Long Reach in Dartford, both of which we are due to finish in 2015.

Disposing of sludge

Satisfactory Sludge Disposal: 100% (2012/13: 100%)

Sewage sludge is the main by-product of the wastewater treatment process. This KPI measures the percentage of sludge we dispose of safely. The production, treatment and recycling, reuse or disposal of sewage sludge is controlled by comprehensive legislation, with which we maintained 100% compliance in 2013/14 and so we have graded this metric as 'green'.

Looking after our assets

Asset Performance (above ground): Stable (2012/13: Stable)

Asset Performance (below ground): Marginal (2012/13: Marginal)

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 on our network, and the number of pollution incidents and compliance with discharge consents at sewage works.

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'.

We have assessed performance of our below-ground wastewater assets, however, to be 'marginal' and graded this as 'amber' in line with Ofwat methodology. This grading has been driven by a marginal performance assessment of the pollution and sewer flooding other causes indicator. This was due to a number of factors, such as slower response times to problems with our sewers, the continuing impact of our adoption of privately-owned sewers, and the severe winter weather.

We are continuing to implement our recovery and action plans and forecast that our performance will return to 'stable' over the next year. As part of this action plan, we have undertaken nearly 125 miles of additional sewer cleaning, worked with our contractors to reduce response times, installed a large number of additional monitors to our network to detect when problems are likely to occur, extended our 'Bin it don't block it education programme to 80,000 customers and sent fat munching bacteria sachets to 10,000 customers.

Reducing sewage overflows in London

Major work is progressing to upgrade London's sewer system and tackle the growing problem of overflows to the tidal River Thames. Construction is well under way on the Lee Tunnel, which will help prevent more than 16 million tonnes of sewage entering the River Lee each year. The second of these two new sewers is the proposed Thames Tideway Tunnel, which will address discharges of sewage into the Thames and is expected to be delivered by a separately regulated entity. It will be 15 miles long, and will be one of the longest and deepest tunnels under London. Both sewers will transfer wastewater to our biggest treatment works, at Beckton in east London. The third part of the solution is the improvements to our five major sewage treatment works in London, all of which discharge into the Thames.

Protecting the environment

What we do impacts on 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

Managing our emissions

Greenhouse Gas Emissions: 739,157 tCO_2e (2012/13: 770,322 tCO_2e)

We calculate our greenhouse 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 Defra.

Operational Greenhouse Gas Emissions ("GHG") within the regulated business are calculated annually for use in company performance reporting 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)
- 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 ("CO_2e"), and are independently audited by CH2MHill.

Our total GHG emissions have fallen from 770,322 tCO_2e in 2012/13 to 739,157 tCO_2e which represents a decrease of 4.0%. Additionally the annual quantity of emissions arising from the purchase of electricity consumed plus transmission and distribution has decreased from 534,763 tCO_2e to 500,940 tCO_2e, a decrease of 6.3%. We have graded this as 'green' status as we are in line to meet our projected target for 2015 within the tolerances specified within Ofwat's methodology.

The overall decrease in our GHG emissions was predominately due to a change in Government accounting practices. Defra has changed the method for converting energy use into carbon emissions from a five year rolling average approach to conversion factors based on a single average factor for a particular year. The level of GHG emissions arising from our normal business operations can be expressed as follows:

	2013/14	2012/13	% Change
Operational GHG emissions per Ml of treated water	270.9 kgCO2e/Ml	298.2 kgCO2e/Ml	-9.2%
Operational GHG emissions per Ml of sewage treated	272.5 kgCO2e/Ml	266.1 kgCO2e/Ml	+2.4%

Our energy consumption increased in 2013/14 due to the exceptional winter rainfall and rising wastewater quality requirements which meant we had to pump significantly more wastewater through our sewers than during a typical winter. The impact of the additional energy demand was partially offset by our energy efficiency activity.

In 2013/14 we generated 156 GWh of renewable electricity at our operational sites, the same as 2012/13. This was achieved despite a range of challenging factors, including operational problems and the very high winter rainfall, which diluted sewage, reducing the amount of biogas we could produce and use to generate renewable energy. We used 154 GWh of this energy ourselves and exported the remainder to the National Grid. A total of 12.7% of our electricity requirements were covered by self-generated renewable electricity.

On 1 April 2014 we won Carbon Reduction Initiative of the Year at the national Water Industry Achievement Awards for an innovative scheme at Lower Basildon sewage treatment works. We used specially planted reed beds to filter wastewater, removing the need to import additional power to the site. We remain accredited to the Carbon Trust Standard, which recognises our efforts to reduce carbon emissions.

Preventing pollution incidents

Pollution Incidents (all sewerage): 89.6 incidents per 10,000km sewer (2012/13: 68.49)

Pollution Incidents (serious sewerage): 3.22 incidents per 10,000km sewer (2012/13: 2.34)

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. For the calendar year ended 31 December 2013, the total number of Category One and Two pollution incidents was 22, an increase of six from the previous year. The number of Category Three pollution incidents increased by 28% to 590 incidents. 'Amber' status has given where the number is within a defined range, around the historic water industry average for 2008-2010. For the current financial year this was:

- For all sewerage incidents: 50-130 incidents
- For serious sewerage incidents: 1.5-4.0

The increase was partly due to the heavy rainfall at both the start and end of the year, which in some areas breached the capacity of sewers and flooded pumping stations. We continue to work hard to prevent pollution taking place and to improve our response when it does. Every Category One and Two pollution incident is thoroughly investigated and is subject to a thorough review with our Chief Executive Officer and Operations 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 in a different location.

During the calendar year ended 31 December 2013, our average response time reduced and we focused on priority activities. By the end of the year, we were attending 79% of incidents within an hour, a significant increase from 48% in April 2013 despite the exceptionally heavy winter rainfall.

Leakage

● **Leakage: 644 million litres per day (2012/13: 646)**

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 Ml/d) for the eighth year running, with leakage in 2013/14 two million litres per day lower than the previous year.

Making environmental and wildlife improvements

● **Condition of Sites of Special Scientific Interest (SSSI): 99% (2012/13: 99%)**

Much 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. We have again met the target set by Natural England for the positive management of SSSIs, with more than 99 per cent of those for which we are responsible classified as 'favourable' or 'unfavourable recovering'. We award this metric as 'green' where the percentage of sites in the top two categories exceeds 95%.

Recycling waste

In 2013/14 we recycled, or sent to a recycling facility, 99.8 per cent of the waste produced from our capital projects, including spoil from road works. Increasing landfill taxes and a declining number of landfill sites encourage an increased focus on recycling. Waste is now recognised as a valuable commodity as most can be recycled to generate income.

Post Balance sheet events

These have been detailed within the notes to the financial statements on page 90.

Approved by the Board of Directors on ~~8~~ 10 June 2014 and signed on its behalf by:

J Hanson

J Hanson
Company Secretary
Clearwater Court
Vastern Road
Reading RG1 8DB

Kemble Water Holdings Limited

Directors' report

The Directors present their report and the audited financial statements of Kemble Water Holdings Limited and its consolidated subsidiaries for the year ended 31 March 2014.

Future outlook

The future outlook of the Group is discussed in the chairman's report.

Dividends

Information on dividends is disclosed in the strategic report.

Financial instruments and risk management

Information on the use of financial instruments by the Group and its management of financial risk is disclosed in the strategic report.

Operations outside the UK

There are no active operations outside of the UK.

The Group has a company registered in the Cayman Islands. It solely acts as a financing vehicle for TWUL and its operations are conducted entirely within the UK. Therefore the company is considered to be (and has always been considered) resident in the UK for tax purposes.

Directors

The directors who held office during the year ended 31 March 2014 and to the date of signing were:

Director	Appointments	Resignations
Sir Peter Mason KBE		
E Beckley		
R Blomfield-Smith		
D Buffery	13 December 2013	
C R Deacon		
Dr P Dyer		
S R Eaves		
C Heathcote	21 June 2013	
N Horler	14 April 2014	
G I W Parsons		21 June 2013
K Roseke		24 May 2013
D J Shah		
L Webb		
D Xu		

During the year under review, none of the directors had significant contracts with the Company or any other body corporate within the Group, other than their contracts of service, except as disclosed in note 31 to the accounts.

Kemble Water Holdings Limited

Directors' report (continued)

The following directors have formally appointed alternate directors to represent them when they are unavailable:

Director	Appointment	Resignation	Alternate director	Appointment	Resignation
E Beckley			G Parsons		
R Blomfield-Smith			P Noble		
D Buffery	13 December 2013		D Rees	22 April 2014	
C R Deacon			R Evenden		16 August 2013
Dr P Dyer			R Greenleaf	31 July 2013	
S R Eaves			Marcus Hill		
C Heathcote	21 June 2013		G Parsons	21 June 2013	
K Roseke		24 May 2013	D Rees		24 May 2013
D J Shah *			C Van Heijningen		1 April 2014
L Webb			C Pham		
D Xu			F Sheng		

* K Roseke replaced C Van Heijningen as alternate for D Shah with effect from 1 April 2014

Employment of disabled persons

The Group is committed to fulfilling its obligations in accordance with the Disability Discrimination Act 1995. The Group has policies and procedures in place that aim to 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.

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.

Research and development

The Group's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities. Research and development deliver innovative technical solutions through a research programme aligned with business needs to address challenges for AMP5 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.9 million for the year (2012/13: £3.9 million).

Donations

No political donations were made by the Group (2012/13: £nil).

Going concern

The directors believe, after due and careful enquiry, that the Group has sufficient resources for its present requirements and therefore consider it appropriate to adopt the going concern basis in preparing the 2014 financial statements. Further information is set out in note 1 'Basis of preparation' on page 47.

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 Group'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 Group's auditor is aware of that information.

Directors' report (continued)

Directors' indemnities

The Group 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.

Auditor

Our external auditor informed us that for administrative reasons and to instigate the orderly wind down of its business they wished to formally change the entity which conducts the Kemble Water Holdings Limited audit and the audit of the majority of subsidiaries from KPMG Audit Plc to KPMG LLP.

At the Extraordinary General Meeting held on 31 October 2013, KPMG LLP was appointed as auditor of the company under section 485 of the Companies Act.

Approved by the Board of Directors on ~~8~~ 19 June 2014 and signed on its behalf by:

J Hanson
Company Secretary
Clearwater Court
Vastern Road
Reading RG1 8DB

Kemble Water Holdings Limited

Statement of directors' responsibilities in respect of the annual report and the consolidated 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 Group and parent company 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 Group and parent company and of their profit or loss for that period.

In preparing each of the Group and parent company financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;

• make judgments 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;

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

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its 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 Group and parent 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 Thames Water's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Kemble Water Holdings Limited

Independent auditor's report to the members of Kemble Water Holdings Limited

We have audited the financial statements of Kemble Water Holdings Limited for the year ended 31 March 2014 set out on pages 43 to 91. The financial reporting framework that has been applied in their preparation is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report 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 company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 40, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 March 2014 and of the Group's profit for the year then ended;
- have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion 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.

Independent auditor's report to the members of Kemble Water Holdings Limited

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records or 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.

W. Meredith

William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
10 June 2014.

Kemble Water Holdings Limited

Consolidated profit and loss account

	Note	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Turnover	2	**1,951.5**	1,803.6
Operating costs	3	**(1,357.6)**	(1,299.1)
Group operating profit		**593.9**	504.5
Profit on disposal of fixed assets	6	**22.0**	11.2
Profit before interest and taxation		**615.9**	515.7
Interest receivable and similar income	7	**42.2**	47.7
Interest payable and similar charges	8	**(558.6)**	(583.5)
Net interest expense		**(516.4)**	(535.8)
Profit/(loss) on ordinary activities before taxation		**99.5**	(20.1)
Taxation credit/(charge) on loss on ordinary activities	9	**74.1**	0.1
Profit/(loss) for the financial year	23	**173.6**	(20.0)

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

All amounts relate to continuing operations.

Kemble Water Holdings Limited

Balance sheets

		Group		Company	
		As at 31 March 2014	As at 31 March 2013	**As at 31 March 2014**	As at 31 March 2013
	Note	**£m**	£m	**£m**	£m
Fixed assets					
Intangible assets	12	**1,468.7**	1,513.8	-	-
Tangible assets	13	**11,768.7**	11,173.2	-	-
Investment in joint ventures:					
Share of gross assets		**3.6**	3.6	-	-
Share of gross liabilities		**(3.6)**	(3.6)	-	-
Other fixed asset investments	14	-	-	**1.0**	1.0
		13,237.4	12,687.0	**1.0**	1.0
Current assets					
Stocks	15	**9.1**	8.5	-	-
Debtors	16	**573.4**	546.9	**3,096.7**	3,488.9
Investments	17	**919.2**	790.7	-	-
Cash at bank and in hand		**15.6**	31.7	-	-
		1,517.3	1,377.8	**3,096.7**	3,488.9
Creditors: amounts falling due within one year	18	**(1,710.5)**	(1,398.1)	**(0.7)**	(623.5)
Net current assets/(liabilities)		**(193.2)**	(20.3)	**3,096.0**	2,865.4
Total assets less current liabilities		**13,044.2**	12,666.7	**3,097.0**	2,866.4
Creditors: amounts falling due after more than one year	19	**(10,486.4)**	(10,165.5)	-	-
Provisions for liabilities and charges	21	**(938.1)**	(994.6)	-	-
Net assets excluding net pension liability		**1,619.7**	1,506.6	**3,097.0**	2,866.4
Pension assets, net of deferred tax		**29.7**	27.7	-	-
Pension liabilities, net of deferred tax		**(180.2)**	(214.6)		
Net pension liability	27	**(150.5)**	(186.9)	-	-
Net assets		**1,469.2**	1,319.7	**3,097.0**	2,866.4
Capital and reserves					
Called up share capital	22	**1,991.6**	1,991.6	**1,991.6**	1,991.6
Profit and loss account	23	**(522.4)**	(671.9)	**1,105.4**	874.8
Total shareholders' funds		**1,469.2**	1,319.7	**3,097.0**	2,866.4

The notes on pages 47 to 91 form an integral part of these financial statements.

The financial statements on pages 43 to 91 were approved by the Board of directors on 10 June 2014 and signed on its behalf by

Sir Peter Mason KBE
Chairman
Kemble Water Holdings Limited, registered number: 5819262

Kemble Water Holdings Limited

Consolidated cash flow statement

	Note	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Cash inflow from operating activities	28(a)	**1,157.8**	1,007.3
Returns on investments and servicing of finance	28(b)	**(406.3)**	(368.9)
Taxation		**0.0**	(9.7)
Capital expenditure and financial investment	28(c)	**(1,103.0)**	(1,025.0)
Acquisitions and Disposals	28(d)	**(1.0)**	(43.3)
Equity dividends paid to shareholders and forfeited dividends	10 & 23	**(43.6)**	(74.5)
Net cash outflow before management of liquid resources and financing		**(396.1)**	(514.1)
Management of liquid resources	28(f)	**(128.5)**	(107.9)
Net cash outflow before financing		**(524.6)**	(622.0)
Financing			
Net cash inflow from increase in debt and lease financing		**588.8**	519.8
Increase/(decrease) in net cash	28(e)	**64.2**	(102.2)

Reconciliation of net cash flow to movement in net debt

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Increase/(decrease) in net cash	**64.2**	(102.2)
Cash inflow/(outflow) from increase/(decrease) in debt and lease financing:		
- loans due within one year	**(395.1)**	124.1
- loans due after more than one year	**(300.7)**	(718.2)
- capital repayment of finance leases	**107.0**	74.3
Cash inflow from increase in liquid resources	**128.5**	107.9
Decrease in net debt resulting from cash flows	**(396.1)**	(514.1)
Other non-cash movements:		
- RPI uplift on index-linked bond and debt issue cost amortisation	**(137.4)**	(140.6)
- profit on settlement of finance leases	**5.9**	-
- fair value amortisation on loans at acquisition	**11.4**	10.2
Increase in net debt	**(516.2)**	(644.5)
Opening net debt	**(9,606.5)**	(8,962.0)
Closing net debt	**(10,122.7)**	(9,606.5)

Kemble Water Holdings Limited

Group statement of total recognised gains and losses

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Group profit/(loss) for the financial year	**173.6**	(20.0)
Exchange adjustments	**-**	(0.6)
Actuarial gain/(loss) on pension scheme (see note 27)	**40.8**	(106.6)
Deferred tax on actuarial gain/loss on pension schemes	**(21.3)**	21.2
Total recognised gains/(losses) relating to the year	**193.1**	(106.0)

No items relating to joint ventures went through the statement of total recognised gains and losses.

Reconciliation of movements in shareholders' funds

	Group		Company	
	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
Profit/(loss) for the financial year	**173.6**	(20.0)	**275.7**	272.4
Exchange adjustments	**-**	(0.6)	-	-
Actuarial gain/(loss) on pension scheme (see note 27)	**40.8**	(106.6)	-	-
Deferred tax credit on actuarial loss on pension scheme	**(21.3)**	21.2	-	-
Dividend (see note 10)	**(45.1)**	(74.5)	**(45.1)**	(74.5)
Forfeited dividends (see note 23)	**1.5**	-	**-**	-
Net change in shareholders' funds	**149.5**	(180.5)	**230.6**	197.9
Opening shareholders' funds	**1,319.7**	1,500.2	**2,866.4**	2,688.5
Closing shareholders' funds	**1,469.2**	1,319.7	**3,097.0**	2,866.4

1 Principal accounting policies

The following accounting policies have been applied consistently in dealing with items which the Group and Company considered material in relation to the financial statements, except as noted below.

Basis of preparation

The financial statements 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 accounting policy (f) below.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, the financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the Strategic Report.

The directors believe, after due and careful enquiry, and noting that the Group is in a net current liabilities position at the year end, that the Group and the Company have sufficient resources for its present requirements and, therefore, consider it appropriate to adopt the going concern basis in preparing the 2014 financial statements. This is based upon the directors' review of the Group's financial forecasts for the forthcoming financial year, consideration of the Group's compliance with its covenants and the cash, current asset investments and available facilities.

Company cash flow statement

The Company has taken advantage of the scope exemption available under FRS 1 paragraph 5(a) and has not presented a cash flow statement as these financial statements contain a consolidated cash flow statement and are publically available.

Changes to accounting policies

There have been no changes to the accounting policies from those used for the year ended 31 March 2013.

The principal accounting policies adopted in the preparation of the financial statements are set out below.

(a) Basis of consolidation

The Group financial statements consolidate the financial statements of the Group and entities controlled by the Group (its subsidiaries), made up to 31 March 2014, and incorporate the results of its share of joint ventures using equity accounting.

(b) Subsidiaries

Control is achieved where the Group has the power to govern the financial and operating policies, generally accompanied by a shareholding of more than one half of the voting rights, of an investee entity so as to obtain benefits from its activities.

All intra-group transactions, balances, income and expenses are eliminated on consolidation.

(c) Other fixed asset investments

In the Company's financial statements investments in subsidiary undertakings are stated at cost less any provision for impairment.

1 Principal accounting policies (continued)

(d) Revenue recognition

Turnover represents the fair value of the income receivable in the ordinary course of business for goods and services provided and are recognised in accordance with FRS 5 "Reporting the Substance of Transactions". Turnover is recognised at the time of delivery of the service. Should the Group 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, judgement 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 as accrued income and prepayments.

When a new property is connected to the 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.

The Group 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 Group identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Group has not identified an occupant within 6 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.

(e) Intangible assets

Goodwill

Purchased goodwill arising on acquisition, being the excess of the purchase price over the fair value of the net assets of a subsidiary, is capitalised and amortised to nil using the straight line method over its estimated useful economic life of 40 years. Impairment tests on the carrying value are undertaken on an annual basis as the goodwill is amortised over a period greater than 20 years. These tests involve a comparison of the book value with the higher of the net realisable value and the value in use. A life longer than 20 years is deemed appropriate because the goodwill relates primarily to the regulated business of providing water and wastewater services, which is expected to generate stable revenues and there are significant barriers to entry to this business.

Profit or loss on disposal of a previously acquired subsidiary, joint venture or associated undertaking is determined after including the attributable amount of purchased goodwill.

Intangible assets currently comprise of licences and concessions. These assets are being amortised over their remaining useful lives of 8 years.

1 Principal accounting policies (continued)

(e) Intangible assets (continued)

Other intangible assets

Other intangible assets are measured initially at cost and are amortised on a straight-line basis over their estimated useful lives. Their carrying amount is reduced by any provision for impairment where necessary.

(f) Tangible fixed assets

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

The Group capitalises the directly attributable costs of procuring and constructing tangible fixed assets. 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 Group. 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 Group and the cost of the item can be measured reliably. Interest costs are not capitalised.

The estimated useful economic lives of fixed assets and their residual values are based on management's judgement and experience of the type of asset. These judgements 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.

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.

Land and Buildings

Land and buildings are stated at cost less accumulated depreciation. Freehold land is not depreciated. Buildings are depreciated down to their residual value over 15 to 60 years on a straight-line basis.

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

Assets under 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).

1 Principal accounting policies (continued)

(f) Tangible fixed assets (continued)

Infrastructure assets

Infrastructure assets comprise networks of below ground systems (water and sewerage 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") included within the total depreciation charge recognised in the profit and loss account.

The IRC recognised in 2013 reflects the Group's expenditure plans for infrastructure assets for the period 2010 to 2025 (AMPs 5 to 7) as presented in the 2009 Final Business Plan. The level of charge is kept under review and updated annually to reflect the current level of infrastructure renewals expenditure. All infrastructure assets recognised in the Group's balance sheet relate to the regulated business of TWUL.

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 1 to 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 financial effect of this departure is disclosed in note 13.

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.

Impairment of tangible and intangible assets excluding goodwill

Intangible assets and tangible fixed assets are assessed for impairment whenever there is an indication of such. 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of net realisable value, 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 non-current 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 therefore subjective.

1 Principal accounting policies (continued)

(g) 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.

(h) Current asset investments

Cash deposits with a maturity of greater than three months are classified as current asset investments within the balance sheet.

(i) Taxation

The tax expense or credit represents the sum of current tax and deferred tax.

Current taxation

Current tax, including UK corporation tax and foreign tax, is based on the taxable profit for the year and is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantially 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 and it further excludes items that are never taxable or deductible.

Deferred taxation

Deferred tax 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 date, except as otherwise required by FRS 19 "Deferred Taxation".

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all available evidence, it can be regarded as 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 average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted by the balance sheet date.

Deferred tax is charged or credited in the profit and loss account except when it relates to items charged or credited to equity, in which case the deferred tax is also dealt with via the Statement of total recognised gains and losses.

1 Principal accounting policies (continued)

(j) 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.

Finance leases

Finance leases are capitalised in the balance sheet at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability is shown as a finance lease obligation to the lessor. Leasing repayments comprise both a capital and a finance element. The finance element is written off to the profit and loss account so as to produce an approximately constant periodic rate of charge on the outstanding obligation. Such assets are depreciated over the shorter of their estimated useful lives and the period of the lease to the first break clause.

Operating leases

Operating lease rentals are charged to the profit and loss account on a straight-line basis over the period of the lease.

(k) Pension and other post-retirement benefits

The Group operates two defined benefit pension schemes. The Group accounts for these schemes in accordance with FRS 17 "Retirement Benefits".

These schemes are independently, administered funds, for the substantial majority of the Group's employees. 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 being determined on the advice of the actuaries, having regard to the results of these valuations. The Group believes that the assumptions utilised in recording obligations under the two schemes are reasonable based on prior experience, market conditions and the advice of 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 (a complete actuarial valuation is performed every three years). Defined benefit assets are measured at fair value while liabilities are measured at present value (which approximates to fair 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 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 difference between the expected return on scheme assets and interest on scheme liabilities are included within other finance income/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 Group 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 Group 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 represent contributions payable to the scheme.

The Group also operates two closed defined contribution pension schemes. The Group has no further payment obligations for these schemes. However, defined funds for individuals are held within these schemes.

1 Principal accounting policies (continued)

(l) Foreign currencies

Transactions in foreign currencies are recorded using the rate of exchange current on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into sterling at 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. The foreign exchange loss shown in reserves is as a result of revaluation of certain balance sheet accounts.

On consolidation, the balance sheets of overseas subsidiaries and joint ventures (none of which has the currency of a hyper inflationary economy) are translated into sterling at exchange rates applicable at the balance sheet date. The profit and loss accounts are translated into sterling using the average rate unless exchange rates fluctuate significantly in which case the exchange rate at the date the transaction occurred is used. Exchange differences resulting from the translation of such balance sheets at rates ruling at the beginning and end of the year, together with the differences between profit and loss accounts translated at average rates and rates ruling at the year end, are dealt with as movements on the profit and loss reserve as shown in the Statement of total recognised gains and losses.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing exchange rate. Foreign currency borrowings are recorded at the hedged rate at the balance sheet date.

(m) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and in hand, deposits, and other 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.

(n) 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 Group after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

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 to the profit and loss account 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 year in which they arise.

Financial instruments and derivatives

Interest rate swap agreements and financial futures are used to manage interest rate exposure. Cross currency forward exchange contracts are used to manage foreign exchange exposure associated with borrowings that are not GBP denominated. While the Group enters into currency swaps to manage its exposure to fluctuations in exchange rates, the Group does not use derivative financial instruments for speculative purposes.

The Group currently does not apply FRS 26 "Financial Instruments: Recognition and Measurement", and does not apply FRS 29 "Financial Instruments: Disclosures". The presentation requirements of FRS 25 "Financial Instruments: Presentation" have been applied. The disclosure requirements of FRS 13 "Derivatives and other financial instruments: disclosures" have been applied.

1 Principal accounting policies (continued)

(o) Research and development

Research expenditure is written off to the profit and loss account in the year in which it is incurred.

(p) Provisions

Provisions are recognised when the Group 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. Insurance provisions are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts.

(q) 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 Group. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

Dividend income is recognised when there is a legal right to receive.

(r) Provision for doubtful debts

The Group'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 Group 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 Group'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 sewage service we provide. As detailed information about the debt, including the aging is unavailable to the Group 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 Group evaluates the recoverability of cancellations that will occur in the future against turnover booked, and not to be rebilled. 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

1 Principal accounting policies (continued)

(s) 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.

(t) 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 2014 (2013: none).

2 Segmental analysis

The segments by class of business are:

TWUL: This incorporates the business activities of TWUL and its apportionment of fair value and goodwill derived from its purchase by Kemble Water Limited.

Other: All other activities of the Group including provision of engineering, utility network and asset and facilities management services, land and property development, water supply to the competitive market and those activities carried out in managing the Group, including insurance services provided by the captive insurer to the Group and financing arrangements in the holding companies.

No geographic segmental analysis is necessary as all material activity and net assets are within the UK.

Profit and loss account by class of business:

	Year ended 31 March 2014			Year ended 31 March 2013		
	TWUL £m	**Other £m**	**Total £m**	TWUL £m	Other £m	Total £m
Turnover	**1,943.7**	**7.8**	**1,951.5**	1,791.9	11.7	1,803.6
Operating profit/(loss)*	**622.2**	**(28.3)**	**593.9**	549.3	(44.8)	504.5
Profit on sale of fixed assets	**22.0**	**-**	**22.0**	10.8	0.4	11.2
Net interest payable**	**(417.8)**	**(98.6)**	**(516.4)**	(415.2)	(120.6)	(535.8)
Profit/(loss) before taxation	**226.4**	**(126.9)**	**99.5**	144.9	(165.0)	(20.1)

* Operating profit includes amortisation of goodwill and depreciation on the fair value adjustments arising on the acquisition of the Thames Water Group by the Kemble Water Holdings Group.

** Interest payable in other relates to the funding required for the acquisition of the regulated group.

Notes to the financial statements (continued)

2 Segmental analysis (continued)

Balance sheet by class of business:

	31 March 2014			31 March 2013		
	TWUL £m	**Other £m**	**Total £m**	TWUL £m	Other £m	Total £m
Fixed assets *	**13,236.8**	**0.6**	**13,237.4**	12,686.3	0.7	12,687.0
Current assets						
Stocks	**8.9**	**0.2**	**9.1**	8.4	0.1	8.5
Debtors: amounts falling due within one year	**585.7**	**(12.3)**	**573.4**	572.8	(25.9)	546.9
Debtors: amounts falling due after one year (inter group loan)	**2,015.0**	**(2,015.0)**	**-**	2,015.0	(2,015.0)	-
Current asset investments	**857.2**	**62.0**	**919.2**	748.7	42.0	790.7
Cash at bank and in hand	**6.6**	**9.0**	**15.6**	-	31.7	31.7
	3,473.4	**(1,956.1)**	**1,517.3**	3,344.9	(1,967.1)	1,377.8
Creditors: amounts falling due within one year	**(1,335.5)**	**(375.0)**	**(1,710.5)**	(957.3)	(440.8)	(1,398.1)
Net current assets/(liabilities)	**2,137.9**	**(2,331.1)**	**(193.2)**	2,387.6	(2,407.9)	(20.3)
Total assets/(liabilities) less current assets/(liabilities)	**15,374.7**	**(2,330.5)**	**13,044.2**	15,073.9	(2,407.2)	12,666.7
Creditors: amounts falling due after more than one year *	**(9,763.6)**	**(722.8)**	**(10,486.4)**	(9,216.0)	(949.5)	(10,165.5)
Provisions for liabilities and charges **	**(1,025.5)**	**87.4**	**(938.1)**	(1,044.4)	49.8	(994.6)
Net assets/(liabilities) excluding net pension (liabilities)/assets	**4,585.6**	**(2,965.9)**	**1,619.7**	4,813.5	(3,306.9)	1,506.6
Net pension (liabilities)/assets	**(154.9)**	**4.4**	**(150.5)**	(191.5)	4.6	(186.9)
Net assets/(liabilities)	**4,430.7**	**(2,961.5)**	**1,469.2**	4,622.0	(3,302.3)	1,319.7

* The net assets reflected under TWUL above include the net book values of goodwill of £1,468.0m (2013: £1,513.0m), fair value adjustments to tangible assets of £1,868.4m (2013: £1,889.8m) and financial instruments included in creditors falling due after more than one year of £235.9m (2013: £247.3m). The other business has a goodwill apportionment of £nil (2013: £nil).

** The deferred tax impact of £47.2m (2013: £56.9m) arising as a result of the fair value adjustment on debt has been included in TWUL.

3 Group operating costs

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Staff costs (note 5)	**221.2**	217.4
Materials and consumables	**154.2**	142.8
Other operating charges (net)	**540.8**	546.0
Amortisation of goodwill and intangibles	**45.0**	44.9
Depreciation:		
- owned assets	**361.8**	334.2
- infrastructure assets renewal charge	**165.3**	135.2
- assets held under finance leases	**-**	9.6
Rentals under operating leases:		
- hire of plant and machinery	**3.5**	5.8
- other	**5.2**	6.3
Research and development	**3.9**	3.9
Auditor's remuneration	**0.6**	0.5
Foreign currency losses	**0.1**	(0.1)
	1,501.6	1,446.5
Own work capitalised – staff costs	**(84.5)**	(85.4)
Own work capitalised – other costs	**(59.5)**	(62.0)
	1,357.6	1,299.1

During the year the Group settled its finance leases, though still retaining title to the underlying assets, and as a result the Group no longer has any assets held under finance lease arrangements. Subsequent to this depreciation of these assets has been included within the disclosure of non-infrastructure owned assets.

3 Group operating costs (continued)

Reconciliation of operating costs to underlying operating expenditure (KPI)

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Operating costs	**1,357.6**	1,299.1
Less:		
Depreciation	**(361.8)**	(343.8)
Infrastructure assets renewals charge	**(165.3)**	(135.2)
Amortisation	**(45.0)**	(44.9)
Underlying operating expenditure	**785.5**	775.2

Auditor's remuneration is analysed as follows:

	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Fees payable to the Company's auditor for the audit of the Company's annual report and accounts	**34**	33
Audit of the Company's subsidiaries	**360**	352
Audit related assurance services	**91**	96
All other assurance services	**557**	97
Taxation compliance services	**9**	9
Taxation advisory services	**106**	105
Corporate finance services	**1,827**	1,384
All other non-audit services	**183**	122
	3,167	2,198

The audit fee for the company was £34,340 (2013: £33,470) No other fees were payable to KPMG LLP in respect of this year or to KPMG Audit Plc in the prior year.

Fees for corporate finance services above include £1.8m (2013: £1.4m) 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 following a competitive tendering process in line with the Group's procurement processes.

No fees, other than those disclosed, were payable to KPMG LLP in respect of this year or KPMG Audit Plc in the prior year.

4 Remuneration of directors

Aggregate directors' emoluments:	Year ended 31 March 2014 £'000	Year ended 31 March 2013 £'000
Salary	**781**	911

Highest paid director:

Total emoluments of the highest paid director of the Company, in respect of their work done for the Group during the year, were £300,000 (2013: £300,000). None of the directors accrued any pension during either 2014 or 2013, or had any accrued pension under the Group's defined benefit scheme.

During the year, an indirect subsidiary of the Company made a payment of £45,000 (2013: £60,000) to C R Deacon, a director, for consultancy services.

5 *Staff numbers and costs*

The aggregate payroll costs were as follows:	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
- Wages and salaries	**182.5**	176.6
- Social security costs	**16.6**	16.7
- Pension costs: defined benefit scheme	**20.5**	18.8
- Pension costs: defined contribution scheme	**3.3**	2.3
- Severance costs	**-**	4.9
Gross employment costs	**222.9**	219.3
Less employment costs included within R&D expense	**(1.7)**	(1.9)
Net staff costs	**221.2**	217.4

The average number of persons employed by the Group (including directors) during the year, analysed by category, was as follows:

	Year ended 31 March 2014 Number	Year ended 31 March 2013 Number
Operations	**4,234**	4,279
Support	**456**	420
	4,690	4,699

The Company has no employees (2013: none).

6 Profit on disposal of fixed assets

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Net profit on disposal of fixed assets	**6.6**	4.2
Gain on insurance claims for material damage	**15.4**	7.0
Profit on disposal of fixed assets	**22.0**	11.2
Taxation charge attributable, included in the tax credit for the period	**4.7**	2.6

The effect of the above is to increase the taxation charge by £4.7m (2013: £2.6m). Included within the gain from insurance claims is £8.2m (2013: £7.0m) for damage caused to the Group's assets resulting from a fire at Beddington Sewage Treatment Works, which has now been settled in full. The remaining amount refers to damage caused to the Group's assets due to the effect of flooding incidents in the winter of 2013/14.

7 Interest receivable and similar income

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Interest income:		
- Net interest income from swaps	**38.1**	42.8
- Other interest income	**4.1**	4.9
	42.2	47.7

Net interest income from swaps relate to the net of all the income and expense from interest rate swaps taken out to economically hedge external borrowings. Refer to note 20.

8 Interest payable and similar charges

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Interest expense:		
Bank loans and overdrafts	**3.9**	2.2
All other loans	**536.8**	556.6
Finance charges payable in respect of finance leases	**0.4**	5.9
Amortisation of fees and discounts	**8.2**	8.9
Net pension finance expense (see note 27)	**9.3**	9.9
Interest payable and similar charges	**558.6**	583.5

9 Taxation

Analysis of (credit)/charge in year	**Year ended 31 March 2014 £m**	Year ended 31 March 2013 £m
UK corporation tax:		
Amounts payable in respect of corporation tax for the year	-	-
Adjustments in respect of previous years	**(1.2)**	0.8
Total current tax (credit)/charge	**(1.2)**	0.8
Deferred tax:		
Origination and reversal of timing differences	**54.7**	35.4
Adjustment in respect of previous years	**0.8**	1.2
Current year adjustment due to tax rate change to 20% (2013: change to 23%)	**(125.1)**	(39.2)
Pensions tax relief lower/(higher) than pension cost in accounts	**(3.3)**	1.7
Total deferred tax (credit)/charge	**(72.9)**	(0.9)
Tax (credit)/charge on loss on ordinary activities	**(74.1)**	(0.1)

Factors affecting tax charge/(credit) for year

The current tax credit for the year is lower than (2013 current tax charge: higher than) the standard rate of corporation tax in the UK of 23% (2013: 24%). The differences are explained below:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Profit/(loss) on ordinary activities before taxation	**99.5**	(20.1)
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 23% (2013: 24%)	**22.9**	(4.8)
Effects of:		
Capital allowances in excess of depreciation and other timing differences	**(54.7)**	(35.4)
Tax losses unable to be used	**13.4**	28.4
Disallowable expenditure and other permanent differences	**21.1**	15.4
Pensions tax relief higher than pension cost in accounts	**(2.7)**	(3.6)
Adjustments to tax charge in respect of previous years	**(1.2)**	0.8
Current tax (credit)/charge for the year	**(1.2)**	0.8

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. This will reduce the company's future current tax charge accordingly. The deferred tax liability at 31 March 2014 has been calculated based on the rates of 20% and 21% substantively enacted at the balance sheet date.

10 Dividends

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Dividends in respect of 2013/14: 2.26p (2013: 3.74p (in respect of 2012/13)) per £1 ordinary share	**45.1**	74.5
	45.1	74.5

11 Profit of holding company

A separate profit and loss account for Kemble Water Holdings Limited (the "Company only") has not been presented as permitted by Section 408 of the Companies Act 2006. The Company generated a profit after taxation of £275.7m (2013: £272.4m) for the year ended 31 March 2014. These profits have been realised in the accounts of Kemble Water Holdings Limited.

12 Intangible assets

	Group		
	Goodwill £m	Other intangible assets £m	Total £m
Cost			
At the beginning of the year	1,794.3	1.5	1,795.8
Adjustment	(0.1)	-	(0.1)
At the end of the year	**1,794.2**	**1.5**	**1,795.7**
Amortisation			
At the beginning of the year	(281.2)	(0.8)	(282.0)
Charge for the year	(44.9)	(0.1)	(45.0)
At the end of the year	**(326.1)**	**(0.9)**	**(327.0)**
Net book value			
At the end of the year	**1,468.1**	**0.6**	**1,468.7**
At the beginning of the year	1,513.1	0.7	1,513.8

Other intangible assets include concessions, licences and similar rights and assets.

The Company has no intangible assets (2013: £nil).

13 Tangible fixed assets

	Group				
	Plant and equipment £m	Land and buildings £m	Infra-structure assets £m	Assets in course of construction £m	Total £m
Cost					
At the beginning of the year	4,278.8	2,474.0	5,850.7	1,688.9	14,292.4
Additions	-	22.0	-	1,134.5	1,156.5
Transfers between items	482.4	307.0	189.9	(979.3)	-
Disposals	(10.3)	(3.5)	-	-	(13.8)
At the end of the year	**4,750.9**	**2,799.5**	**6,040.6**	**1,844.1**	**15,435.1**
Capital contributions					
At beginning of the year	-	-	(702.3)	-	(702.3)
Additions	-	-	(33.6)	-	(33.6)
At the end of the year	-	-	**(735.9)**	-	**(735.9)**
Depreciation					
At the beginning of the year	(1,306.2)	(372.7)	(738.0)	-	(2,416.9)
Provided during the year	(309.8)	(52.0)	(165.4)	-	(527.2)
Disposals	10.1	3.5	-	-	13.6
At the end of the year	**(1,605.9)**	**(421.2)**	**(903.4)**	-	**(2,930.5)**
Net book value					
At the end of the year	**3,145.0**	**2,378.3**	**4,401.3**	**1,844.1**	**11,768.7**
At the beginning of the year	2,972.6	2,101.3	4,410.4	1,688.9	11,173.2

Depreciation has not been charged on freehold land stated in the financial statements at cost of £155.7m (2013: £155.7m).

The Company has no tangible fixed assets (2013: £nil).

As per note 1 capital contributions received in respect of infrastructure assets have been deducted from the cost of fixed assets. This is not in accordance with Schedule 1 to 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 financial effect of this is £735.9m (2013: £702.3m) as shown above.

13 Tangible fixed assets (continued)

The net book value of land and buildings comprises:

	31 March 2014 £m	31 March 2013 £m
Group		
Freehold	**2,299.7**	2,091.1
Long leasehold - over 50 years	**76.3**	7.5
Short leasehold - under 50 years	**2.4**	2.7
	2,378.4	2,101.3

During the year the Group settled its finance leases, though still retaining title to the underlying assets, and as a result the Group no longer has any assets held under finance lease arrangements. The cost of the assets held under finance leases as at 31 March 2013 was £263.2m, depreciation was £156.0m and net book value was £107.2m.

14 Fixed asset investments

In accordance with FRS 9, where the carrying value of an individual investment is less than £nil, the negative carrying value has been disclosed in provisions for liabilities and charges within other provisions (note 21).

The associated undertakings and joint ventures are all unlisted.

Group

Fixed asset investments	£m
Cost	
At the beginning and end of the year	**0.1**
Depreciation	
At the beginning and end of the year	**(0.1)**
Net book value	
At the beginning and end of the year	-

Company

Investment in subsidiary undertaking	£m
Cost	
At the beginning and end of the year	**1.0**

The investment in subsidiary undertaking relates the Company's shareholding in KWE.

The Company has no (2013: £nil) investments in joint ventures or associates.

See note 30 for a list of principal subsidiaries.

15 Stocks

Group

	As at 31 March 2014 £m	As at 31 March 2013 £m
Raw materials and consumables	**9.1**	8.5

The Company has no stocks (2013: £nil).

16 Debtors

	Group		Company	
	As at 31 March 2014 £m	As at 31 March 2013 £m	**As at 31 March 2014 £m**	As at 31 March 2013 £m
Due within one year:				
Trade debtors	**225.0**	206.4	-	-
Amounts owed by Group undertakings	-	-	**3,096.7**	3,488.9
Other debtors	**143.2**	142.3	-	-
Prepayments and accrued income	**205.2**	198.2	-	-
	573.4	546.9	**3,096.7**	3,488.9

Company

Amounts owed by Group undertakings is further analysed as follows:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Inter-company loans due within one year	**1,990.6**	1,990.6
Non-loan amounts due within one year	**1,106.1**	1,498.3
	3,096.7	3,488.9

A loan of £1,990.6m (2013: £1,990.6m) is owed by the immediate subsidiary company, KWE. The interest rate on this loan is 10% with effect from 1 April 2014. Prior to 1 April 2014 the interest rate was 18% (2013: 18%).

All other amounts owed by subsidiary undertakings are unsecured, interest free and repayable on demand.

17 Current asset investments

Group

	As at 31 March 2014 £m	As at 31 March 2013 £m
Bank deposits	**503.8**	170.9
Money market funds	**415.4**	619.8
	919.2	790.7

Current asset investments consist of short-term bank deposits with highly rated banks and triple A rated money market funds.

The Company has no current asset investments (2013: £nil)

18 Creditors: amounts falling due within one year

	Group		**Company**	
	As at 31 March 2014 £m	As at 31 March 2013 £m	**As at 31 March 2014 £m**	As at 31 March 2013 **£m**
Secured bank loans	**641.1**	345.9	-	-
Other loans	**99.9**	-	-	-
Overdraft	-	80.3	-	-
Trade creditors – operating expenses	**314.4**	273.2	-	-
Trade creditors – capital expenditure	**146.4**	160.4	-	-
Obligations under finance leases	-	10.5	-	-
Corporation tax payable	**10.8**	11.9	-	-
Group relief creditor	-	-	**0.7**	86.0
Taxation and social security	**7.5**	6.1	-	-
Other creditors	**113.6**	110.4	-	-
Interest creditors	**198.0**	225.7	-	-
Amounts owed to subsidiary undertakings	-	-	-	537.5
Accruals and deferred income	**178.8**	173.7	-	-
	1,710.5	1,398.1	**0.7**	623.5

The amounts owed to subsidiary undertakings are interest free and payable on demand.

During the year the Group settled all its finance leases.

Company

As part of a restructuring of the Kemble Water Holdings Group the £537.5m loan from Thames Water Limited was settled in the year.

19 Creditors: amounts falling due after more than one year

	Group		Company	
	As at 31 March 2014 £m	As at 31 March 2013 £m	**As at 31 March 2014 £m**	As at 31 March 2013 £m
Secured bank loans	**1,637.9**	1,198.7	-	-
Other loans	**8,678.6**	8,691.1	-	-
Obligations under finance leases	-	102.4	-	-
Deferred income	**169.9**	173.2	-	-
Accruals	-	0.1	-	-
	10,486.4	10,165.5	-	-

Other loans are all secured apart from one loan; £310.4m (2013: £310.4m). For further detail of security see note 29.

Included within other loans is £74.6m (2013: £79.9m) of unamortised fees and bond discounts.

Included within secured bank loans, other loans and obligations under finance leases are amounts repayable after five years. Details are provided in Note 20.

During the year the Group settled all its finance leases.

20 Financial instruments

Secured bank loans:

	Group		Company	
	As at 31 March 2014 £m	As at 31 March 2013 £m	**As at 31 March 2014 £m**	As at 31 March 2013 £m
Thames Water Utilities Limited:				
£150m Floating Rate Loan due 2017	**150.0**	150.0	-	-
£100m 3.28% index linked loan due 2043 (c), (d)	**116.3**	113.0	-	-
£60m 1.23% Index linked loan due 2019	**71.0**	69.0	-	-
£60m 1.415% Index linked loan due 2020	**70.7**	68.8	-	-
£60m 1.513% Index linked loan due 2020	**70.3**	68.4	-	-
£60m 1.38% Index linked loan due 2020	**70.0**	68.1	-	-
£60m 1.356% Index linked loan due 2020	**69.9**	68.0	-	-
£75m 1.35% Index linked loan due 2021	**80.3**	78.4	-	-
£215m 0.46% Index linked loan due 2023 (d)	**222.9**	216.6	-	-
£200m 0% Index linked loan due 2017	**202.1**	199.0	-	-
£100m Class B floating rate loan due 2015 (d), (e)	**99.7**	99.4	-	-
£200m Class A floating rate loan due 2015 (d), (e)	**199.7**	-	-	-
£100m floating rate loan due 2015 (d)	**99.7**	-	-	-
£215m 0.38% Index linked loan due 2032 (b), (d)	**215.2**	-	-	-
£100m floating rate loan due 2020 (a), (d)	**99.6**	-	-	-
£100m floating rate loan due 2021 (a), (d)	**99.9**	-	-	-
Thames Water Utilities Limited total	**1,937.3**	1,198.7	-	-
Kemble Water Finance Limited:				
£350m floating rate borrowings due 2016 (d), (e), (f), (g)	**344.4**	345.9	-	-
Securitisation fees	**(2.7)**	-	-	-
Kemble Water Finance Limited total	**341.7**	345.9	-	-
Total secured bank loans	**2,279.0**	1,544.6		
Less amounts included within creditors falling due within one year	**(641.1)**	(345.9)	-	-
Total secured bank loans falling due after more than one year	**1,637.9**	1,198.7	-	-

(a) 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 Poors and Moodys.

(b) This debt amortises in equal tranches from 2017 onwards.

(c) 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.

(d) These loans are shown net of issue costs.

(e) Amounts repayable wholly in one year

(f) The Group holds five floating to fixed interest rate swaps on this debt which contain mandatory break clauses in March 2016. At this date the outstanding mark-to-market balances are settled to the counterparty in the money.

(g) Loan is repayable on demand and therefore has been classed as due in less than one year.

20 Financial instruments (continued)

Other loans:

	Group		Company	
	As at 31 March 2014 £m	As at 31 March 2013 £m	**As at 31 March 2014 £m**	As at 31 March 2013 £m
£200m 4.9% Fixed rate bond due 2015 (c) (l)	**200.5**	200.9	-	-
€500m Euro 3.25% Fixed rate bond due 2016 (a)	**413.3**	422.4	-	-
£200m 5.05% Fixed rate bond due 2020 (c) (m)	**204.5**	205.2	-	-
£225m 6.59% Fixed rate bond due 2021 (q) (c)	**254.1**	257.5	-	-
£175m 3.38% Index linked bond due 2021 (b), (f)	**250.8**	243.4	-	-
£550m 5.37% Class B Fixed rate bond due 2025 (b)	**547.5**	546.7	-	-
£330m 6.75% Fixed rate bond due 2028 (b) (c) (n)	**403.9**	407.2	-	-
£300m 5.75% Class B Fixed rate bond due 2030 (b)	**297.2**	296.9	-	-
£200m 6.5% Fixed rate bond due 2032 (b) (o)	**255.1**	256.9	-	-
£300m 4.37% Fixed rate bond due 2034 (b)	**295.0**	294.8	-	-
£600m 5.13% Fixed rate bond due 2037 (b) (c) (p)	**663.5**	664.9	-	-
€113m 2.30% CPI IL bond due 2022 (a), (c)	**100.8**	98.5	-	-
20bn Yen 3.28% Fixed rate bond due 2038 (b), (c)	**116.9**	139.9	-	-
£50m 3.85% Index linked bond due 2040 (f)	**58.3**	56.7	-	-
£500m 5.5% Fixed rate bond due 2041 (b)	**489.5**	489.2	-	-
£50m 1.98% Index linked bond due 2042 (f)	**61.0**	59.4	-	-
£55m 2.09% Index linked bond due 2042 (b), (f)	**65.0**	63.2	-	-
£40m 1.97% Index linked bond due 2045 (b), (f)	**45.1**	43.9	-	-
£300m 4.625% Fixed rate bond due 2046 (b)	**293.0**	292.8	-	-
£100m 1.85% Index linked bond due 2047 (f)	**122.1**	118.8	-	-
£200m 1.819% Index linked bond due 2049 (b), (f)	**243.6**	237.2	-	-
£300m 1.68% Index linked bond due 2053 (b), (f)	**387.2**	376.0	-	-
£300m 1.68% Index linked bond due 2055 (b), (f)	**387.2**	376.0	-	-
£200m 1.77% Index linked bond due 2057 (b), (f)	**243.6**	237.1	-	-
£400m 7.241% Fixed rate bond due 2058 (d)	**399.0**	398.8	-	-
£350m 1.76% Index linked bond due 2062 (b), (f)	**426.5**	415.0	-	-
$156m FRN due 2015 (a), (c), (h), (l), (k)	**93.7**	103.1	-	-
$150m 4.69% Class B USPP due 2019 (a), (b)	**88.6**	97.3	-	-
$150m 3.87% USPP due 2022 (a)	**90.2**	99.1	-	-
$250m 4.020% USPP due 2024 (a)	**120.2**	132.2	-	-
$250m 4.22% USPP due 2027 (a)	**150.3**	165.2	-	-
£100m index linked swap due 2060 (g)	**16.8**	13.6	-	-
£100m index linked swap due 2022	**8.3**	5.7	-	-
€113m CPI – floating swap due 2022	**(7.4)**	(3.0)	-	-
$156m/£100m cross currency swap due 2015 (a), (j)	**6.2**	(3.1)	-	-
€125m/£109.5m cross currency swap due 2016 (a)	**6.2**	3.9	-	-
€125m/£109.5m cross currency swap due 2016 (a)	**6.2**	3.9	-	-

20. Financial instruments (continued)

€125m/£109.5m cross currency swap due 2016 (a)	**6.2**	3.9	-	-
€125m/£109.5m cross currency swap due 2016 (a)	**6.2**	3.9	-	-
€113m/£100m cross currency swap due 2022 (a)	**6.6**	4.5	-	-
USPP Class B cross currency swap due 2019 (a)	**6.4**	2.6	-	-
USPP Class A cross currency swap due 2022 (a)	**6.4**	2.6	-	-
USPP Class A cross currency swap due 2024 (a)	**8.6**	3.4	-	-
USPP Class A cross currency swap due 2027 (a)	**10.7**	4.3	-	-
£200m index linked swap due 2039 (i), (j)	**35.4**	29.0	-	-
£100m index linked swap due 2029 (h), (j)	**17.7**	14.5	-	-
Index linked swap £94.05m 2038 (j)	**1.3**	14.1	-	-
Index linked swap £200m 2032 (j)	**41.6**	34.9	-	-
Index linked swap £600m 2037 (j)	**98.9**	80.1	-	-
Cross currency swap JPY 20bn-£153.5m 2038 (a), (e)	**36.7**	13.6	-	-
Capitalised fees	**(13.9)**	(42.8)		
	8,072.3	7,985.8		
Thames Water (Kemble) Finance Plc:				
£400m 7.75% Fixed rate bond due 2019 (b)	**395.8**	394.9	-	-
Kemble Water Eurobond Plc:				
£310m shareholder loan due 2021	**310.4**	310.4		
Total other loans	**8,778.5**	8,691.1	-	-
Less amounts included in creditors falling due within one year	**(99.9)**	-	-	-
Other loans due after more than one year	**8,678.6**	8,691.1	-	-

(a) The Group has entered into swap agreements which eliminate the risk of currency fluctuations in relation to the US Dollar and Euro loans

(b) These loans are shown net of issue costs.

(c) The Company has entered into swap agreements that convert this debt into index-linked debt.

(d) £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 repaid by the Group. Should interest rates have fallen, the bond will be called by the Group and either re-marketed for the remaining 40-year period at the underlying PCR rate (4.572%) plus the prevailing credit spread or the Group will settle related derivative contracts with bank counterparties and redeem the bond at par.The fair value of the related derivative contracts is a loss of £76.1m

(e) This swap contains an optional break clause in August 2018. 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 2014 is £60.2m (2013: £59.5m) and represents an obligation to the Group, though subject to future market movement of rates.

(f) The value of the capital and interest elements of the index-linked loans is linked to movements in the Retail Price Index (RPI).

20 Financial instruments (continued)

(g) The Group has entered into an index-linked swap where it receives floating rate interest at 6 month LIBOR plus a margin until February 2015. After this date the interest rate is reduced to 6 month LIBOR.

(h) The Group holds five fixed to floating interest rate swaps on this debt contain mandatory break clauses in March 2016. At this date the outstanding mark-to-market balances are settled to the counterparty in the money.

(i) In this swap the Group receives fixed rate interest until June 2020 and floating rate interest at 6 month LIBOR thereafter.

(j) The index-linked swap has accretion pay downs at five year intervals.

(k) Amounts repayable wholly within one year.

(l) This bond includes £0.5m (2013: £0.9m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(m) This bond includes £4.5m (2013: £5.2m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(n) This bond includes £75.8m (2013: £79.3m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(o) This bond includes £56.9m (2013: £58.8m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(p) This bond includes £66.8m (2013: £68.3m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(q) This bond includes £29.1m (2013: £32.5m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

The total carrying value of the fair value adjustment is £235.9m (2013: £247.3m).

The range of interest rates charged on outstanding bank loans, other loans and finance leases is 0.2% to 11.0% (2013: 0.2% to 11.0%). These interest rates are those contracted on the underlying borrowings before taking account of interest rate protection.

Funding and treasury policy

The Group's treasury operations are managed centrally by a small specialist team within the Group reporting directly to the Chief Financial Officer of TWUL. The treasury team manages the financing (including debt, interest costs and foreign exchange) for the Group. Treasury policy is focussed on efficient and effective management of cash and financial resources within the Group.

The Group's funding policy is to maintain a broad portfolio of debt. The debt arranged via Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Limited, Kemble Water Finance Limited and Thames Water (Kemble) Finance Plc is diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposures.

20 Financial instruments (continued)

Management of financial risk

Financial risks faced by the Group include funding, interest rate, currency, liquidity and credit risks. The board regularly reviews these risks and has approved written policies covering treasury strategy and the use of financial instruments to manage risks.

The Group aims to meet its funding requirements by maintaining a broad portfolio of debt and investing surplus cash in short term deposits.

Derivative financial instruments, including cross currency swaps, interest rate swaps and index-linked swaps, are employed to manage the currency, interest rate and inflation risks arising from the primary financial instruments used to finance the Group's activities.

Company

The Company has no external borrowings and no derivative financial instruments (2013: £nil).

Borrowing covenants

The Group's treasury operation monitors compliance against all financial obligations.

a) Interest rate risk

Interest rate risk profile at 31 March

After taking into account the Group's interest rate and currency swaps, the interest rate risk profile of the Group's financial liabilities and assets is as follows:

Group financial assets

	Total at floating rates		**Total book value**	
	As at 31 March 2014 £m	**As at 31 March 2013 £m**	**As at 31 March 2014 £m**	As at 31 March 2013 £m
Current asset investments	**919.2**	790.7	**919.2**	790.7
Cash in bank and in hand	**15.6**	31.7	**15.6**	31.7
	934.8	822.4	**934.8**	822.4

London Inter-Bank Offered Rate ("LIBOR") and Bank of England base rate are the benchmark rates for floating current asset investments and cash at bank respectively.

20 Financial instruments (continued)

Group financial liabilities

	Total at floating rates		Total at fixed rates		Total at RPI linked rates		Total book value	
	As at 31 March							
	2014	**2013**	**2014**	**2013**	**2014**	2013	**2014**	2013
	£m	**£m**	**£m**	**£m**	**£m**	£m	**£m**	£m
Bank loans and overdraft								
- £ Sterling	**878.1**	458.4	**-**	-	**1,403.3**	1,164.2	**2,281.4**	1,622.6
Other loans and finance leases								
- £ Sterling	**-**	74.3	**4,872.0**	4,919.0	**3,904.1**	3,812.8	**8,776.1**	8,806.1
	878.1	532.7	**4,872.0**	4,919.0	**5,307.4**	4,977.0	**11,057.5**	10,428.7

	Weighted average interest rate for fixed rate and RPI linked debt		Weighted average period until maturity for which rate is fixed for fixed rate and RPI debt	
	As at 31 March 2014	As at 31 March 2013	**As at 31 March 2014**	As at 31 March 2013
	%	%	Years	Years
Bank loans and overdraft				
- £ Sterling	1.6	1.1	9.5	13.7
Other loans and finance leases				
- £ Sterling	4.0	4.0	20.3	21.2
All loans	3.9	3.8	20.2	20.6

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate and RPI linked borrowings of £10,179.6m (2013: £9,896.2m) equate to 92.1% (2013: 94.9%) of the total borrowings.

b) Currency risk

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

c) Liquidity risk

Liquidity risk is managed by maintaining continuity of funding through access to different markets and debt instruments.

Maturities

The maturity profile of the carrying amount of the Group's financial liabilities other than short-term creditors and accruals and creditors more than 1 year, as disclosed on page 74, is as follows:

20 Financial instruments (continued)

	As at 31 March 2014 £m	As at 31 March 2013 £m
Bank loans and overdrafts		
- Within one year	**641.1**	423.9
- Between one and two years	**-**	99.5
- Between two and five years	**451.8**	349.0
- After more than five years	**1,186.1**	750.2
	2,279.0	1,622.6
Other loans		
- Within one year	**99.9**	2.2
- Between one and two years	**205.0**	100.0
- Between two and five years	**929.0**	635.3
- after more than five years	**7,544.6**	7,955.9
	8,778.5	8,693.4
Finance leases		
- Within one year	**-**	10.5
- Between one and two years	**-**	45.7
- Between two and five years	**-**	56.6
- after more than five years	**-**	-
	-	112.8
Total borrowings	**11,057.5**	10,428.8

Loans are repayable between 2014 and 2062.

The Group's loans wholly repayable after more than five years are:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Bank loans	**1,186.1**	750.2
Other loans	**7,544.2**	7,955.9
	8,730.3	8,706.1

The Group has the following unused committed borrowing facilities:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Expiring within one year	**450.0**	450.0
Expiring between two and five years	**825.0**	825.0
	1,275.0	1,275.0

20 Financial instruments (continued)

The Group has a £10bn (2013: £10bn) secured bond programme through its wholly owned subsidiary, Thames Water Utilities Cayman Finance Limited, which provides the Group with access to the capital markets in a range of currencies and maturities, £4.3bn (2013: £4.3bn) has been issued under this programme.

Previously debt has been raised via its wholly owned subsidiary, Thames Water Utilities Finance Limited. £2.8bn (2013: £2.8bn) remains in issue at the balance sheet date. Legacy debt obligations will remain outstanding, but it is not expected that any further debt will be issued by Thames Water Utilities Finance Limited.

d) Credit risk

Placements of cash on deposit expose the Group to credit risk against the counterparties concerned as such the Group only places cash deposits with banks of high credit standing.

Fair value of financial assets and liabilities

The table below sets out a comparison of the book and fair values of the Group's financial instruments.

	Book Value		**Fair value**	
	31 March 2014 £m	31 March 2013 £m	**31 March 2014 £m**	31 March 2013 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets:				
Current asset investments	**919.2**	790.7	**919.2**	790.7
Cash at bank and in hand	**15.6**	31.7	**15.6**	31.7
Total financial assets	**934.8**	822.4	**934.8**	822.4
Financial liabilities:				
Bank loans and overdrafts	**(2,279.0)**	(1,622.6)	**(2,279.0)**	(1,622.6)
Other loans and finance leases	**(8,459.3)**	(8,599.1)	**(8,663.9)**	(9,297.2)
Derivative financial instruments held to manage the interest rate and currency profile:				
Cross currency swaps and forward foreign currency contracts	**(106.5)**	(18.0)	**(149.7)**	(104.4)
Interest rate swaps	**7.4**	3.0	**(117.0)**	(143.5)
Index-linked swaps	**(220.1)**	(192.1)	**(565.6)**	(740.8)
Total financial liabilities	**(11,057.5)**	(10,428.8)	**(11,775.2)**	(11,908.5)
Net financial liabilities	**(10,122.7)**	(9,606.5)	**(10,840.4)**	(11,086.1)

Fair value is the amount at which a financial instrument could be exchanged in an arm's length transaction between informed and willing parties, other than in a forced or liquidation sale.

The Group has other loans which include bonds that are publicly traded. Fair values for these have been calculated using the 31 March 2014 quoted prices. Mark-to-market techniques (discounting expected cash flows at prevailing interest and exchange rates) are employed in computing fair values for the remaining fixed rate borrowing and all derivative financial instruments.

21 Provisions for liabilities and charges

The Company has no bank loans, overdrafts, other loans, finance leases or derivatives financial instruments (2013: £nil).

	Deferred tax £m	Insured liabilities £m	Restructuring provison	AMP 4 provision £m	Other provisions £m	Total £m
At the beginning of the year	904.4	62.0	4.6	-	23.6	994.6
Net charge/(credit) to profit and loss for the year	(69.6)	(4.7)	-	8.5	13.3	(52.5)
Utilised during the year	-	-	(4.0)	-	-	(4.0)
At the end of the year	**834.8**	**57.3**	**0.6**	**8.5**	**36.9**	**938.1**

The elements of deferred taxation are as follows:

An analysis of amounts provided at current tax rates is as follows:

	£m
Accelerated capital allowances	**888.0**
Other timing differences	**(53.2)**
At the end of the year	**834.8**

Total deferred tax provision:

Included in taxation provision above	**834.8**
Deferred tax asset provided on pension deficit (see note 27)	**(37.6)**
At the end of the year	**797.2**

There is an unrecognised deferred tax asset in respect of tax losses where the Group does not anticipate taxable profits in the immediate future. The amount of deferred tax asset unrecognised at 20% (2013: 23%) is:

	As at 31 March 2014 £m	As at 31 March 2013 £m
Deferred tax asset not recognised in respect of tax losses	**160.2**	151.6

See note 9 for more information on deferred taxation.

Insured liabilities

The insured liabilities is in respect of provisions for claims received but not yet settled and anticipated claims not yet reported. These provisions are held by the Group's captive insurance company, Isis Insurance Company Limited, and external providers.

21 Provisions for liabilities and charges (continued)

Restructuring provision

The restructuring provision principally relates to severance costs as a result of the Group's restructuring and reorganisation.

AMP4 sewer flooding

The AMP4 provision represents management's expectation of a possible 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.

Other provisions

Other provisions principally relate to claims against the Group and represent management's best estimate of the value of settlement and costs. It is estimated that claims will be settled in more than one year.

The Company has no provisions (2013: £nil).

22 Share capital

	As at 31 March 2014 £m	As at 31 March 2013 £m
Group and Company		
Allotted, called up and fully paid		
1,991,600,000 ordinary shares of £1 each	**1,991.6**	1,991.6

23 Profit and loss account

	Group		**Company**	
	Year end 31 March 2014 £m	Year end 31 March 2013 £m	**Year end 31 March 2014 £m**	Year end 31 March 2013 £m
At beginning of year	**(671.9)**	(491.4)	**874.8**	676.9
Profit/(loss) for the year	**173.6**	(20.0)	**275.7**	272.4
Exchange adjustments	-	(0.6)	-	-
Actuarial gain/(loss) recognised in the pension schemes	**40.8**	(106.6)	-	-
Deferred tax relating to actuarial deficit on pension schemes	**(21.3)**	21.2	-	-
Dividends paid	**(45.1)**	(74.5)	**(45.1)**	(74.5)
Forfeited dividends	**1.5**	-		-
At end of year	**(522.4)**	(671.9)	**1,105.4**	874.8

23 Profit and loss account (continued)

Forfeited dividends

In December 2013 the Group received £1.5m from the former registrar of the Group, Computershare Investor SVS Plc ("Computershare"). The dividends were declared by Thames Water Limited ("TWL") when it was a Public Limited Company (PLC) with a listing on the London Stock Exchange. The money being held by Computershare related to dividends which TWL had declared and paid, but that had not been claimed by the relevant shareholders. As the statutory time limit (12 years) for claiming these dividends has now passed the money has been returned to TWL. TWL has accounted for the money as a reversal of the dividends paid, increasing its profit and loss reserve by £1.5m.

24 Contingencies

There are claims arising in the normal course of business, which are in the process of negotiation. The Group has set aside amounts considered appropriate for all legal and similar claims as per note 21.

Contingent liabilities – £400m 7.21% puttable, callable, resettable bond due 2058

As explained in note 20, in April 2018, a bond with a net fair value liability of £76.1m will either be remarketed for the remaining 40 year period or the Group will settle the related derivative contract. The Group expects that it will be able to successfully remarket the bonds at fair value and a cash settlement will not be required and so no provision has been reflected to record this potential liability in these financial statements (under UK GAAP).

25 Operating leases

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

	31 March 2014		31 March 2013	
	Land and buildings £m	**Other £m**	Land and buildings £m	Other £m
Leases which expire:				
- Within one year	**0.1**	**0.9**	0.2	1.1
- In the second to fifth years inclusive	**0.1**	**0.1**	0.4	0.9
- Over five years	**6.8**	-	6.1	-
	7.0	**1.0**	6.7	2.0

The Company has no commitments in respect of non-cancellable operating leases (2013: £nil).

26 Capital commitments

	As at 31 March 2014 £m	As at 31 March 2013 £m
Group		
Contracted for but not provided in the financial statements	**547.6**	842.5

In addition to these commitments, the Group has long-term capital investment plans to meet performance and asset condition requirements and to provide for new demand and growth. The Company has no capital commitments (2013: £nil).

27 Pension schemes

Pension arrangements for the majority of the Group's employees are of the defined benefit type, funded through two Group pension schemes; TWPS and TWMIPS (see table below for details of each schemes' respective deficit or surplus), covering employees within the Kemble Water Holdings Group, whose' assets are held separately from those of the Group in independently administered funds. Benefits accrue on a career average basis for TWPS and final salary basis for TWMIPS. The defined benefit arrangements were closed to new employees from 1 April 2011. From this date, new employees have been offered membership of a defined contribution scheme managed through Standard Life.

Contributions to the defined contribution scheme are charged to the profit and loss account in the period to which they relate. Contributions to the defined contribution pension scheme in the year were £3.2m (2013: £2.2m).

The service cost of the Group, 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.

In addition to the cost of the UK Pension arrangements, the Group operates arrangements under which it augments benefits on retirement. These augmentations are funded by way of additional employer contributions to the schemes. In the year ended 31 March 2014 payments amounted to £0.2m (2013: £0.2m).

The most recent full actuarial valuation was as at 31 December 2010 on behalf of the pension Trustees by AON Hewitt Limited ("Hewitt"), the independent and professionally qualified consulting actuary to the schemes. The production of a full valuation as at 31 December 2013 is currently in progress. The 2010 valuation has been updated to 31 March 2014 by Mercer Limited ("Mercer"), independent and professionally qualified consulting actuaries, using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts.

Thames Water Group has taken advice from Mercer in respect of the funding position of the Group pension schemes.

A further actuarial valuation is currently being undertaken as at 31 March 2014. This valuation has not yet been completed and has not been reflected in these financial statements.

27 Pension schemes (continued)

Net liability by pension schemes before tax

	As at 31 March 2014 £m	As at 31 March 2013 £m
Thames Water Pension Scheme:		
Deficit in scheme	**(225.2)**	(278.7)
Thames Water Mirror Image Scheme:		
Surplus in scheme	**51.7**	55.7
Impact of irrecoverable surplus	**(20.1)**	(25.8)
	31.6	29.9
Other schemes	**5.5**	6.1
Liability before deferred tax asset	**(188.1)**	(242.7)

The Group has recognised a surplus in the Thames Water Mirror Image scheme to the extent that it may possibly be able to recover it by paying a reduced rate of contributions in the future. The recognisable surplus has been calculated in accordance with FRS 17 as the present value of the current service cost projected over the future working lifetime of all active members of the scheme, using the assumptions adopted at 31 March 2014.

The assumptions used in the valuation of assets and liabilities of the schemes are the same for both schemes, therefore the following tables are for the combined values for both schemes.

Reconciliation of funded status to balance sheet	**As at 31 March 2014 £m**	As at 31 March 2013 £m
Fair value of scheme assets.	**1,698.6**	1,706.5
Present value of scheme liabilities	**(1,866.6)**	(1,923.4)
Deficit in scheme	**(168.0)**	(216.9)
Impact of irrecoverable surplus	**(20.1)**	(25.8)
Liability recognised on the balance sheet	**(188.1)**	(242.7)
Deferred tax asset	**37.6**	55.8
Net pension liability	**(150.5)**	(186.9)
Presented in the balance sheet as:		
Pension asset, net of deferred tax	**29.7**	27.7
Pension liability, net of deferred tax	**(180.2)**	(214.6)

27 Pension schemes (continued)

Movement in the present value of scheme liabilities

	As at 31 March 2014 £m	As at 31 March 2013 £m
Opening present value of scheme liabilities	**1,923.4**	1,662.8
Current service cost: Thames Water Utilities Limited	**20.5**	18.9
Interest cost	**81.8**	76.2
Contribution by scheme participants	**0.1**	0.2
Actuarial gains on scheme liabilities	**(95.5)**	230.5
Net benefit paid out	**(65.0)**	(65.4)
Termination pension cost	**1.3**	0.2
Closing present value of scheme liabilities	**1,866.6**	1,923.4

Movement in fair value of scheme assets

	As at 31 March 2014 £m	As at 31 March 2013 £m
Opening fair value of scheme assets	**1,706.5**	1,551.6
Expected return on scheme assets	**72.5**	66.6
Actuarial gains on scheme assets	**(58.8)**	109.7
Contributions by the employer: Thames Water Utilities Limited	**41.7**	43.8
Contributions by the employer: Other Thames Water Group participating companies	**0.3**	-
Contributions by scheme participants	**0.1**	0.2
Termination pension costs	**1.3**	-
Net benefits paid out	**(65.0)**	(65.4)
Closing fair value of scheme assets	**1,698.6**	1,706.5

Expense/(income) recognised in the profit and loss account:

	As at Year end 31 March 2014 £m	As at Year end 31 March 2013 £m
Current service cost	**20.5**	18.9
Interest cost	**81.8**	76.2
Expected return on scheme assets	**(72.5)**	(66.3)
Total expense/(income) recognised in the profit and loss account	**29.8**	28.8

Kemble Water Holdings Limited

Notes to the financial statements (continued)

27 Pension schemes (continued)

The expense is recognised in the following line items in the profit and loss account:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Operating costs: staff costs	**20.5**	18.9
Other finance expense	**9.3**	9.9
Total expense charged in the profit and loss account	**29.8**	28.8

Analysis of amount recognised in the statement of total recognised gains and losses:

	Year ended 31 March 2014 £m	Year ended 31 March 2013 **£m**
Actuarial gains/(losses) immediately recognised	**36.6**	(120.7)
Adjustment relating to irrecoverable surplus	**5.7**	14.1
Adjustment in respect of prior periods	**(1.5)**	-
Actuarial loss recognised in the statement of total recognised gains and losses	**40.8**	(106.6)
Cumulative amount of gains recognised in the statement of total recognised gains and losses	**(361.0)**	(401.8)

Fair value of scheme assets and 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 table:

	TWPS **2014 %**	TWPS 2013 %	TWMIPS **2014 %**	TWMIPS 2013 %
Equities	**7.50**	7.15	**7.35**	7.15
Corporate bonds	**4.60**	4.30	**4.35**	4.30
Fixed interest government bonds	**3.50**	3.15	**3.35**	3.15
Index linked government bonds	**3.25**	2.90	**3.10**	2.90
Property	**6.50**	6.15	**6.35**	6.15
Cash	**3.50**	3.15	**3.35**	3.15
Weighted average expected return	**5.40**	4.60	**4.35**	4.60

27 Pension schemes (continued)

In the prior period weighted average expected returns were used in calculating the fair value of the scheme assets of both schemes. In the current year scheme-specific assumptions have been employed as shown above.

	TWPS		TWMIPS	
	2014	2013	**2014**	2013
	£m	£m	**£m**	£m
Equities	**419.0**	413.8	**151.0**	161.9
Corporate Bonds	**68.2**	57.0	**65.8**	64.1
Fixed interest government bonds	**38.7**	6.2	**35.2**	36.1
Index linked government bonds	**380.0**	396.3	**398.7**	415.7
Property	**61.2**	56.0	**45.6**	43.9
Cash	**9.7**	27.1	**13.1**	15.2
Total fair value of scheme assets	**976.8**	956.4	**709.4**	736.9

The Group employs a building block approach in determining the long-term rate of return on pension plan assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed long-term rate of return on each asset class is set out within this note. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the schemes.

The main financial assumptions used for FRS 17 purposes are as follows:

	TWPS		TWMIPS	
	2014	2013	**2014**	2013
	%	%	**%**	%
Price inflation – RPI	**3.45**	3.50	**3.35**	3.50
Price inflation – CPI	**2.50**	2.80	**2.40**	2.80
Rate of increase in salaries	**-**	-	**3.85**	4.00
Rate of increase to pensions in payment – RPI	**3.45**	3.50	**3.35**	3.50
Rate of increase to pensions in payment – CPI	**2.50**	2.80	**2.40**	2.80
Discount rate	**4.60**	4.30	**4.35**	4.30

In the prior period weighted average actuarial assumptions were used in valuing the scheme assets and defined benefit obligations of both schemes. In the current year scheme-specific assumptions have been employed as shown above.

In valuing the liabilities of the pension schemes at 31 March 2014, mortality assumptions have been made as indicated below. These mortality assumptions are based on the recent actual mortality experience of members within the schemes and the assumptions also allow for future improvements to mortality rates.

27 Pension schemes (continued)

	TWPS		TWMIPS	
	2014	2013	**2014**	2013
	Years	Years	**Years**	Years
Life expectancy from age 60				
Male	**28**	27	**27**	26
Female	**30**	29	**30**	28
Life expectancy from 60, currently aged 40				
Male	**30**	29	**29**	28
Female	**32**	31	**32**	30

Experience adjustments:

	As at 31 Mar 2014 £m	As at 31 Mar 2013 £m	As at 31 Mar 2012 £m	As at 31 Mar 2011 £m	As at 31 Dec 2010 £m
Experience gains/(losses) on scheme assets:					
Amounts	**58.8**	109.7	76.3	13.6	(214.1)
Percentage of scheme assets	**3.4%**	6.4%	4.9%	5.9%	16.7%
Experience gains/(losses) on scheme liabilities:					
Amounts	**-**	-	11.1	-	-
Percentage of scheme liabilities	**-**	-	0.7%	-	-

The Group expects to contribute approximately £43.8m (2013: £44.0m) to the defined benefit schemes in the next financial year.

History of fair value of assets, present value of liabilities, surplus in scheme and experience gains and losses:

	As at 31 March 2014 £m	As at 31 March 2013 £m	As at 31 March 2012 £m	As at 31 March 2011 £m	As at 31 March 2010 £m
Fair value of scheme assets	**1,698.6**	1,706.5	1,551.6	1,414.0	1,327.0
Present value of scheme liabilities	**(1,866.6)**	(1,923.4)	(1,662.8)	(1,515.9)	(1,472.3)
(Deficit)/surplus in scheme	**(168.0)**	(216.9)	(111.2)	(101.9)	(145.3)

28 Analysis of cash flows

28(a) Net cash inflow from operating activities

Reconciliation of operating profits to net cash flow from operating activities	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Group operating profit	**593.9**	504.5
Depreciation charges	**527.1**	479.0
Amortisation	**45.0**	44.9
Decrease/(increase) in stocks	**(0.6)**	1.9
Decrease/(increase) in debtors	**(27.9)**	31.3
(Decrease)/increase in creditors	**43.7**	(7.7)
Deferred income release	**(13.6)**	(13.6)
Decrease in provisions	**19.3**	(7.9)
Difference between pension charge and cash contributions	**(23.2)**	(25.1)
Gain on settlement of finance lease obligations	**(5.9)**	-
Net cash flow from operating activities	**1,157.8**	1,007.3

Depreciation includes maintenance expenditure on infrastructure assets in accordance with FRS 15, Tangible Fixed Assets.

28(b) Return on investment and servicing of finance

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Interest received	**121.6**	143.3
Interest paid	**(523.7)**	(503.8)
Interest element of finance lease rental payments	**(4.2)**	(8.4)
	(406.3)	(368.9)

28(c) Capital expenditure and financial investment

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Purchase of tangible fixed assets	**(1,001.2)**	(903.6)
Infrastructure renewals expenditure	**(167.6)**	(185.7)
Capital contributions received	**49.7**	51.1
Sale of tangible fixed assets	**16.1**	13.2
	(1,103.0)	(1,025.0)

28 Analysis of cash flows (continued)

28(d) Acquisitions

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Investment in subsidiary undertaking	**(1.0)**	(43.3)
	(1.0)	(43.3)

The £1.0m payment was settlement of additional costs from the acquisition of the Thames Water Group by the Kemble Water Holdings Group.

28 (e) Decrease in cash

	Year ended 31 March 2014 £m	Year ended 31 March 2013 £m
Unrestricted cash movement	**66.3**	(104.3)
Restricted cash movement *	**(2.1)**	2.1
	64.2	(102.2)

*Included in cash and shown within the decrease in cash in the cash flow statement is a restricted cash payment in the year of £2.1m (2013: £2.1m receipt). This cash receipt relates to collateral posted by derivative counter parties that have failed to meet minimum credit rating criteria assigned by Moody's and has no impact on net debt.

28(f) Analysis of net debt

	As at 1 April 2013 £m	Cash flow £m	Other non-cash movements £m	**As at 31 March 2014 £m**
Cash at bank and in hand	31.7	(16.1)	-	**15.6**
Overdraft	(80.3)	80.3	-	**-**
	(48.6)	64.2	-	**15.6**
Loans due within one year	(345.9)	(395.1)	-	**(741.0)**
Loans due after more than one year	(9,889.8)	(300.7)	(126.0)	**(10,316.5)**
Finance leases due within one year	(10.5)	4.6	5.9	**-**
Finance leases due after more than one year	(102.4)	102.4	-	**-**
	(10,348.6)	(588.8)	(120.1)	**(11,057.5)**
Liquid resources	790.7	128.5	-	**919.2**
Total	(9,606.5)	(396.1)	(120.1)	**(10,122.7)**

The Group includes its current asset investments (see note 17) as liquid resources.

Other non-cash changes mainly comprise the carrying value uplift by RPI, of RPI index-linked loans. This adjustment is in accordance with FRS 4 "Capital instruments", which requires the carrying value of such index-linked loans to be recalculated at each balance sheet date.

29 Guarantees

Thames Water Utilities Holdings Limited, Thames Water Utilities Limited and its direct subsidiaries are Obligors under the whole business securitisation entered into in 2007. The Obligors 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 2014 was £9.8bn (2013: £9.1bn).

At 31 March 2014 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m (2013: £20.0m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8m (2013: £0.8m) at 31 March 2014.

The Group has provided security by way of a debenture over its assets in relation to monies owed by the Group under its credit facility agreement with RBS as Facility Agent. This facility amounted to £425.0m (2013: £425.0m), the amount outstanding at 31 March 2014 was £350.0m (2013: £350.0m). The chargee is RBS as Facility Agent.

The Isis Insurance Company Limited, a wholly owned subsidiary of the Group, has letters of credit in issue totalling £3.9m (2013: £3.9m), and £0.1m (2013: £0.3m) secured under a Security Trust Agreement. Security for these is provided by the Company to the value of £3.9m invested in a fixed term deposit held with Royal Bank of Scotland International Limited and £0.1m held by Barclays Trustees Limited.

In addition, there are a number of parent company guarantees in respect of subsidiary company contractual obligations that have been entered into in the normal course of business. No unprovided loss is expected to arise under these arrangements.

30 Group undertakings

At 31 March 2014, the Group held more than 10% of the allotted share capital of the following principal undertakings:

	Country of incorporation registration and operation	Class of share capital held	Proportion of shares held directly	Proportion of shares held indirectly	Basis of consolidation	Nature of business
UK:						
Kemble Water Eurobond Plc	England & Wales	Ordinary	100%	-	Subsidiary	Investment holding company
Kemble Water Finance Limited	England & Wales	Ordinary	-	100%	Subsidiary	Investment holding company
Thames Water Limited	England & Wales	Ordinary	-	100%	Subsidiary	Holding company
Thames Water Utilities Limited	England & Wales	Ordinary	-	100%	Subsidiary	Water and wastewater services
Thames Water Utilities Finance Limited	England & Wales	Ordinary	-	100%	Subsidiary	Finance Company
Thames Water Utilities Cayman Finance Limited	Cayman Islands	Ordinary	-	100%	Subsidiary	Finance Company
Thames Water (Kemble) Finance Plc	England & Wales	Ordinary		100%	Subsidiary	Finance Company
Isis Insurance Company Limited	Guernsey	Ordinary	-	100%	Subsidiary	Insurance
Kennet Properties Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Thames Water Investments Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Thames Water International Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Marketing of technical managerial services
Thames Water Property Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Property
Thames Water Commercial Services Limited	England & Wales	Ordinary	-	100%	Subsidiary	Commercial water supply
Trans4m Limited (In administration)	England & Wales	Ordinary	-	25%	Investment	Contract management for stations and civil assets

Advantage is taken of section 410 of the Companies Act 2006 and full information will be annexed to the next Annual Return delivered to the Registrar of Companies after the accounts in question have been approved under section 233.

31 Related party transactions

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

		Year ended 31 March 2014	**Year ended 31 March 2014**	Year ended 31 March 2013	Year ended 31 March 2013
Related party	**Nature of transaction**	**Value £m**	**Amount due £m**	Value £m	Amount due £m
Macquarie Group Limited	Fees payable for management and other services	**5.0**	**1.0**	4.3	1.0

During the year, a subsidiary of the group incurred advisory fee charges of £45,000 (2013: £60,000) for consultancy services provided by C R Deacon, a director.

32 Immediate and ultimate parent company and controlling party

Kemble Water Holdings Limited is owned by a consortium of investors led by Macquarie European Infrastructure Fund II LP ("MEIF 2"), wholesale investment funds which make long-term investments in infrastructure and related businesses located across Europe. The directors do not consider there to be an ultimate parent or controlling party. Kemble Water Holdings Limited is the largest group to consolidate these financial statements.

The Company's other shareholders are international pension funds and institutional investors.

MEIF 2 invests in businesses which:

- Provide an essential service to the community.
- Have a strong competitive position.
- Generate stable cash flows over the long term.

MEIF 2 aims to deliver sustainable cash yields and moderate capital growth from their diversified portfolios of quality infrastructure investments.

MEIF 2 is managed by Macquarie Infrastructure and Real Assets (Europe) Limited ("MIRAEL"). MIRAEL is a wholly owned member of the Macquarie Group, and is authorised and regulated by the Financial Conduct Authority. MIRAEL is resourced by executives of Macquarie Infrastructure and Real Assets.

33 Off-balance sheet arrangements

The Group is party to a number of contractual arrangements for the purposes of the Group's principal activities that are not required to be included on its balance sheet. The principal off-balance sheet arrangements are listed below:

- Operating leases (see note 25)
- Outsourcing contracts
- Guarantees (see note 29)

In respect of outsourcing contracts, the Group has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include IT support, Legal Services, metering services, capital delivery and Customer Service. 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.

34 Post balance sheet events

On 22 April 2014 TWUL issued an announcement to the London Stock Exchange launching the consent solicitation process to seek the approval of secured creditors to change the terms of certain finance documents. Bondholder meetings took place on 15 May and the proposal was passed on 16 May. Further to this consent, the proposed changes will be implemented on satisfaction of further specific conditions which are the issue of the TTT Project Specification Notice and the affirmation of credit ratings at specific levels as set out in relevant finance documents.

Whilst these changes are considered important to the securitisation group, there is no immediate financial effect.