

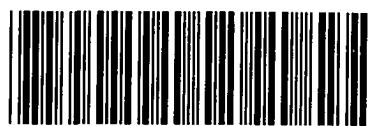
Registered number: 5819262 (England & Wales)

Kemble Water Holdings Limited

Annual report and consolidated financial statements

For the year ended 31 March 2015

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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 of companies (the "Group"). The principal activity of the Company is to act as the holding company of the Group and does not carry out any activities beyond this role.

The principal activity of the Group is the appointed supply of water and wastewater services to customers in London and the Thames Valley region, delivered entirely through its wholly owned subsidiary, Thames Water Utilities Limited ("TWUL" or "Thames Water"), in accordance with its Licence of Appointment. These appointed activities represent in excess of 98% of the Group's turnover.

In addition the Group operates the following separately managed businesses:

- A property business, which manages the Group's property portfolio and the sale of land and other property that is no longer required by the appointed business; and
- A commercial water retail business, which has been set up mainly to take advantage of the opening of the water industry to competition.

As the performance of the Group is dependent largely on its appointed activities, this report makes reference to the performance of TWUL in order to provide appropriate explanation as to the performance of the overall group.

The Group's management structure separates the directors of the Company, who are all non-executives, and have no role to play in the day to day running of the appointed business (although certain matters require the approval of the Company's board having regard to the interests of its shareholders). In addition to their responsibilities to TWUL, the executive directors of TWUL also carry out work on behalf of the Group. There are controls in place to ensure that the day to day management of the appointed business is separated from the commercial water retail business.

Unless otherwise stated, all current year data included in this report is for the year ended 31 March 2015 ("2014/15").

Kemble Water Holdings Limited

Directors and advisors

Directors

Sir Peter Mason KBE

E Beckley

R Blomfield-Smith¹ (resigned 13/03/2015, re-appointed 27/04/2015)

D Buffery² (resigned 01/01/2015, re-appointed 13/03/2015)

R Greenleaf (appointed 13/03/2015)

G Lambert (appointed 15/10/2014)

P Noble (appointed 13/03/2015)

G Tucker (appointed 17/04/2015)

Y Wang (appointed 01/07/2014)

L Webb

1 - R Blomfield-Smith was originally appointed on 29 November 2012 but as part of the corporate governance changes resigned on 13 March 2015. Rosamund was re-appointed with effect from 27 April 2015.

2 - D Buffery resigned part way through the year as part of an Investor Director rotation but was re-appointed on 13 March 2015.

Registered auditor

KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

Company secretary and registered office

D Hughes

Clearwater Court

Vastern Road

Reading

Berkshire

RG1 8DB

Kemble Water Holdings Limited

Chairman's statement

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

Review of the year

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

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

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

Total Group profit for the financial year has increased by 33.4% to £231.6 million driven primarily through the following factors:

- Revenue growth of 4.2% to over £2 billion, principally due to allowed annual price increases in conjunction with a slight rise in water consumption attributable to population growth.
- Reduction to net financing costs of £52.8 million primarily attributable to lower inflation during the year and that approximately 50% of our external debt is inflation linked.
- A tax credit of £61.5 million principally arising due to an election made by TWUL to reduce its claims for tax relief on capital expenditure for a number of prior years.

External distributions made to compensate the shareholders for their capital investment totalled £63.1 million. In addition the Group paid £36.9 million in interest on a loan from the shareholders.

In addition to the appointed business, we have continued to focus on and grow the commercial and property development businesses sitting outside of TWUL. Total revenues for these businesses have increased from £7.8 million to £10.4 million largely driven by a growth in the commercial services Scottish customer base from 35 companies to 104 companies.

Sustainable Investment

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

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

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

Kemble Water Holdings Limited

Chairman's statement

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

In addition to these large-scale projects we continue to invest in schemes designed to limit our overall environmental impact, including a long term contract to buy power for our Beckton site. This plant, on schedule to be operational in summer 2015, is expected to provide power equivalent to 40,000 homes and will be fuelled by bio fuels.

Effective governance

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

Regulatory environment

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

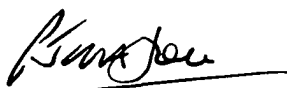
Amidst the transition to a new regulatory period, the water industry is about to undergo a radical change, the greatest since it was privatised in 1989. We welcome competition into sections of the retail market from 2017 as part of a continuing process of improving services and providing for customers'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

To position ourselves for the upcoming challenges, we are in the process of implementing our Business Transformation programme. This focuses on positioning Thames Water for the future including how the business is structured. The Business Transformation programme will increase flexibility, provide a greater customer-centric focus, enhance efficiency and effectively deliver our key service outcomes.

Future outlook

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

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



Sir Peter Mason KBE
Chairman

4 June 2015

Kemble Water Holdings Limited

Strategic report

The Directors present their strategic report of Kemble Water Holdings Group for the year ended 31 March 2015.

Business review

Principal activities

The principal activity of the Group is the appointed supply of water and wastewater services through its wholly owned subsidiary, TWUL. The Company's principal activity is to act as the holding company for the Group.

Whilst the appointed supply of water and wastewater services provides in excess of 98% of the Group's overall turnover, TWUL also manages certain non-appointed activities including:

- Property searches, including the provision of information required by property developers;
- Sale of gravel and other aggregates extracted through day-to-day operations; and
- Treatment of CESS and other septic waste.

In addition, outside of TWUL, the Group operates a property business to manage and optimise the value the Group's property portfolio and a commercial water retail business incorporated to take advantage of the opening of the water industry to competition.

Business strategy

The Group's strategy is as follows:

- For the appointed business of TWUL, the aim is to deliver safe reliable services for customers while ensuring fair 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 appointed business, the Group's strategy aims to utilise its water and wastewater services experience 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.

The Group continues to provide property search services to conveyancers and homebuyers through a property services arm.

A key element of this strategy is retail competition. The Group has made a decision to ensure that the Group participates 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.

Risk management framework

As the Group's principal activity is the delivery of appointed water and wastewater services, the risks of the Group are largely identical with those of the main subsidiary entity, TWUL.

The risk management process of TWUL is integrated within the business and is a core element of day-to-day business activities. This is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation that is designed both to identify emerging risks and to minimise the adverse impact of both 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 and Board, and during 2014/15 the risk management process was overseen within TWUL by the Audit & Risk Review Committee ("ARRC") on behalf of the Board. From the 31 March 2015 the Committee was reconstituted as the Audit Risk and Regulatory Committee ("ARRC") with continued mandate focusing on TWUL. The Group Audit Committee ("GAC") reviews and considers risks and mitigations specific to the Group.

Kemble Water Holdings Limited

Strategic report

During 2014/15 the ARRC was responsible for assisting the Group in discharging its responsibilities for considering the effectiveness of the risk management framework and internal controls. The risk management framework is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and is coordinated by the Head of Audit and Assurance ("HIA").

The newly constituted GAC considered the 2014/15 annual accounts whilst other activities in the year to 31 March 2015 were undertaken by the ARRC.

Our risk management approach considers 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 appointed business within TWUL the following risk assessments, on pages 7 to 11, are an extract from the business review contained within the TWUL annual report. All material risks and their associated controls are challenged by the ARRC as well as Internal Audit.

This has been a year of significant change within our risk profile with the implementation of a new operating model in TWUL, acceptance of Ofwat's Final Determination as well as major progress on Thames Tideway Tunnel (securing Development Consent Order, procuring key sites and ongoing procurement for the Infrastructure Provider and construction sites). However, new risks are emerging with respect to the regulatory period 2015-20 ("AMP6") and the delivery of Outcome Delivery Incentives, different contracting models and the opening of markets to competition in 2017.

Description & Impact	Mitigating activities	Change
<p>Safety</p> <p>We have a zero compromise approach to health, safety and wellbeing.</p> <p>A failure in safety could result in injury or loss of life which would have tragic implications for individuals and their families and communities.</p>	<p>There is a clearly defined strategy, safety protocols and standards that are set, monitored and reported to the Board and the Executive each month as required.</p> <p>We continue to introduce initiatives based on emerging risk areas to reinforce our ambition of zero harm, zero incidents and zero compromise. Initiatives in 2014/15 include a new drugs and alcohol policy and mobile phones policy.</p>	<p>There has been a continued improvement in the safety standards across our sites and a shift in the business safety culture. For example, there has been a 40% reduction in cases of reported work related illness and a 24% reduction in work related injuries.</p>

Kemble Water Holdings Limited

Strategic report

Description & Impact	Mitigating activities	Change
<p>Customer service</p> <p>Failure to deliver good customer service can be caused by failures in supply and quality requirements and also the effectiveness of communication and response.</p> <p>In AMP5 TWUL was penalised £95.5m for not achieving Ofwat Service Incentive Mechanism ("SIM") targets.</p> <p>A new Household SIM measure has been introduced by Ofwat. The Reward and Penalty will be based on comparative performance for the aggregate of 2015-16 to 2018-19, four years.</p>	<p>The Group's focus is on ensuring right first time service delivery to our customers and removing the drivers of dissatisfaction.</p> <p>TWUL's business model has changed to drive accountability in the organisation to empower each operating company to identify areas where process improvements and additional resources are required to support the customer experience.</p> <p>In 2014/15 TWUL implemented a weekly customer satisfaction ("CSAT") tracker which enables us to gauge customer experience on a daily basis.</p> <p>Clear targets for improvements to customer experience measures have been established for 2015/16 and each year in the regulatory period 2015-20.</p> <p>Senior management is incentivised as part of their performance reviews on improving customer service standards.</p>	<p>Significant engagement with stakeholders as part of the design for our AMP6 plan.</p> <p>We have invested additional resources to better understand our customer requirements and improve co-ordination and processes across the Company.</p> <p>Reduced complaints and improved CSAT.</p>
<p>Delivery of the Thames Tideway Tunnel</p> <p>As an innovative solution to the challenge of reducing sewage discharges into the tidal Thames, the design and construction of the Thames Tideway Tunnel present a number of major technical and logistical challenges.</p> <p>A key challenge is the impact of any delays to the stand-alone Infrastructure Provider (IP) licence award which is targeted for summer 2015.</p>	<p>The key mitigation and the preferred solution for key stakeholders is the establishment of a separately regulated entity to deliver the Thames Tideway Tunnel. This model requires third party investment and will enable exceptional project risks, which require contingent support from HMG, to be ring-fenced.</p> <p>The Development Consent Order ("DCO") was granted by Secretary of State in September 2014 for the project. Claims for Judicial Review have been dismissed by the High Court but appeals have been lodged.</p> <p>The Group has worked with the Government on the development of an approved resilience plan in the event that financial close of the IP is delayed.</p>	<p>Good progress has been made and the successful DCO is a significant step forward to support Thames's preferred delivery model which has been agreed with stakeholders.</p> <p>Final Determination provides acceptable risk sharing mechanisms for the Group.</p> <p>Main works contractors selected and costs remain within agreed scope.</p>

Kemble Water Holdings Limited

Strategic report

Description & Impact	Mitigating activities	Change
<p>Credit downgrade risk</p> <p>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.</p> <p>Poor operational or financial performance could lead to increased borrowing costs to be serviced which could affect the Group's ability to invest in improving services for customers as well as reducing financial flexibility.</p> <p>Outside of the securitisation group are certain non-trading entities that are dependent on loans, interest, dividends and other payments received to generate the funds necessary to meet its financial obligations.</p>	<p>Our Funding Strategy is resilient and approved by the Board annually.</p> <p>Conservative financing plans are in place.</p>	<p>Following review of the PR14 Final Determination, Moody's has now affirmed the credit ratings of TWUL and moved all ratings to stable outlook. TWUL remains on negative outlook with S&P.</p> <p>The credit ratings for Thames Water (Kemble) Finance plc, that acts as the financing subsidiary to intermediate holding company Kemble Water Finance Limited, have been affirmed as BB with stable outlook by Fitch and B1 with stable outlook by Moody's.</p>
<p>Operational service</p> <p>Within the PR14 Final Determination our Waste Infrastructure Assets were classified as deteriorating.</p> <p>Physical, environmental, technological or human factors, either within or outside the Group's control, could result in impacts ranging from a decline in performance to interruptions and environmental impact. Ofwat could make financial adjustments at PR19 if corrective actions do not restore service to the required reference levels for each of their serviceability measures.</p>	<p>Action plans are in place and regularly monitored to deliver sustained performance improvements.</p>	<p>Targets for the regulatory period 2015-20 have been reset by Ofwat and if delivered will put us in upper quartile performance within the industry (based on AMP5 basis).</p> <p>Contracting strategy aligned for Thames Water and its delivery partners.</p> <p>Clear plans to deliver PR14 Outcome Delivery Incentives.</p> <p>Improved accountability within new operating model to drive performance.</p>
<p>Delivery of capital projects</p> <p>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.</p> <p>Delivery of our capital investment programmes could be affected by delays or cost overruns.</p>	<p>We have established an industry leading Alliance, Eight20 with market leading organisations to proactively manage and mitigate risk within our Capital Programme.</p>	<p>Contractors aligned with Thames objectives.</p> <p>Number of major projects nearing successful completion.</p>

Kemble Water Holdings Limited

Strategic report

Description & Impact	Mitigating activities	Change
<p>Loss of key data</p> <p>There are significant threat levels to key financial, operational and customer data</p> <p>Loss or misuse of customer data throughout our supply chain could lead to potential regulatory and financial impacts as well as more importantly damaging our customer's trust in the Group.</p>	<p>Extensive awareness programme with our employees and supply chain as well as investing in improving our IT and physical security controls.</p> <p>All employees and key contractors are undergoing mandatory data security and data protection training.</p> <p>We have used external capabilities to review and benchmark our security framework. We are developing a Cyber Security improvement programme chaired by the CEO of TWUL.</p>	<p>We are committing increased resources to our cyber security response capability.</p>
<p>Impact of regulatory changes</p> <p>The PR14 Final Determination for 2015-20, has introduced changes to regulation in the industry, including: a move from outputs to outcomes, performance commitments and Outcome Delivery Incentives (ODIs); the introduction of separate price controls for water, wastewater, retail household and retail non-household functions (plus Thames Tideway Tunnel for Thames Water); and moving from the traditional financial categorisation of capex and opex, to total expenditure ('totex').</p> <p>Wider changes to the industry include the draft Water Bill (2014), which will enable the creation of a new market for retail water and sewerage services to non-domestic customers in England in 2017. In this environment, anti-competitive behaviour could lead to a financial penalty and also divert management resource to defend any investigation or allegations.</p> <p>Ofwat consultation regarding inflation adjustment as part of proposed PR14 reconciliation rulebook. The potential impact of this proposal would be a reduction of around 2% to our AMP7 opening RCV. This could affect gearing and future income.</p>	<p>Compliance with our regulatory obligations and competition law remain key areas of focus.</p> <p>We are investing in a number of system changes including Billing systems to support delivery of the required changes.</p> <p>We have restructured our business as set out in our PR14 submission to respond to changes in the industry and to enable us to deliver efficient and effective customer service improvements.</p> <p>We have made strong representations to Ofwat that its proposals for an RCV adjustment would amount to a departure from the position it had confirmed at various stages during PR14. We also proposed that any RCV adjustments should be made gradually from April 2020 so as not to undermine the terms of the regulatory settlement for the period 2015-20.</p>	<p>Plans to deliver PR14 Outcome Delivery Incentives well advanced.</p> <p>Business Transformation projects well defined to deliver continued improvement.</p> <p>Workforce involved in developing Thames 2025 Vision.</p> <p>Ofwat consultation on inflation adjustments and our strong representations made in response.</p>

Kemble Water Holdings Limited

Strategic report

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

Kemble Water Holdings Limited

Strategic report

Financial Performance

Financial Key Performance Indicators (KPIs)

	2014/15 £'m	2013/14 £'m
Group turnover	2,032.7	1,951.5
Group operating costs	1,422.7	1,363.8
Group net interest payable	463.6	516.4
Net debt	10,645.3	10,122.7
Capital expenditure	1,375.6	1,156.5
Dividends paid	63.1	45.1

Group turnover

Total Group turnover for the year has increased by 4.2% to £2,032.7 million, primarily as a result of an allowed average price increase of 3.35% combined with a marginal increase in domestic consumption due to general population growth.

Group operating costs

Total operating expenditure has increased by £58.9 million (4.3%) from prior year. The implementation of our Business Transformation Programme gave rise to one off severance related costs of £12.3 million incurred in net operating costs. This reorganisation was announced prior to 31 March 2015 but still in progress at the year end.

Group depreciation, IRC and amortisation charges increased £16.5m as the Group continues to invest in its capital programme with approximately £1.4bn invested in the year. The amortisation of the Group's goodwill arising on the acquisition of the Thames Water Group in 2006/07 by the Kemble Water Group was £44.9m (2013/14: £44.9m).

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

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

Group net interest payable

Around 50% of our debt is inflation linked and the relatively low RPI rates have had a significant impact on our net interest cost. During 2014/15, lower inflation was the main driver of the decrease in net interest payable of £52.8 million.

Net debt

Net debt has increased from March 2014 by £522.6 million arising primarily as a result of additional borrowings during 2014/15 that have been utilised to drive forwards our capital investment programme. During the year we have once again spent more on investing in the Group's fixed assets (including improvements and maintenance to the general infrastructure) than the cash inflow generated by normal operating activities. We are financed by a mixture of debt and equity which enables us to deliver the enhancements required to the infrastructure.

Kemble Water Holdings Limited

Strategic report

Capital expenditure

Capital expenditure in the year was £1,375.6 million as the Group continues to deliver the largest investment programme in the UK water industry. We continue to drive more effective and efficient delivery of our capital programme and have made significant progress on key projects including:

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

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

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

The SEMD programme is delivering physical and electronic protections to secure operational sites to DEFRA's standards. The programme covers 196 sites and offers site protection ranging from simple security devices to sophisticated electronic systems enabling central visibility and control. The programme has delivered on 167 sites by end of the year with the final 29 sites to be completed in 2015/16.

The hydraulic flooding programmes have delivered good progress during the year with 16 schemes in operation in North London and 8 schemes in South London delivering flooding local improvement projects. The schemes vary from small scale delivery to individual properties via installation of free mini-pumps, to large scale schemes which deliver construction of flood prevention mechanisms that protect clusters of affected properties. During the course of AMP5, we have delivered protection from hydraulic sewer flooding to over 1,000 properties.

TWUL has continued with its investment of nearly £250.0m over AMP5 to roll out the THP project across six of our major sewage treatment sites including Long Reach sewage treatment plant. THP involves utilising sludge more effectively to generate renewable energy and will help reduce operating costs and environmental footprint as the more electricity that we can generate the less we have to buy externally. This investment will help us achieve our target to self-generate renewably 33% of our annual electricity requirements by 2020.

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

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.

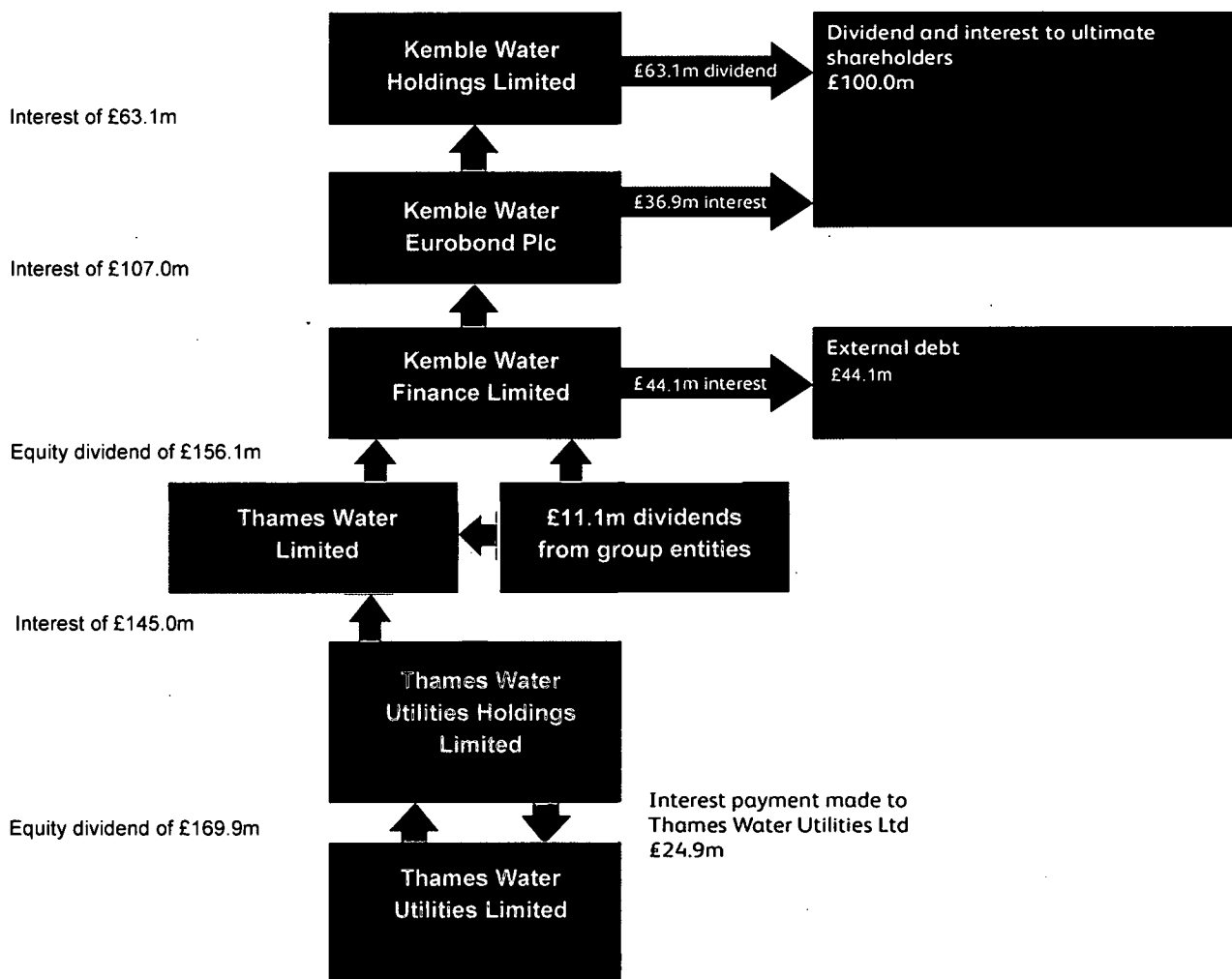
Kemble Water Holdings Limited

Strategic report

In assessing the dividend to be paid (to a maximum of statutory distributable reserves) the directors 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 funded by its subsidiary entities, including those paid by TWUL, for the year ended 31 March 2015:



The Company has £1,991.6 million of share capital (2013/14: £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, Kemble Water Eurobond plc. 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.

The Group paid interim dividends totalling £63.1 million during the year (2013/14: £45.1 million). Together with the interest paid on the bonds issued by the Company's immediate subsidiary, Kemble Water Eurobond Plc ("KWE") of £36.9 million (2013/14: £54.9 million) this gave a total distribution to shareholders of £100.0 million (2013/14: £100.0 million). The interest paid by KWE consisted of two tranches of interest (2013/14: three tranches).

The Board does not recommend a final dividend (2013/14: £nil).

Kemble Water Holdings Limited

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Pensions

The net pension liability position of the Group increased to £244.9m (2013/14: £150.5m). The increase is largely due to an increase in the pension liability of the two closed defined benefit schemes in TWUL.

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

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

Actuarial losses over the two pension schemes totalled £119.6m (2013/14: gain of £20.1m) net of deferred tax arising largely as a result of management applying more prudent assumptions, including a lower discount rate, that are deemed to represent a more fair and balanced approach.

Taxation

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

During 2014/15, TWUL elected to reduce its claims for tax relief on capital expenditure for a number of prior years. The capital allowance disclaimer is expected to provide tax relief worth £129.3 million to the Group in the future (assuming a corporation tax rate in future years of 20%), which is included within the deferred tax relief in respect of prior years in the financial statements.

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

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

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

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Financing and financial risk management

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

Debt financing

A summary of the Group's net debt is as follows:

	2015 £'m	2014 £'m
<i>Securitised Group (TWUL and Subsidiaries):</i>		
Class A net debt (covenant basis)	8,546.8	7,925.6
Class B net debt (covenant basis)	946.6	1,046.6
Subordinated debt (covenant basis)	736.6	721.1
Shareholder loans and other net debt	415.3	429.4
Kemble Water Holdings Group net debt	10,645.3	10,122.7

Shareholder loans and other net debt includes:

- Cash and investments held in companies that are excluded from covenant calculations;
- Certain bonds held in Kemble Water Eurobond plc (as these are owned by the Group's shareholders); and
- Fair value adjustments made to the Thames Water Group's borrowings on acquisition by Kemble Water consortium.

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 Regulatory Capital Value ("RCV"). For the debt held outside the securitised group, TWUL's dividends are passed up the Group structure to provide funding for debt held at Group level.

Within the securitised group, TWUL is an obligor, underwriting all the securitised debt which at 31 March 2015 consisted of borrowings of £10.2bn (2013/14: £9.8bn). In addition to the debt TWUL holds directly, TWUL also, through the on-lending arrangements for borrowings in its subsidiaries, services the debt held in those companies.

Subordinated debt is issued outside of the securitised group and committed finance agreements have been put in place to refinance debt obligations that mature in the 2015/16 financial year. The Group has adequate cash and available facilities outside of TWUL to enable it to service the debt for at least twelve months from the date of these financial statements.

Credit rating

The principal trading company of the Group, TWUL, maintains investment grade credit ratings as assigned by the rating agencies Moody's and Standard & Poor's ("S&P"). The on-going assessment of these two rating agencies provides an external valuation of performance and prospects. Investment grade means at least Baa3 from Moody's or BBB- from S&P.

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 securitised group. TWUL's licence requires it to maintain this with investment grade rating. In February 2015 Moody's affirmed the Baa1 corporate family rating (CFR) of TWUL and the A3 senior secured Class A rating and Baa3 subordinated debt Class B rating. The outlook on all Moody's ratings is stable.

Moody's commented that the decision to affirm TWUL's ratings as 'stable' (previously 'negative outlook') primarily reflects (1) a final regulatory price determination that is broadly in line with the company's business plan submission; (2) reduced risks in relation to Thames Water's involvement with the Thames Tideway Tunnel (TTT) project; (3) a conservative financial and dividend policy during the TTT procurement process;

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and (4) TWUL's credit metrics forecast to remain around 80% of net debt to RCV and around 1.3x or better for the adjusted interest coverage, broadly in line with Moody's guidance for the current rating.

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

Moody's Investor Service rates subordinated debt (debt held outside of the Securitisation Group) issued by TW(K)F at B1 with stable outlook and the rating agency Fitch rates this debt at BB- with stable outlook.

Funding and treasury policy

The funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect the Group against risks arising from adverse movements in interest rates) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to manage interest rate risk, inflation risk and foreign exchange risk. All funding and treasury transactions are undertaken and managed by the central treasury function.

Financial derivatives used include cross currency swaps and interest rate swaps are used 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 Group'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. The principal operating company of the Group, TWUL, is an appointed water and wastewater company with RPI linked revenues. Therefore the Group's index linked borrowings form a partial economic hedge as the assets and liabilities partially offset each other. 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 of bonds issued in a foreign currency. All hedges are undertaken for commercial reasons with the objective of minimising the impact of exchange rate fluctuations on net assets and profits. The Group has no 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, protecting against interest rate movements.

In mid-2014 the principal operating company of the Group, TWUL, executed £2.25bn of forward-starting pay fixed/receive floating interest rate swaps of a 5-7 year maturity with various financial institutions to fix the future interest costs of an element of the anticipated new debt issuance in AMP6. This protects the Group against adverse movements in underlying interest rates by matching projected future debt issuance against a derivative instrument with a fixed cash flow.

On 19 May 2015 TW(K)F reached agreement with bondholders of the £400m 7.75% 2019 bond to make specific amendments to the terms of the bond. This included an increase in the debt cap associated with the bond to £900m from £750m, the update of covenants to reflect recent amendments made at Thames Water Utilities Limited level and in addition TW(K)F updated the list of shareholders pursuant to the change of control clause in the bond.

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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 recoverability of short-term investments and cash flows receivable from counterparties to the derivative financial instruments and customers failing to settle their bills.

Under the terms of the whole business securitisation agreement, counterparties to the Group's short term investments and derivative transactions have to meet minimum credit rating criteria. 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.

At 31 March 2015 the Group held £7.4 million (2013/14: £nil) of collateral cash, 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.

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 by a range of financial institutions.

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. PMICR is the ratio of the cash generated by the business, after maintenance expenditure, to the net external interest paid. These covenants are measured and submitted to lenders semi-annually and involve both actual data and forecasts.

Key financial covenants are shown below:

Covenant	Actual	Trigger	Default
Kemble Water Finance consolidated group			
Group net debt to RCV	86.3%	92.5%	95.0%
PMICR	1.6x	N/A	1.05x
Securitised group (TWUL and subsidiaries)			
Senior net debt to RCV	80.1%	85.0%	95.0%
Senior PMICR	2.0x	1.1x	N/A
Class A net debt to RCV	72.1%	75.0%	85.0%
Class A PMICR	2.4x	1.3x	1.1x

The Group was in compliance with all its covenants at 31 March 2015.

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 AMP 7.

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

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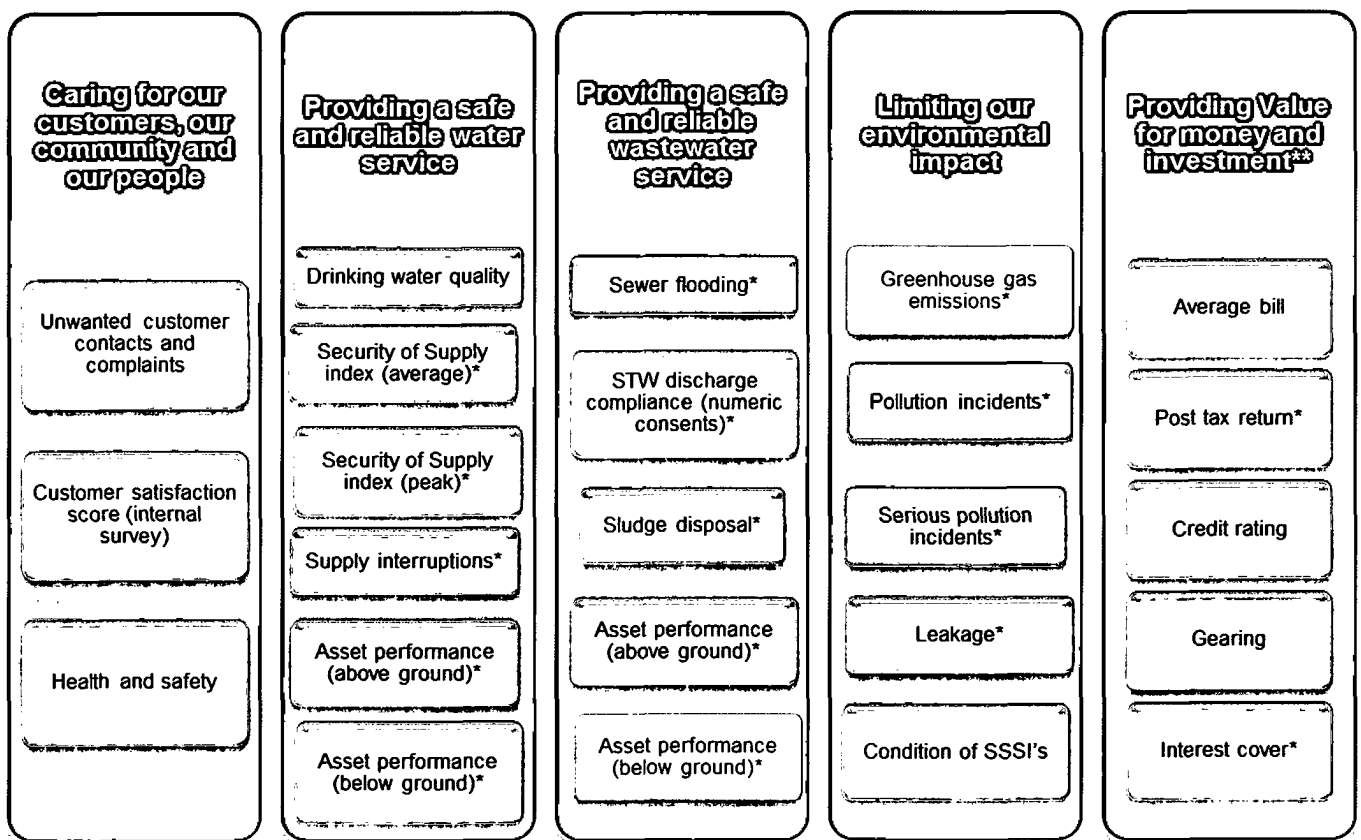
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Key performance indicator summary

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

The ratings definitions can be summarised as follows:

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



* KPIs required by Ofwat

** Refer to pages 12-18 for commentary

Sewer flooding, pollution incidents & waste asset performance (below ground) – Our red and amber ratings for these activities reflect the pressure our networks came under in the exceptionally wet winters of 2012/13 and 2013/14. The number of people affected by sewer flooding in 2014/15 did fall and we have significant resources devoted to improving our performance.

Greenhouse gas – In 2014/15 we did not offset increases in emissions as required and there was a change in the grid electricity factor (set by central government) which increased carbon dioxide equivalent arising from our activities. We continue to increase power generated from waste up 4% on 2013/14 and we are committed to doubling the power we generate from waste by 2020.

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Caring for our customers, our community and our people

Caring for our customers

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



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



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

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

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

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

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

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

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

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

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

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

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

We have set out our minimum standards of customer service and the compensation payments we will make if we fail to meet them under our Customer Guarantee Scheme. Details of this can be found on our website at <http://thameswater.co.uk/help-and-advice/3017.htm>.

Caring for our community

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

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

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

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

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

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

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

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- Thames Water Trust Fund.

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

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

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

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

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

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Health, safety and wellbeing

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

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



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

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

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

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

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

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

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

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

Caring for our people

Our Values

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

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

Developing our staff

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

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

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

Employee engagement

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

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

External recognition of our efforts

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

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

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

Diversity

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

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

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

Human Rights and Ethical Behavior

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

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

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

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Providing a safe and reliable water service

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

Safe and clean drinking water

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

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



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

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

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

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

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

Providing a reliable supply of water

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



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



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

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

² Subject to DWI confirmation via report due in July

Kemble Water Holdings Limited

Strategic report

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

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

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



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

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

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

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

Looking after our water assets



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



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

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

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

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

Kemble Water Holdings Limited

Strategic report

Providing a safe and reliable wastewater service

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

Collecting and transporting wastewater safely

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

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



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

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

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

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

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

Treating wastewater and returning it safely to the environment

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



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

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

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

To ensure we can meet our standards and our customers' needs in future, we have completed a £675m project to modernise and extend London's five major sewage treatment works with the final two works (Beckton and Crossness) upgraded during this reporting year. The work is well advanced and will increase

Kemble Water Holdings Limited

Strategic report

the amount of sewage the sites can treat safely, greatly reducing from 2015/16 the need for storm discharges to the River Thames thus improving the standard to which we treat sewage at each of the works, and further boosting the quality of the river. Additionally we have increased the treatment capacity at 9 other works in areas where population is growing and we have improved the quality of effluent at 11 other works.

Disposing of sludge

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



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

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

Looking after our wastewater assets

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



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



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

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

The performance of our sewage treatment works has continued to be excellent, and we have therefore assessed the performance of these assets to be 'stable' and graded this metric as 'Green', in line with Ofwat's methodology. We have assessed performance of our below-ground wastewater assets, however, to be 'deteriorating' and graded this as 'Red'. This assessment is driven by performance on 'other causes' flooding and network pollution, which have been above their respective upper control limits for two years.

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

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

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

Kemble Water Holdings Limited

Strategic report

Limiting our Environmental Impact

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

Preventing pollution incidents



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



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

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

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

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

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

Managing our emissions

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

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

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

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

Kemble Water Holdings Limited

Strategic report



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

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

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

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

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

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

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

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

Leakage



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

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

Kemble Water Holdings Limited

Strategic report

Making environmental and wildlife improvements



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

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

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

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:

Sir P Mason KBE
Chairman
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 2015.

Future outlook

The future outlook of the Group is discussed in the Chairman's Statement.

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 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

During the year the Company reviewed the structure of the Board, in order to comply with Ofwat's governance principles published in January 2014 (Board leadership, transparency and governance – principles) and following extensive consultation with the shareholders made several changes to the composition of the Board, which are detailed in the table below. The directors who held office during the year ended 31 March 2015 and to the date of signing were:

Director	Appointments	Resignations
Sir Peter Mason KBE		
E Beckley		
R Blomfield-Smith ¹	27 April 2015	13 March 2015
D Buffery ²	13 March 2015	1 January 2015
C R Deacon		17 April 2015
Dr P Dyer		13 March 2015
S R Eaves		15 October 2014
R Greenleaf	13 March 2015	
C Heathcote	22 July 2014	13 March 2015
N Horler	14 April 2014	13 March 2015
G Lambert	15 October 2014	
P Noble	13 March 2015	
K Roseke	13 March 2015	27 April 2015
D J Shah		13 March 2015
G Tucker	17 April 2015	
C Van Heijningen	1 January 2015	13 March 2015
Y Wang	1 July 2014	
L Webb		
D Xu		1 July 2014

1 - R Blomfield-Smith was originally appointed on 29 November 2012 but as part of the corporate governance changes resigned on 13 March 2015. Rosamund was re-appointed with effect from 27 April 2015.

2 - D Buffery resigned part way through the year as part of an Investor Director rotation but was re-appointed on 13 March 2015.

Kemble Water Holdings Limited

Directors' report

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 32 to the accounts.

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

Director	Appointment	Resignation	Alternate	Appointment	Resignation
E Beckley			R Greenleaf	11 September 2014	13 March 2015
R Blomfield-Smith ¹	27 April 2015	13 March 2015	D Rees	27 April 2015	
D Buffery ²	13 March 2015	1 January 2015	D Rees	22 April 2014	1 January 2015
			R-J Bakker	13 March 2015	
G Lambert	15 October 2014		M Hill		13 March 2015
P Noble	13 March 2015		P Hofbauer	13 March 2015	
G Tucker	17 April 2015		C Deacon	17 April 2015	
Y Wang	1 July 2014		F Sheng		
L Webb			C Pham		

1 - R Blomfield-Smith was originally appointed on 29 November 2012 but as part of the corporate governance changes resigned on 13 March 2015. Rosamund was re-appointed with effect from 27 April 2015.

2 - D Buffery resigned part way through the year as part of an Investor Director rotation but was re-appointed on 13 March 2015.

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 £4.0 million for the year (2013/14: £3.9 million).

Donations

No political donations were made by the Group (2013/14: £nil).

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 is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. 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.

Kemble Water Holdings Limited

Directors' report

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

Adoption of future accounting standards

UK GAAP in its current form is being replaced for all financial periods starting on or after 1 January 2015. Companies applying UK GAAP must therefore decide whether to convert to FRS 102/FRS 101 (the replacement for UK GAAP) or EU-IFRS. The group intends to adopt EU-IFRS for the year ending 31 March 2016. The group is currently reviewing the accounting and disclosure impact of this.

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' 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

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

Approved by the Board of Directors on 4 June 2015 and signed on its behalf by:



D Hughes

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; and
- 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.

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 2015 set out on pages 38 to 78. 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 36, 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 (APB'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 Financial Reporting Council'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 2015 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.

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.



William Meredith (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square
London
E14 5GL
4 June 2015

Kemble Water Holdings Limited

Consolidated profit and loss account

For the year ended 31 March

	Note	2015 £m	2014 £m
Turnover	2	2,032.7	1,951.5
Operating costs	3	(1,422.7)	(1,363.8)
Other operating income	6	6.8	6.2
Group operating profit		616.8	593.9
Profit on disposal of fixed assets	7	16.9	22.0
Interest receivable and similar income	8	62.4	42.2
Interest payable and similar charges	9	(520.0)	(549.3)
Other finance costs		(6.0)	(9.3)
Profit on ordinary activities before taxation		170.1	99.5
Taxation on profit on ordinary activities	10	61.5	74.1
Profit for the financial year	24	231.6	173.6

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 of the Group's activities above are derived from continuing operations.

The accounting policies and notes on pages 42 to 78 are an integral part of these financial statements

Kemble Water Holdings Limited

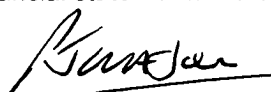
Consolidated and Company balance sheets

As at 31 March

	Note	Group		Company	
		2015 £m	2014 £m	2015 £m	2014 £m
Fixed assets					
Intangible assets	13	1,423.7	1,468.7	-	-
Tangible assets	14	12,552.2	11,768.7	-	-
Fixed asset investments	15	-	-	1.0	1.0
		13,975.9	13,237.4	1.0	1.0
Current assets					
Stocks	16	8.3	9.1	-	-
Debtors	17	556.3	573.4	3,343.3	3,096.7
Investments	18	824.5	919.2	-	-
Cash at bank and in hand		26.8	15.6	1.5	-
		1,415.9	1,517.3	3,344.8	3,096.7
Creditors: amounts falling due within one year	19	(1,904.9)	(1,710.5)	(67.2)	(0.7)
Net current (liabilities)/assets		(489.0)	(193.2)	3,277.6	3,096.0
Total assets less current liabilities		13,486.9	13,044.2	3,278.6	3,097.0
Creditors: amounts falling due after more than one year	20	(10,850.4)	(10,486.4)	-	-
Provisions for liabilities and charges	22	(873.7)	(938.1)	-	-
Net assets excluding net pension liability		1,762.8	1,619.7	3,278.6	3,097.0
Total of defined benefit schemes:					
with net assets		21.2	29.7	-	-
with net liabilities		(266.1)	(180.2)	-	-
Net pension liability	28	(244.9)	(150.5)	-	-
Net assets including net pension liability		1,517.9	1,469.2	3,278.6	3,097.0
Capital and reserves					
Called up share capital	23	1,991.6	1,991.6	1,991.6	1,991.6
Profit and loss account	24	(473.7)	(522.4)	1,287.0	1,105.4
Total shareholders' funds		1,517.9	1,469.2	3,278.6	3,097.0

The accounting policies and notes on pages 42 to 78 are an integral part of these financial statements.

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



Sir Peter Mason KBE

Chairman

Kemble Water Holdings Limited, registered number: 5819262 (England and Wales)

Kemble Water Holdings Limited

Consolidated profit and loss account

For the year ended 31 March

	Note	2015 £m	2014 £m
Turnover	2	2,032.7	1,951.5
Operating costs	3	(1,422.7)	(1,363.8)
Other operating income	6	6.8	6.2
Group operating profit		616.8	593.9
Profit on disposal of fixed assets	7	16.9	22.0
Interest receivable and similar income	8	62.4	42.2
Interest payable and similar charges	9	(520.0)	(549.3)
Other finance costs		(6.0)	(9.3)
Profit on ordinary activities before taxation		170.1	99.5
Taxation on profit on ordinary activities	10	61.5	74.1
Profit for the financial year	24	231.6	173.6

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 of the Group's activities above are derived from continuing operations.

The accounting policies and notes on pages 42 to 78 are an integral part of these financial statements

Kemble Water Holdings Limited

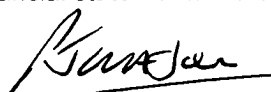
Consolidated and Company balance sheets

As at 31 March

	Note	Group		Company	
		2015 £m	2014 £m	2015 £m	2014 £m
Fixed assets					
Intangible assets	13	1,423.7	1,468.7	-	-
Tangible assets	14	12,552.2	11,768.7	-	-
Fixed asset investments	15	-	-	1.0	1.0
		13,975.9	13,237.4	1.0	1.0
Current assets					
Stocks	16	8.3	9.1	-	-
Debtors	17	556.3	573.4	3,343.3	3,096.7
Investments	18	824.5	919.2	-	-
Cash at bank and in hand		26.8	15.6	1.5	-
		1,415.9	1,517.3	3,344.8	3,096.7
Creditors: amounts falling due within one year	19	(1,904.9)	(1,710.5)	(67.2)	(0.7)
Net current (liabilities)/assets		(489.0)	(193.2)	3,277.6	3,096.0
Total assets less current liabilities		13,486.9	13,044.2	3,278.6	3,097.0
Creditors: amounts falling due after more than one year	20	(10,850.4)	(10,486.4)	-	-
Provisions for liabilities and charges	22	(873.7)	(938.1)	-	-
Net assets excluding net pension liability		1,762.8	1,619.7	3,278.6	3,097.0
Total of defined benefit schemes:					
with net assets		21.2	29.7	-	-
with net liabilities		(266.1)	(180.2)	-	-
Net pension liability	28	(244.9)	(150.5)	-	-
Net assets including net pension liability		1,517.9	1,469.2	3,278.6	3,097.0
Capital and reserves					
Called up share capital	23	1,991.6	1,991.6	1,991.6	1,991.6
Profit and loss account	24	(473.7)	(522.4)	1,287.0	1,105.4
Total shareholders' funds		1,517.9	1,469.2	3,278.6	3,097.0

The accounting policies and notes on pages 42 to 78 are an integral part of these financial statements.

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



Sir Peter Mason KBE

Chairman

Kemble Water Holdings Limited, registered number: 5819262 (England and Wales)

Kemble Water Holdings Limited

Consolidated cash flow statement

For the year ended 31 March

	Note	2015 £m	2014 £m
Cash inflow from operating activities	29(a)	1,223.8	1,157.8
Returns on investments and servicing of finance	29(b)	(392.5)	(406.3)
Taxation		0.9	-
Capital expenditure and financial investment	29(c)	(1,236.9)	(1,103.0)
Acquisitions and disposals	29(d)	-	(1.0)
Equity dividends paid		(61.6)	(43.6)
Net cash outflow before management of liquid resources and financing		(466.3)	(396.1)
Management of liquid resources	29(f)	94.7	(128.5)
Net cash outflow before financing		(371.6)	(524.6)
Financing			
Net cash inflow from increase in debt and lease financing		382.8	695.5
Net cash outflow from decrease in lease financing		-	(107.0)
Increase in net cash	29(e)	11.2	64.2

Reconciliation of net cash flow to movement in net debt

For the year ended 31 March

	2015 £m	2014 £m
Increase in net cash	11.2	64.2
Cash inflow/(outflow) from increase/(decrease) in debt and lease financing:		
- loans due within one year	210.7	(395.1)
- loans due after more than one year	(593.5)	(300.7)
- capital repayment of finance leases	-	107.0
Cash (outflow)inflow from increase in liquid resources	(94.7)	128.5
Increase in net debt resulting from cash flows	(466.3)	(396.1)
Non-cash increase in net debt	(56.3)	(120.1)
Increase in net debt	(522.6)	(516.2)
Opening net debt	(10,122.7)	(9,606.5)
Closing net debt	(10,645.3)	(10,122.7)

Kemble Water Holdings Limited

Consolidated cash flow statement

For the year ended 31 March

	Note	2015 £m	2014 £m
Cash inflow from operating activities	29(a)	1,223.8	1,157.8
Returns on investments and servicing of finance	29(b)	(392.5)	(406.3)
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Opening net debt	(10,122.7)	(9,606.5)
Closing net debt	(10,645.3)	(10,122.7)

Kemble Water Holdings Limited

Consolidated statement of total recognised gains and losses

For the year ended 31 March

	2015 £m	2014 £m
Profit for the financial year	231.6	173.6
Exchange adjustments	(0.2)	-
Actuarial (loss)/gain on pension scheme	(149.5)	40.8
Deferred tax on pension schemes	29.9	(21.3)
Total recognised gains in the year	111.8	193.1

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

Reconciliation of movements in shareholders' funds

For the year ended 31 March

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Profit for the financial year	231.6	173.6	244.7	275.7
Exchange adjustments	(0.2)	-	-	-
Actuarial (loss)/gain on pension scheme	(149.5)	40.8	-	-
Deferred tax on pension scheme	29.9	(21.3)	-	-
Dividend paid	(63.1)	(45.1)	(63.1)	(45.1)
Forfeited dividends	-	1.5	-	-
Net change in shareholders' funds	48.7	149.5	181.6	230.6
Opening shareholders' funds	1,469.2	1,319.7	3,097.0	2,866.4
Closing shareholders' funds	1,517.9	1,469.2	3,278.6	3,097.0

Kemble Water Holdings Limited

Notes to the financial statements

1 Principal accounting policies

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

Basis of preparation

The financial statements are prepared in accordance with the historical cost convention and with applicable accounting standards in the UK and, except for the treatment of certain capital contributions, with the Companies Act 2006. An explanation of this departure from the requirements of the Act is given in the fixed asset section below.

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 is able to meet its liabilities as they fall due for the foreseeable future. For these purposes the foreseeable future is taken to mean a period of at least 12 months from the date of approval of these financial statements. 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.

On this basis the Directors consider it appropriate to prepare the financial statements on a going concern basis.

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 2014.

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 2015, and incorporate the results of its share of joint ventures using equity accounting.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used under the relevant local GAAP into line with those used by the Group.

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. The results of subsidiary undertakings acquired or disposed of during the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

Fixed asset investments

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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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 within accrued income.

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 a reduction in operating costs when payment is received, offsetting the associated costs which have already been incurred.

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.

Intangible assets

a) 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 appointed 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.

b) 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.

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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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 in accordance with FRS15. 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 gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the profit and loss account.

a) Land and buildings

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

b) Plant and equipment

Plant and equipment are stated at cost less accumulated depreciation. Plant and equipment consists of operational structures, operational assets, fixtures, fittings, vehicles and computers, and fixed and mobile plant. These assets are depreciated down to their residual values on a straight-line basis as follows:

Operational structures	15 - 100 years
Other operational assets	5 - 40 years
Fixtures and fittings	5 - 7 years
Vehicles	4 - 5 years
Computers	3 - 7 years
Fixed and mobile plant	3 - 40 years

The estimated useful economic lives of fixed assets and their residual values are based on management's 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.

c) 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).

d) 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 2015 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 and forecasts including those contained within our business plan submissions.

Capital contributions received in respect of infrastructure assets have been deducted from the cost. This is not in accordance with Schedule 1 to statutory instrument 2008/410 made under the Companies Act 2006, which requires fixed assets to be stated at their purchase price without deduction of contributions, with the contributions being accounted for as deferred income. This departure from the requirement of the Act is, in the

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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 14, and is consistent with industry practice.

Grants and capital contributions received towards the cost of non-infrastructure assets are accounted for as deferred income and released to the profit and loss account over the estimated economic lives of the assets.

e) 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.

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.

Current asset investments

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

Taxation

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

a) 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

b) 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.

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.

a) 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.

b) Operating leases

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

Pension and other post-retirement benefits

The Group operates two material defined benefit pension schemes that are closed to new employees. The Group accounts for these schemes in accordance with FRS 17 "Retirement Benefits".

These schemes are independently, administered funds. Actuarial valuations are carried out as determined by the pension scheme trustees using the projected unit credit method for both pension schemes at intervals of not more than three years, the rates of contribution payable and the pension cost 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.

The difference between the assets and liabilities of the schemes are recognised as a surplus (to the extent that the surplus is recoverable) or obligation in the balance sheet, net of associated deferred tax.

The cost of providing pension benefits to employees is included in the profit and loss account within the cost of employee benefits. The 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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.

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.

Cash and liquid resources

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.

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. The interest charge on index linked borrowings includes the indexation accrued to date plus the nominal coupon on the indexed principal of the borrowings. The indexation on index linked borrowings is calculated with reference to the current applicable UK RPI compared to the UK RPI applicable at the time of issue.

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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

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.

Research and development

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

Provisions

The Group is subject to a number of claims that are incidental to the normal conduct of its business. These relate to and include commercial and contractual claims, which are handled and defended in the ordinary course of business. The Group routinely assesses the likelihood of any adverse judgements or outcomes to these matters as well as ranges of probable and reasonably estimated losses. Reasonable estimates involve judgements made by management after considering information including notifications, settlements, estimates, performed by independent parties and legal counsel, available facts, identification of other potentially responsible parties and their ability to contribute, and prior experience.

Provisions are recognised when the 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.

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.

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,

Kemble Water Holdings Limited

Notes to the financial statements (continued)

impractical, inefficient or uneconomic to collect, and is assessed by management judgement on a case-by-case basis.

Long Term Incentive Plans ("LTIP") and bonus

Cash based LTIP awards are accrued in the financial statements for the duration of the award. The accrual is based on the values assessed for the applicable schemes taking into account the duration of the individual scheme and by comparing the Company's performance against the assumptions used to award payments.

Bonus payments are accrued in the year based on assessments of performance against targets set at the beginning of the financial year. Bonuses are paid in the following financial year once actual performance has been measured against the targets set.

Exceptional items

Items that the directors consider one-off in nature and are of such significance that individually or combined they require disclosure to understand the performance of the business are disclosed as exceptional items. There are no such items for the year ended 31 March 2015 (2014: none).

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:

	2015			2014		
	TWUL £m	Other £m	Total £m	TWUL £m	Other £m	Total £m
Turnover	2,026.8	5.9	2,032.7	1,943.7	7.8	1,951.5
Operating profit/(loss)*	619.0	(2.2)	616.8	622.2	(28.3)	593.9
Profit on sale of fixed assets	16.4	0.5	16.9	22.0	-	22.0
Net interest payable	(365.4)	(98.2)	(463.6)	(417.8)	(98.6)	(516.4)
Profit/(loss) before taxation	270.0	(99.9)	170.1	226.4	(126.9)	99.5

* 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

2 Segmental analysis (continued)

Balance sheet by class of business:

	2015			2014		
	TWUL £m	Other £m	Total £m	TWUL £m	Other £m	Total £m
Fixed assets *	13,990.4	(14.5)	13,975.9	13,236.8	0.6	13,237.4
Current assets						
Stocks	8.6	(0.3)	8.3	8.9	0.2	9.1
Debtors: amounts falling due within one year	584.7	(28.4)	556.3	585.7	(12.3)	573.4
Debtors: amounts falling due after one year (inter group loan)	2,115.0	(2,115.0)	-	2,015.0	(2,015.0)	-
Current asset investments	788.2	36.3	824.5	857.2	62.0	919.2
Cash at bank and in hand	9.9	16.9	26.8	6.6	9.0	15.6
	3,506.4	(2,090.5)	1,415.9	3,473.4	(1,956.1)	1,517.3
Creditors: amounts falling due within one year	(1,606.7)	(298.2)	(1,904.9)	(1,335.5)	(375.0)	(1,710.5)
Net current assets/(liabilities)	1,899.7	(2,388.7)	(489.0)	2,137.9	(2,331.1)	(193.2)
Total assets/(liabilities) less current assets/(liabilities)	15,890.1	(2,403.2)	13,486.9	15,374.7	(2,330.5)	13,044.2
Creditors: amounts falling due after more than one year *	(10,019.6)	(830.8)	(10,850.4)	(9,763.6)	(722.8)	(10,486.4)
Provisions for liabilities and charges **	(911.8)	38.1	(873.7)	(1,025.5)	87.4	(938.1)
Net assets/(liabilities) excluding net pension (liabilities)/assets	4,958.7	(3,195.9)	1,762.8	4,585.6	(2,965.9)	1,619.7
Net pension (liabilities)/assets	(249.5)	4.6	(244.9)	(154.9)	4.4	(150.5)
Net assets/(liabilities)	4,709.2	(3,191.3)	1,517.9	4,430.7	(2,961.5)	1,469.2

* The net assets reflected under TWUL above include the net book values of goodwill of £1,423.2m (2014: £1,468.0m), fair value adjustments to tangible assets of £1,846.9m (2014: £1,868.4m) and financial instruments included in creditors falling due after more than one year of £224.0m (2014: £235.9m). The other business has a goodwill apportionment of £nil (2014: £nil).

** The deferred tax impact of £44.8m (2014: £47.2m) arising as a result of the fair value adjustment on debt has been included in TWUL.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

3 Group operating costs

	2015 £m	2014 £m
Staff costs	219.7	221.2
Materials and consumables	155.9	154.2
Other operating charges	592.6	541.4
Amortisation of goodwill and intangibles	45.0	45.0
Depreciation:		
- owned assets	378.4	361.8
- infrastructure assets renewal charge	165.2	165.3
Rentals under operating leases:		
- hire of plant and machinery	3.2	3.5
- other	3.5	5.2
Research and development	3.9	3.9
Foreign currency losses	-	0.1
Gross operating costs	1,567.4	1,501.6
Own work capitalised – staff costs	(84.5)	(84.5)
Own work capitalised – other costs	(60.2)	(59.5)
Net operating costs	1,422.7	1,357.6

Auditor's remuneration is analysed as follows:

	2015 £'000	2014 £'000
Amounts receivable by auditor and their associates in respect of:		
Audit of these financial statements	36	34
Audit of financial statements of subsidiaries pursuant to legislation	376	360
Audit related assurance services	93	91
All other assurance services	718	557
Taxation compliance services	11	9
Taxation advisory services	60	106
Corporate finance services	2,376	1,827
All other non-audit services	161	183
Total	3,831	3,167

Fees for corporate finance services above include £2.4m (2014: £1.8m) in respect of advice on the Thames Tideway Tunnel. These costs have been capitalised as part of the design phase of the project. The contract was awarded to KPMG LLP in a prior year 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 the prior year.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

4 Remuneration of directors

Aggregate directors' emoluments:	2015 £'000	2014 £'000
Salary	834	781

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 £325,000 (2014: £300,000). None of the directors accrued any pension during either 2015 or 2014, or had any accrued pension under the Group's defined benefit scheme.

During the prior year, an indirect subsidiary of the Company made a payment of £45,000 to C R Deacon, a director, for consultancy services. No such payments were made in the current financial year.

5 Staff numbers and costs

All Group employees are based in the United Kingdom. The average number of persons employed by the Group (including executive directors) during the year, analysed by category, was as follows:

	2015 Number	2014 Number
Operations	4,390	4,234
Support	427	456
Total persons employed	4,817	4,690

The aggregate payroll costs were as follows:

	2015 £m	2014 £m
- Wages and salaries	181.3	182.5
- Social security costs	17.5	16.6
- Pension costs: defined benefit scheme	15.7	20.5
- Pension costs: defined contribution scheme	4.3	3.3
- Severance costs	12.3	-
Gross employment costs	231.1	222.9
Less employment costs included within R&D expense	(1.4)	(1.7)
Less curtailment gain	(10.0)	-
Gross staff costs charged to operating costs	219.7	221.2

From 1 June 2014, the calculation of members' benefits in the Thames Water Mirror Image Pension Scheme has changed from final salary to career average revalued earnings ("CARE") which has resulted in a one-off non-cash curtailment gain of £10.0m (2014: £nil).

The Company has no employees (2014: none).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

6 Other operating income

	2015 £m	2014 £m
Income from sale of internally generated electricity	6.8	6.0
Other	-	0.2
Total	6.8	6.2

7 Profit on disposal of fixed assets

	2015 £m	2014 £m
Net profit on disposal of fixed assets	20.3	6.6
Gain on insurance claims for material damage	(3.4)	15.4
Profit on disposal of fixed assets	16.9	22.0

The effect of the above is to increase the taxation charge by £0.9m (2014: £4.7m).

Overall profit during the year relates to disposal of land and buildings offset against a loss on insurance claims arising from revised estimation of the damage caused to the Group's assets from flooding incidents in 2013/14.

8 Interest receivable and similar income

	2015 £m	2014 £m
Interest income:		
- Net interest income from swaps	54.5	38.1
- Other interest income	7.9	4.1
Total	62.4	42.2

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.

9 Interest payable and similar charges

	2015 £m	2014 £m
Bank loans	0.2	3.9
All other loans	517.4	536.8
Finance charges payable in respect of finance leases	-	0.4
Amortisation of fees and discounts	2.4	8.2
Interest payable and similar charges	520.0	549.3

Kemble Water Holdings Limited

Notes to the financial statements (continued)

10 Taxation

Analysis of credit in year	2015 £m	2014 £m
<i>UK corporation tax:</i>		
Amounts payable in respect of corporation tax for the year	-	-
Adjustments in respect of previous years	(2.7)	(1.2)
Total current tax credit	(2.7)	(1.2)
<i>Deferred tax:</i>		
Origination and reversal of timing differences	67.1	54.7
Adjustment in respect of previous years	(132.2)	0.8
Impact of deferred tax rate change	-	(125.1)
Pensions tax relief lower/(higher) than pension cost in accounts	6.3	(3.3)
Total deferred tax credit	(58.8)	(72.9)
Tax credit on loss on ordinary activities	(61.5)	(74.1)

Adjustment in respect of prior years of £132.2m arises due to disclaiming of previous periods' capital allowances. These capital allowances will be available to the Company in subsequent years.

Factors affecting tax credit for year

The current tax credit for the year is higher than (2014 current tax charge: higher than) the standard rate of corporation tax in the UK of 21% (2014: 23%). The differences are explained below:

	2015 £m	2014 £m
Profit on ordinary activities before taxation	170.1	99.5
Profit on ordinary activities multiplied by standard corporation tax rate in the UK	35.7	22.9
<i>Effects of:</i>		
Capital allowances in excess of depreciation and other timing differences	(70.4)	(54.7)
Tax losses carried forwards	22.4	13.4
Disallowable expenditure and other permanent differences	18.9	21.1
Pensions tax relief higher than pension cost in accounts	(6.6)	(2.7)
Adjustments to tax charge in respect of previous years	(2.7)	(1.2)
Current tax credit for the year	(2.7)	(1.2)

A reduction in the UK corporation tax rate from 21% to 20%, effective from 1 April 2015, was substantively enacted on 2 July 2013. This will reduce the Company's future current tax credit accordingly. The unrecognised deferred tax asset at 31 March 2015 has been calculated based on the rate of 20% substantively enacted at the balance sheet date.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

11 Dividends

	2015 £m	2014 £m
March (2015: 3.17p per share; 2014: 2.26p per share)	63.1	45.1

12 Profit of holding company

Under Section 408 of the Companies Act 2006 the Company is exempt from the requirement to present its own profit and loss account. For the year ended 31 March 2015 the Company generated a profit after taxation of £244.7m (2014: £275.7m).

13 Intangible assets

	Group		
	Goodwill £m	Other £m	Total £m
Cost			
At 1 April 2014	1,794.2	1.5	1,795.7
At 31 March 2015	1,794.2	1.5	1,795.7
Amortisation			
At 1 April 2014	(326.1)	(0.9)	(327.0)
Charge for the year	(44.9)	(0.1)	(45.0)
At 31 March 2015	(371.0)	(1.0)	(372.0)
Net book value			
At 31 March 2015	1,423.2	0.5	1,423.7
At 31 March 2014	1,468.1	0.6	1,468.7

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

The Company has no intangible assets (2014: £nil).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

14 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 1 April	4,750.9	2,799.5	6,040.6	1,844.1	15,435.1
Additions	-	106.6	-	1,269.0	1,375.6
Transfers between items	463.2	103.2	273.7	(840.1)	-
Disposals	(18.0)	(0.4)	-	-	(18.4)
At 31 March	5,196.1	3,008.9	6,314.3	2,273.0	16,792.3
Capital contributions					
At 1 April	-	-	(735.9)	-	(735.9)
Additions	-	-	(47.7)	-	(47.7)
At 31 March	-	-	(783.6)	-	(783.6)
Depreciation					
At 1 April	(1,605.9)	(421.2)	(903.4)	-	(2,930.5)
Provided during the year	(322.2)	(56.2)	(165.2)	-	(543.6)
Disposals	17.4	0.2	-	-	17.6
At 31 March	(1,910.7)	(477.2)	(1,068.6)	-	(3,456.5)
Net book value					
At 31 March 2015	3,285.4	2,531.7	4,462.1	2,272.9	12,552.2
At 31 March 2014	3,145.0	2,378.3	4,401.3	1,844.1	11,768.7

The Company has no tangible fixed assets (2014: £nil).

The net book value of land and buildings comprises:

	2015 £m	2014 £m
Group		
Freehold	2,392.8	2,299.6
Long leasehold - over 50 years	4.7	76.3
Short leasehold - under 50 years	134.2	2.4
Land and buildings net book value	2,531.7	2,378.3

Kemble Water Holdings Limited

Notes to the financial statements (continued)

15 Fixed asset investments

Group:

	£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:

	£m
Cost of shares in subsidiary undertaking	
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 (2014: £nil) investments in joint ventures or associates.

See note 30 for a list of principal subsidiaries.

16 Stocks

	2015 £m	2014 £m
Group		
Raw materials and consumables	8.3	9.1

The Company has no stocks (2014: £nil).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

17 Debtors

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Due within one year:				
Trade debtors	228.7	225.0	-	-
Amounts owed by Group undertakings	-	-	3,343.3	3,096.7
Other debtors	115.7	143.2	-	-
Prepayments and accrued income	211.9	205.2	-	-
Total	556.3	573.4	3,343.3	3,096.7

Amounts owed by Group undertakings within the Company is further analysed as follows:

	2015 £m	2014 £m
Inter-company loans due within one year	1,990.6	1,990.6
Non-loan amounts due within one year	1,352.7	1,106.1
Total	3,343.3	3,096.7

A loan of £1,990.6m (2014: £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.

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

18 Current asset investments

Group

	2015 £m	2014 £m
Bank deposits	277.1	503.8
Money market funds	547.4	415.4
Total	824.5	919.2

Current asset investments consist of short term deposits with triple A rated money market funds and banks with a minimum rating of single A or equivalent.

The Company has no current asset investments (2014: £nil)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

19 Creditors: amounts falling due within one year

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Secured bank loans	545.5	641.1	-	-
Other financing	258.9	99.9	-	-
Derivative collateral liability	7.4	-	-	-
Trade creditors – operating	502.4	314.4	-	-
Trade creditors – capital	207.2	146.4	-	-
Corporation tax payable	9.3	10.8	-	-
Group relief creditor	-	-	65.7	0.7
Taxation and social security	6.3	7.5	-	-
Other creditors	2.6	113.6	-	-
Interest creditors	203.5	198.0	-	-
Accruals and deferred income	161.8	178.8	1.5	-
Total	1,904.9	1,710.5	67.2	0.7

Included in the Group's cash balance of £28.6m is a restricted cash receipt of £7.4m (£nil). This receipt is currently held within "Creditors: amounts falling due within one year" as a short term loan. The net effect of this transaction has a neutral effect on the Group's net debt. This cash receipt relates to collateral posted by derivative counterparties that have failed to meet minimum credit rating criteria assigned by Moody's

20 Creditors: amounts falling due after more than one year

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
Secured bank loans	1,739.2	1,637.9	-	-
Other financing	8,945.6	8,678.6	-	-
Deferred income	165.6	169.9	-	-
Total	10,850.4	10,486.4	-	-

Other financing are all secured apart from one loan; £310.4m (2014: £310.4m).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments

Secured bank loans:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £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)	116.8	116.3	-	-
£60m 1.23% Index linked loan due 2019	71.1	71.0	-	-
£60m 1.415% Index linked loan due 2020	70.9	70.7	-	-
£60m 1.513% Index linked loan due 2020	70.5	70.3	-	-
£60m 1.38% Index linked loan due 2020	70.3	70.0	-	-
£60m 1.356% Index linked loan due 2020	70.3	69.9	-	-
£75m 1.35% Index linked loan due 2021 (h)	80.5	80.3	-	-
£215m 0.46% Index linked loan due 2023 (d)	223.7	222.9	-	-
£200m 0% Index linked loan due 2017	201.2	202.1	-	-
£100m Class B floating rate loan due 2015 (d)	-	99.7	-	-
£200m Class A floating rate loan due 2015 (d), (e)	199.9	199.7	-	-
£100m floating rate loan due 2018 (d)	99.8	99.7	-	-
£215m 0.38% Index linked loan due 2032 (b), (d)	218.4	215.2	-	-
£100m floating rate loan due 2020 (a), (d)	99.7	99.6	-	-
£100m floating rate loan due 2021 (a), (d)	99.5	99.9	-	-
£100m 0.79% Index linked loan due 2025 (h), (d)	100.0	-	-	-
Thames Water Utilities Limited total	1,942.6	1,937.3	-	-
Kemble Water Finance Limited:				
£200m floating rate borrowings due 2016 (e), (f), (g)	200.0	200.0	-	-
£150m floating rate borrowings due 2016 (d), (e), (g)	145.6	150.0	-	-
Securitisation fees	(3.5)	(2.7)	-	-
Kemble Water Finance Limited total	342.1	341.7	-	-
Total secured bank loans	2,284.7	2,279.0		
Less amounts included within creditors falling due within one year	(545.5)	(641.1)	-	-
Total secured bank loans falling due after more than one year	1,739.2	1,637.9	-	-

- (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 £0.75m 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 a monthly basis and therefore has been classed as due in less than one year.
- (h) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range

All loans are class A except where highlighted

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21. Financial instruments (continued)

€125m/£109.5m cross currency swap due 2016 (a)	19.2	6.2	-	-
€125m/£109.5m cross currency swap due 2016 (a)	19.2	6.2	-	-
€113m/£100m cross currency swap due 2022 (a)	18.3	6.6	-	-
USPP Class B cross currency swap due 2019 (a)	(4.5)	6.4	-	-
USPP Class A cross currency swap due 2022 (a)	(4.5)	6.4	-	-
USPP Class A cross currency swap due 2024 (a)	(6.0)	8.6	-	-
USPP Class A cross currency swap due 2027 (a)	(7.5)	10.7	-	-
£200m index linked swap due 2039 (i), (g), (r)	39.2	35.4	-	-
£100m index linked swap due 2029 (h), (g), (i)	19.6	17.7	-	-
Index linked swap £94.05m 2038 (g)	3.3	1.3	-	-
Index linked swap £200m 2032	42.2	41.6	-	-
Index linked swap £600m 2037	108.6	98.9	-	-
Cross currency swap JPY 20bn-£153.5m 2038 (a), (e)	41.2	36.7	-	-
Capitalised fees	(10.0)	(13.9)	-	-
Derivative collateral liability	7.4	-	-	-
	8,505.3	8,072.3		
Thames Water (Kemble) Finance Plc:				
£400m 7.75% Fixed rate bond due 2019 (b)	396.2	395.8	-	-
Kemble Water Eurobond Plc:				
£310m shareholder loan due 2021	310.4	310.4		
	9,211.9	8,778.5	-	-
Less amounts included in creditors falling due within one year	(266.3)	(99.9)	-	-
	8,945.6	8,678.6	-	-

- (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 Group 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.
- (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 2015 is £107.5m (2014: £60.2m) 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).
- (g) These index linked swaps have accretion pay downs at regular intervals
- (h) In this swap the Group receives fixed rate interest until June 2020 and floating rate interest at 6 month LIBOR thereafter.
- (i) Amounts repayable wholly within one year

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments (continued)

Other financing:

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
£200m 4.9% Fixed rate bond due 2015 (c), (i), (j)	200.1	200.5	-	-
€500m Euro 3.25% Fixed rate bond due 2016 (a)	361.4	413.3	-	-
£200m 5.05% Fixed rate bond due 2020 (c) (k)	203.8	204.5	-	-
£225m 6.59% Fixed rate bond due 2021 (o)	250.6	254.1	-	-
£175m 3.38% Index linked bond due 2021 (b), (f)	256.3	250.8	-	-
£550m 5.37% Class B Fixed rate bond due 2025 (b), (p)	547.1	547.5	-	-
£330m 6.75% Fixed rate bond due 2028 (b), (l)	399.2	403.9	-	-
£300m 5.75% Class B Fixed rate bond due 2030 (b), (q)	296.9	297.2	-	-
£200m 6.5% Fixed rate bond due 2032 (b) (m), (c)	252.3	255.1	-	-
£300m 4.37% Fixed rate bond due 2034 (b)	294.9	295.0	-	-
£600m 5.13% Fixed rate bond due 2037 (b), (c), (n)	661.4	663.5	-	-
€113m 2.30% CPI IL bond due 2022 (a), (c)	85.1	100.8	-	-
20bn Yen 3.28% Fixed rate bond due 2038 (b), (c)	112.3	116.9	-	-
£50m 3.85% Index linked bond due 2040 (f)	58.6	58.3	-	-
£500m 5.5% Fixed rate bond due 2041 (b)	488.9	489.5	-	-
£50m 1.98% Index linked bond due 2042 (f)	62.2	61.0	-	-
£55m 2.09% Index linked bond due 2042 (b), (f)	65.6	65.0	-	-
£40m 1.97% Index linked bond due 2045 (b), (f)	45.5	45.1	-	-
£300m 4.625% Fixed rate bond due 2046 (b)	292.8	293.0	-	-
£100m 1.85% Index linked bond due 2047 (f)	124.3	122.1	-	-
£200m 1.819% Index linked bond due 2049 (b), (f)	248.0	243.6	-	-
£300m 1.68% Index linked bond due 2053 (b), (f)	395.4	387.2	-	-
£300m 1.68% Index linked bond due 2055 (b), (f)	395.4	387.2	-	-
£200m 1.77% Index linked bond due 2057 (b), (f)	248.0	243.6	-	-
£400m 7.241% Fixed rate bond due 2058 (d)	398.9	399.0	-	-
£350m 1.76% Index linked bond due 2062 (b), (f)	434.0	426.5	-	-
\$156m FRN due 2015 (a)	-	93.7	-	-
\$150m 4.69% Class B USPP due 2019 (a), (b)	99.8	88.6	-	-
\$150m 3.87% USPP due 2022 (a)	101.1	90.2	-	-
\$250m 4.020% USPP due 2024 (a)	134.7	120.2	-	-
\$250m 4.22% USPP due 2027 (a)	168.5	150.3	-	-
£500m 4.00% Fixed rate bond due 2025 (b)	493.9	-	-	-
£100m index linked swap due 2060 (g)	(1.0)	16.8	-	-
£100m index linked swap due 2022	8.6	8.3	-	-
€113m CPI – floating swap due 2022	(3.4)	(7.4)	-	-
\$156m/£100m cross currency swap due 2015 (a)	-	6.2	-	-
€125m/£109.5m cross currency swap due 2016 (a)	19.2	6.2	-	-
€125m/£109.5m cross currency swap due 2016 (a)	19.2	6.2	-	-

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments (continued)

(j) This bond includes £0.1m (2014: £0.5m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(k) This bond includes £3.8m (2014: £4.5m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(l) This bond includes £72.2m (2014: £75.8m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(m) This bond includes £54.9m (2014: £56.9m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(n) This bond includes £65.3m (2014: £66.83m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(o) This bond includes £25.6m (2014: £29.1m) fair value adjustment to carrying value at date of acquisition by Kemble Water Holdings Group.

(p) In July 2017 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.96% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value

(q) In September 2022 this Class B bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.

(r) In this swap the Group receives fixed rate interest until June 2015 and floating rate interest at 6 month LIBOR thereafter.

The total carrying value of the fair value adjustment is £224.0m (2014: £235.9m). Included within other loans is £79.3m (2014: £74.6m) of unamortised fees and bond discounts.

The range of interest rates charged on outstanding bank loans, other loans and finance leases is 0.0% to 11.0% (2014: 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.

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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments (continued)

Company

The Company has no external borrowings and no derivative financial instruments (2014: £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 book value	
	2015 £m	2014 £m
Current asset investments	824.5	919.2
Cash in bank and in hand	26.8	15.6
	851.3	934.8

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.

Group financial liabilities

	Total at floating rates		Total at fixed rates		Total at RPI linked rates		Total book value	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Bank loans and overdraft								
- £ Sterling	979.4	878.1	11.5	-	1,293.8	1,403.3	2,284.7	2,281.4
Other loans and finance leases								
- £ Sterling	-	-	5,364.2	4,872.0	3,847.7	3,904.1	9,211.9	8,776.1
	979.4	878.1	5,375.7	4,872.0	5,141.5	5,307.4	11,496.6	11,057.5

	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	
	2015 %	2014 %	2015 Years	2014 Years
Bank loans and overdraft				
- £ Sterling	1.0	1.6	10.1	9.5
Other loans and finance leases				
- £ Sterling	4.2	4.0	17.8	20.3
All loans	3.8	3.9	16.9	20.2

Short term borrowings at floating rates bear interest at rates linked to LIBOR. Fixed rate and RPI linked borrowings of £10,517.1m (2014: £10,179.6m) equate to 91.5% (2014: 92.1%) of the total borrowings.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments (continued)

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 one year, as disclosed on page 59, is as follows:

	2015 £m	2014 £m
Bank loans and overdrafts		
- Within one year	545.5	641.1
- Between one and two years	201.3	-
- Between two and five years	702.5	451.8
- After more than five years	835.4	1,186.1
	2,284.7	2,279.0
Other loans		
- Within one year	266.3	99.9
- Between one and two years	438.1	205.0
- Between two and five years	491.6	929.0
- after more than five years	8,015.9	7,544.6
	9,211.9	8,778.5
Total borrowings	11,496.6	11,057.5

Loans are repayable between 1 April 2015 and 28 August 2062.

The Group has the following unused committed borrowing facilities:

	2015 £m	2014 £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

Kemble Water Holdings Limited

Notes to the financial statements (continued)

21 Financial instruments (continued)

The Group has a £10bn (2014: £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, £4.7bn (2014: £4.3bn) has been issued under this programme.

Previously debt has been raised via its wholly owned subsidiary, Thames Water Utilities Finance Limited. £2.9bn (2014: £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	
	2015 £m	2014 £m	2015 £m	2014 £m
Primary financial instruments held or issued to finance the Group's operations:				
Financial assets:				
Current asset investments	824.5	919.2	824.5	919.2
Cash at bank and in hand	26.8	15.6	26.8	15.6
Total financial assets	851.3	934.8	851.3	934.8
Financial liabilities:				
Bank loans and overdrafts	(2,284.7)	(2,279.0)	(2,284.7)	(2,279.0)
Other loans and finance leases	(8,880.9)	(8,459.3)	(10,856.5)	(8,663.9)
Derivative financial instruments held to manage the interest rate and currency profile:				
Cross currency swaps and forward foreign currency contracts	(113.9)	(106.5)	(211.7)	(149.7)
Interest rate swaps	3.4	7.4	(228.7)	(117.0)
Index-linked swaps	(220.5)	(220.1)	(710.9)	(565.6)
Total financial liabilities	(11,496.6)	(11,057.5)	(14,292.5)	(11,775.2)
Net financial liabilities	(10,645.3)	(10,122.7)	(13,441.2)	(10,840.4)

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 fair value of a liability reflects non-performance risk (the risk the entity will not fulfil an obligation), including an entity's own credit risk.

The Group has other financing which include bonds that are publicly traded. Fair values for these have been calculated using the 31 March 2015 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

22 Provisions for liabilities and charges

The Company has no bank loans, overdrafts, other loans, finance leases or derivatives financial instruments (2014: £nil).

	Deferred tax £m	Insured liabilities £m	Restructuring provision £m	AMP 4 provision £m	Other provisions £m	Total £m
At 1 April 2014	834.8	57.3	0.6	8.5	36.9	938.1
Net charge/(credit) to profit and loss for the year	(65.1)	7.7	12.3	-	(1.3)	(46.4)
Utilised during the year	-	(19.3)	(0.6)	(0.8)	2.7	(18.0)
At 31 March 2015	769.7	45.7	12.3	7.7	38.3	873.7

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

	£m
Accelerated capital allowances	820.5
Other timing differences	(50.8)
At the end of the year	769.7

Total deferred tax provision:

	£m
Included in taxation provision above	769.2
Deferred tax asset provided on pension deficit	(61.2)
At the end of the year	708.0

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% (2014: 20%) is:

	2015 £m	2014 £m
Deferred tax asset not recognised in respect of tax losses	72.3	160.2

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.

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

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 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 (2014: £nil).

Kemble Water Holdings Limited

Notes to the financial statements (continued)

23 Share capital

	2015 £m	2014 £m
Allotted, called up and fully paid		
1,991,600,000 ordinary shares of £1 each	1,991.6	1,991.6

24 Profit and loss account

	Group		Company	
	2015 £m	2014 £m	2015 £m	2014 £m
At beginning of year	(522.4)	(671.9)	1,105.4	874.8
Profit/(loss) for the year	231.6	173.6	244.7	275.7
Exchange adjustments	(0.2)	-	-	-
Actuarial gain/(loss) recognised in the pension schemes	(149.5)	40.8	-	-
Deferred tax relating to actuarial deficit on pension schemes	29.9	(21.3)	-	-
Dividends paid	(63.1)	(45.1)	(63.1)	(45.1)
Forfeited dividends	-	1.5	-	-
At end of year	(473.7)	(522.4)	1,287.0	1,105.4

25 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 22.

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

As explained in note 21, in April 2018, if interest rates are below a certain level a bond with par value of £400m will either be remarketed for the remaining 40 year period or the Group will settle the related derivative contract (low strike call option) and the bond will be redeemed at par. If the Group decided to settle the derivative at this date, it would result in the cash outflow which reflects the fair value of the derivative at that date. As at 31 March 2015, the fair value of the derivative is £255.1m. The Group expects that should it wish to take the opportunity it will be able to successfully remarket the bonds at fair value and a cash settlement will not be required. Accordingly, no provision has been reflected to record this potential liability in these financial statements.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

26 Operating leases

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

	Land and buildings		Other	
	2015 £m	2014 £m	2015 £m	2014 £m
Leases which expire:				
- Within one year	0.2	0.1	0.1	0.9
- In the second to fifth years inclusive	-	0.1	-	0.1
- Over five years	7.3	6.8	-	-
Total	7.5	7.0	0.1	1.0

The Company has no commitments in respect of non-cancellable operating leases (2014: £nil).

27 Capital commitments

	2015 £m	2014 £m
Group		
Contracted for but not provided in the financial statements	325.7	547.6

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 (2014: £nil).

28 Pension schemes

The Group operates two material defined benefit pension schemes; Thames Water Pension Scheme ("TWPS") and Thames Water Mirror Image Pension Scheme ("TWMIPS"). See table overleaf for details of each scheme's respective deficit or surplus, covering employees within the Kemble Water Finance Group, whose assets are held separately from those of the Group in independently administered funds in the UK. On 1 April 2011 the defined benefit arrangements were closed to new entrants and replaced with a defined contribution scheme.

From 1 June 2014, the method of calculating members' benefits in TWMIPS has been changed to be based on members' Career Average Revalued Earnings ("CARE") rather than final salaries. Consequently, there has been a reduction to the normal contributions into the scheme as well as a one-off non-cash curtailment gain of £10.0m.

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 £4.1m (2014: £3.2m).

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 2015 payments amounted to £0.1m (2014: £0.2m).

The most recent full actuarial valuation for TWPS and TWMIPS was as at 31 December 2013 on behalf of the pension Trustees by AON Hewitt Limited ("Hewitt"), the independent and professionally qualified consulting actuary to the schemes. The 2013 valuation has been updated to 31 March 2015 by PricewaterhouseCoopers

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28 Pension schemes (continued)

("PWC"), an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of FRS 17 and shown in this note to the accounts.

Net liability by pension schemes before tax:

	2015 £m	2014 £m
<i>Thames Water Pension Scheme:</i>		
Deficit in scheme	(332.6)	(225.2)
<i>Thames Water Mirror Image Scheme:</i>		
Surplus in scheme	25.1	51.7
Impact of irrecoverable surplus	(4.3)	(20.1)
	20.8	31.6
Other schemes	5.7	5.5
Liability before deferred tax asset	(306.1)	(188.1)

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 2015.

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	2015 £m	2014 £m
Fair value of scheme assets	1,933.2	1,698.6
Present value of scheme liabilities	(2,235.0)	(1,866.6)
Deficit in scheme	(301.8)	(168.0)
Impact of irrecoverable surplus	(4.3)	(20.1)
Liability recognised on the balance sheet	(306.1)	(188.1)
Deferred tax asset	61.2	37.6
Net pension liability	(244.9)	(150.5)
<i>Presented in the balance sheet as:</i>		
Pension asset, net of deferred tax	21.2	29.7
Pension liability, net of deferred tax	(266.1)	(180.2)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28 Pension schemes (continued)

Movement in the present value of scheme liabilities

	2015 £m	2014 £m
Opening present value of scheme liabilities	1,866.6	1,923.4
Current service cost: Thames Water Utilities Limited	15.7	20.5
Interest cost	82.8	81.8
Contribution by scheme participants	0.1	0.1
Actuarial gains/(losses) on scheme liabilities	355.7	(95.5)
Net benefit paid out	(76.2)	(65.0)
Curtailments	(10.0)	-
Termination pension cost	0.3	1.3
Closing present value of scheme liabilities	2,235.0	1,866.6

Movement in fair value of scheme assets

	2015 £m	2014 £m
Opening fair value of scheme assets	1,698.6	1,706.5
Expected return on scheme assets	76.8	72.5
Actuarial gains/(losses) on scheme assets	190.4	(58.8)
Contributions by Thames Water Utilities Limited	42.9	41.7
Contributions by other Group participating companies	0.3	0.3
Contributions by scheme participants	0.1	0.1
Termination pension costs	0.3	1.3
Net benefits paid out	(76.2)	(65.0)
Closing fair value of scheme assets	1,933.2	1,698.6

Expense recognised in the profit and loss account:

	2015 £m	2014 £m
Current service cost	15.7	20.5
Interest cost	82.8	81.8
Expected return on scheme assets	(76.8)	(72.5)
Curtailment gain	(10.0)	-
Total expense recognised in the profit and loss account	11.7	29.8

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28 Pension schemes (continued)

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

	2015 £m	2014 £m
Operating costs	5.7	20.5
Other finance expense	6.0	9.3
Total expense charged in the profit and loss account	11.7	29.8

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 two tables:

	TWPS		TWMIPS	
	2015 %	2014 %	2015 %	2014 %
Equities	N/A	7.50	N/A	7.35
Corporate bonds	N/A	4.60	N/A	4.35
Fixed interest government bonds	N/A	3.50	N/A	3.35
Index linked government bonds	N/A	3.25	N/A	3.10
Property	N/A	6.50	N/A	6.35
Cash	N/A	3.50	N/A	3.35
Weighted average expected return	N/A	5.40	N/A	4.35

From the year ending 31 March 2016 the Group will be presenting its financial statements in accordance with IFRS as endorsed by the EU. Under this financial reporting framework the net interest charge is calculated based on a single high quality bond rate rather than by reference to the expected returns on relevant asset classes. Consequently the directors have elected not to present the expected return on assets for the year ended 31 March 2015.

	TWPS		TWMIPS	
	2015 £m	2014 £m	2015 £m	2014 £m
Equities	435.0	419.0	160.1	151.0
Corporate Bonds	73.5	68.2	70.8	65.8
Fixed interest government bonds	99.9	38.7	204.1	35.2
Index linked government bonds	452.5	380.0	287.7	398.7
Property	62.1	61.2	46.3	45.6
Cash	23.2	9.7	4.0	13.1
Total fair value of scheme assets	1,146.2	976.8	773.0	709.4

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28 Pension schemes (continued)

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

	TWPS		TWMIPS	
	2015 %	2014 %	2015 %	2014 %
Price inflation – RPI	3.05	3.45	2.95	3.35
Price inflation – CPI	2.05	2.50	1.95	2.40
Rate of increase in salaries	N/A	N/A	N/A	3.85
Rate of increase to pensions in payment – RPI	3.05	3.45	2.95	3.35
Rate of increase to pensions in payment – CPI	2.05	2.50	1.95	2.40
Discount rate	3.35	4.60	3.20	4.35

Both the TWPS and TWMIPS schemes provide benefits on a career average revalued earnings ("CARE") benefit structure whereby past entitlement are linked to movements in CPI therefore an assumption for increases to salaries is not required.

In valuing the liabilities of the pension schemes at 31 March 2015, mortality assumptions have been made as indicated below. These mortality assumptions are based on the recent actual mortality experience of members within the schemes and the assumptions also allow for future improvements to mortality rates.

	TWPS		TWMIPS	
	2015 Years	2014 Years	2015 Years	2014 Years
Life expectancy from age 60				
Male	28	28	27	27
Female	30	30	30	30
Life expectancy from 60, currently aged 40				
Male	30	30	29	29
Female	32	32	32	32

Experience adjustments

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Experience gains/(losses) on scheme assets:					
Amounts	190.4	(58.8)	109.7	76.3	13.6
Percentage of scheme assets	9.8%	3.4%	6.4%	4.9%	5.9%
Experience gains/(losses) on scheme liabilities:					
Amounts	(57.6)	-	-	11.1	-
Percentage of scheme liabilities	2.6%	-	-	0.7%	-

The Group expects to contribute approximately £43.8m (2014: £44.0m) to the defined benefit schemes in the next financial year.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

28 Pension schemes (continued)

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

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Fair value of scheme assets	1,933.2	1,698.6	1,706.5	1,551.6	1,414.0
Present value of scheme liabilities	(2,235.0)	(1,866.6)	(1,923.4)	(1,662.8)	(1,515.9)
Deficit in scheme	(301.8)	(168.0)	(216.9)	(111.2)	(101.9)

29 Analysis of cash flows

29(a) Net cash flow from operating activities

	2015 £m	2014 £m
Group operating profit	616.8	593.9
Depreciation charges	543.6	527.1
Amortisation	45.0	45.0
Decrease/(increase) in stocks	0.8	(0.6)
Decrease/(increase) in debtors	(24.2)	(27.9)
(Decrease)/increase in creditors	78.5	43.7
Deferred income release	(13.8)	(13.6)
Decrease in provisions	14.6	19.3
Difference between pension charge and cash contributions	(37.5)	(23.2)
Gain on settlement of finance lease obligations	-	(5.9)
Net cash flow from operating activities	1,223.8	1,157.8

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

29(b) Return on investment and servicing of finance

	2015 £m	2014 £m
Interest received	123.8	121.6
Interest paid	(516.3)	(523.7)
Interest element of finance lease rental payments	-	(4.2)
	(392.5)	(406.3)

Kemble Water Holdings Limited

Notes to the financial statements (continued)

29 Analysis of cash flows (continued)

29(c) Capital expenditure and financial investment

	2015 £m	2014 £m
Purchase of tangible fixed assets	(1,158.4)	(1,001.2)
Infrastructure renewals expenditure	(155.1)	(167.6)
Capital contributions received	58.9	49.7
Proceeds from sale of tangible fixed assets	17.7	16.1
Total	(1,236.9)	(1,103.0)

29(d) Acquisitions and disposals

	2015 £m	2014 £m
Investment in subsidiary undertaking	-	(1.0)
Total	-	(1.0)

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

29 (e) Increase in cash

	2015 £m	2014 £m
Unrestricted cash movement	3.8	66.3
Restricted cash movement	7.4	(2.1)
Total	11.2	64.2

The restricted cash above relates to collateral posted by derivative counter parties that have failed to meet minimum credit rating criteria assigned by Moody's.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

29 Analysis of cash flows (continued)

29(f) Analysis of net debt

	2014 £m	Cash flow £m	Transfer to current £m	Non cash £m	2015 £m
Cash at bank and in hand	15.6	11.2	-	-	26.8
Overdraft	-	-	-	-	-
	15.6	11.2	-	-	26.8
Loans before one year	(741.0)	210.7	(258.9)	(22.6)	(811.8)
Loans after one year	(10,316.5)	(593.5)	258.9	(33.7)	(10,684.8)
Liquid resources	919.2	(94.7)	-	-	824.5
	(10,138.3)	(477.5)	-	(56.3)	(10,672.1)
Total	(10,122.7)	(466.3)	-	(56.3)	(10,645.3)

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.

30 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 2015 was £10.2bn (2014: £9.8bn).

At 31 March 2015 the Group has secured the overdrafts and loans of certain subsidiaries up to a maximum of £20.0m (2014: £20.0m). The Group has also guaranteed facilities for contract bonding on behalf of certain subsidiaries amounting to £0.8m (2014: £0.8m) at 31 March 2015.

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 (2014: £425.0m), the amount outstanding at 31 March 2015 was £350.0m (2014: £350.0m). The chargee is RBS as Facility Agent.

Thames Water Insurance Company Limited (formally Isis Insurance Company Limited), a wholly owned subsidiary of the Group, has letters of credit in issue totalling £3.9m (2014: £3.9m), and £0.1m (2014: £0.1m) 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.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

31 Group undertakings

At 31 March 2015, 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
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
Thames Water 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

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.

32 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:

Related party	Nature of transaction	2015	2015	2014	2014
		Value £m	Amount due £m	Value £m	Amount due £m
Macquarie Group Limited	Fees payable for management and other services	3.8	-	5.0	1.0

During the year, a subsidiary of the group incurred advisory fee charges of £nil (2014: £45,000) for consultancy services provided by C R Deacon, a director until 17 April 2015.

Kemble Water Holdings Limited

Notes to the financial statements (continued)

33 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.

34 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 26)
- Outsourcing contracts
- Guarantees (see note 30)

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.

35 Post balance sheet events

On 19 May 2015 a subsidiary entity of the Group, Kemble Water Finance Limited, reached agreement with bondholders of the £400m 7.75% 2019 bond to make specific amendments to the terms of the bond. This included an increase in the debt cap associated with the bond to £900m from £750m, the update of covenants to reflect recent amendments made at Thames Water Utilities Limited level and in addition the Company updated the list of shareholders pursuant to the change of control clause in the bond.