

C/N 02366661

Keeping it clear.

Annual report and financial
statements 2015/16

Names
Water



THURSDAY

A59RV901

A13 23/06/2016 #31

COMPANIES HOUSE

Our highlights



49%
reduction
in pollution
incidents



23%
reduction in
complaints

28%

reduction in lost
time injuries



**£742.2
million**
operating profit

Strong
credit ratings
Baa1
(stable)



Achieved
leakage
target
10th year
in a row



£1.2
billion
investment

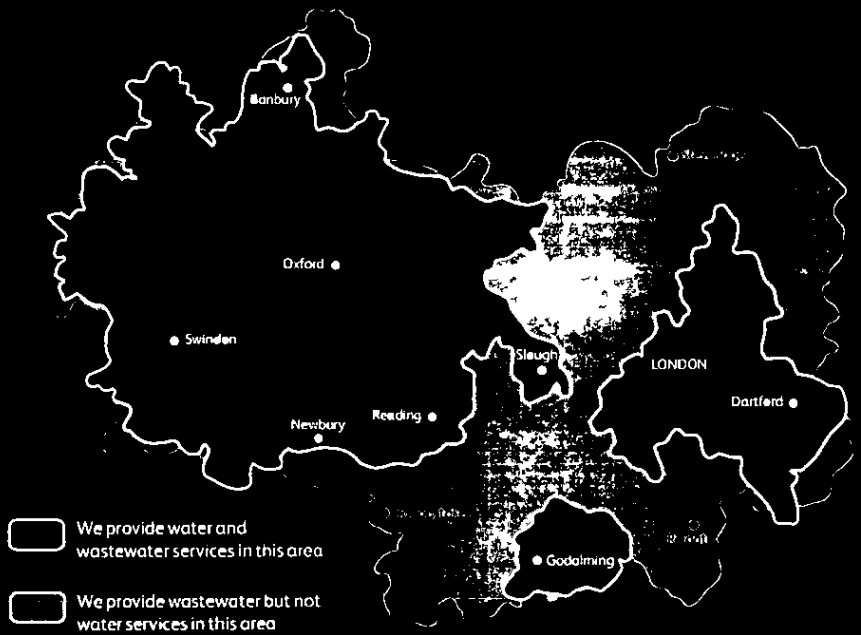
£

£2
billion
revenue

Europe's
largest solar
panel array
installed on our
QE2 reservoir.

About Thames Water

We are the UK's largest water and wastewater services provider serving 15 million customers across London, the Thames Valley and surrounding areas. For an average of just over £1 a day per household, we provide 2.6 billion litres of clean drinking water and safely remove 4.4 billion litres of wastewater – 24 hours a day, 365 days a year. We are regulated by Ofwat, the Environment Agency and the Drinking Water Inspectorate and our customers will benefit from our £4.5 billion investment programme between 2015 and 2020, the largest in the UK water industry. Our ultimate parent company, Kemble Water Holdings Limited, is owned by a consortium of pension funds and other long-term investors from the UK and around the world.



See what's inside

Year in review

Our Chairman's review	08
Chief Executive Officer's review	12
Spotlight on Water	20
Spotlight on Waste	24
Spotlight on Retail	28
Chief Financial Officer's review	30
Principal risks and uncertainties	36



Our corporate governance

Chairman's introduction	44
The Directors and Executive team	46
Corporate governance report	51
Remuneration Committee report	58
Nominations Committee report	76
Audit, Risk and Regulatory Committee report	78
Customer Service Committee report	84
Directors' report	86
Statement of the Directors' responsibilities in respect of the annual report and financial statements	88

Statutory financial statements

Independent auditor's report to the members of Thames Water Utilities Limited only	90
Income statement	94
Statement of other comprehensive income	94
Statement of financial position	95
Statement of changes in equity	96
Statement of cash flows	97
Accounting policies	98
Significant accounting judgements and key sources of estimation uncertainty	107
Notes to the financial statements	109
Glossary	143

Our Chairman's review



Sir Peter
Mason KBE
Chairman

We set ourselves ambitious targets for the 2015 to 2020 regulatory period (AMP6) and we are really pleased with what we achieved in the first year. We laid solid foundations across the company, putting us in a strong position to deliver our performance commitments for our customers.

After a comprehensive and competitive process, in August 2015 Bazalgette Tunnel Limited secured a licence to deliver the Thames Tideway Tunnel – a landmark construction project which will transform London and its rivers. The award-winning Thames Water team responsible for the project worked with many stakeholders to overcome significant regulatory, legal, financial and risk management hurdles to get the project ready for the competitive tender process and deliver the best outcome for customers and the environment.

To improve our network and provide a better service, our capital investment programme in 2015/16 exceeded £1 billion on average per annum for the last 11 years and we plan to invest around £4.5 billion during AMP6. Despite our high level of sustained investment our customers benefit from the third lowest combined bill in England and Wales at £374 a year in 2016/17. Bills are now expected to remain at the same level before inflation until at least 2020, even with the costs associated with the Thames Tideway Tunnel and our significant investment programme.

In 2015/16 we paid £82.4 million in dividends to our parent company (2014/15 £169.9 million). These dividends have been used to fund group interest payments including those by Kemble

Water Finance Limited, and working capital for group companies. No dividends have been paid outside the group in respect of 2015/16 (2014/15 £100.0 million).

The changing industry

The industry is facing significant change. Ahead of the non-household market opening up to competition in April 2017, the spotlight is on our entire business as it gets ready for the biggest change in the water industry since privatisation. Thames Water Utilities Limited will transfer its responsibility to serve non-household customers and compete nationally to an existing dedicated Kemble Group company, which will trade as Thames Business Services. With less than a year to go, we are on track to be both competitive and fully compliant with the requirements of market opening. Thames Water Utilities Limited will remain the wholesaler providing drinking water and sewage services.

Although we are at the beginning of the second year of this regulatory period, we welcome Ofwat's early engagement on its plans for 2020 and beyond, including Water 2020. There is potential for competition to be introduced in the treatment and disposal of sewage waste from our treatment works. There is also the possibility for greater trading of existing water resources between water

companies, involving long-distance transfer. The introduction of competition in the supply of new water resources where resource owners can compete with us to sell water directly to retail companies is also proposed. We will ensure that we establish cost-competitive businesses in these areas. This brings with it opportunities to excel and deliver more value for our customers. In the face of significant reform we are remaining focused on our primary role of providing safe and reliable drinking water and wastewater services with good customer service. The introduction of competition for household customers is under active consideration and in the event that the Government decides to proceed with this proposal, we will work with stakeholders to develop robust plans that will address the considerable challenges that this bold move would present the industry.

Throughout this period of change, it is vital that investor and customer confidence is maintained. Ensuring the value of our business assets, the regulatory capital value (RCV) as agreed with Ofwat, remains predictable and transparent and will allow finances to be raised in the most economical way. This will encourage stable investment, which benefits customers through lower and more stable bills. With this in mind, we welcome Ofwat's commitment to protect the RCV to the end of AMP6, but seek further clarity beyond 2020.

Reviewing our year

Once again, it has been a busy year for Thames Water. We mobilised our eight₂O and Infrastructure Alliances, launched our new smart meters to households in London and successfully reduced our pollution incidents by 49% in just one year. We also met our leakage target – close to our lowest ever – for the tenth consecutive year, meaning we have reduced leakage by a third since 2004, and achieved our main drinking water quality target for the ninth year in a row.

Our Service Incentive Mechanism ("SIM"), the customer service measure set up by Ofwat, improved in the year from 72.6 to 76.7. Whilst this was a strong improvement and more than the industry average increase, we still remain in the lower quartile of the household league table. We are focusing our efforts on securing a further improvement in our performance in 2016/17 and I am pleased to note that in the first two months our performance has continued to improve.

Our 'zero incidents, zero harm, zero compromise' approach to health and safety continues to deliver positive results. In 2015/16 we saw a 28% reduction in 'lost time injuries' following the roll-out of an array of new initiatives, meaning there has now been a 50% reduction in work-related injuries and illnesses in the last three years.

28 January 2016 was a historic day for us as the Mayor of London, Boris Johnson, officially commissioned the Lee Tunnel – the UK's first 'super sewer' – to protect the River Lee from millions of tonnes of raw sewage each year. As London's deepest tunnel, costing nearly £700 million, it was declared 'storm ready' by the Environment Agency in January.

Changes to our Board

Towards the end of 2015, Martin Baggs indicated he would be stepping down later in 2016, after six very successful years as Chief Executive Officer (CEO). I would like to thank Martin for everything he has done for us during his tenure as CEO and before that as a Non-Executive Director. His energy and determination to achieve the best possible results, combined with his grasp of detail and knowledge of the industry, have made a huge contribution to the Company's recent successes.

In April 2016, Stuart Siddall announced he would be retiring as Chief Financial Officer (CFO) at the end of 2016. Stuart has been a strong and effective CFO, playing a major role in increasing the resources directed to front-line services benefiting customers. He has also taken a strong lead in increasing transparency and explaining the Company's finances. We wish both Martin and Stuart well for the future.

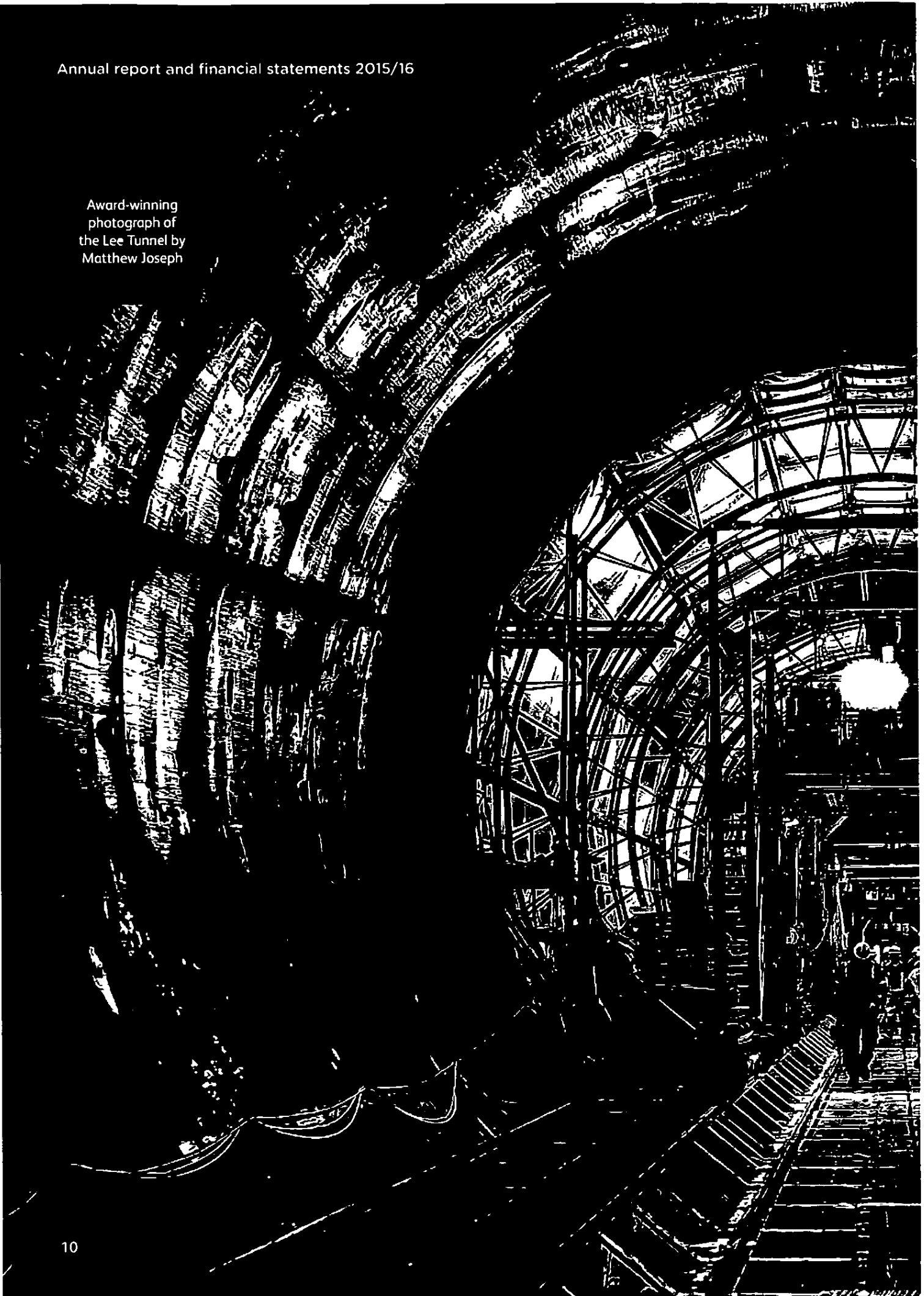
Director of Strategy and Regulation Nick Fincham has joined the Board. Nick has been in his current role, as well as a member of the Company's Executive Team, since April 2011. He will continue in these roles and now joins the Board as an Executive Director.

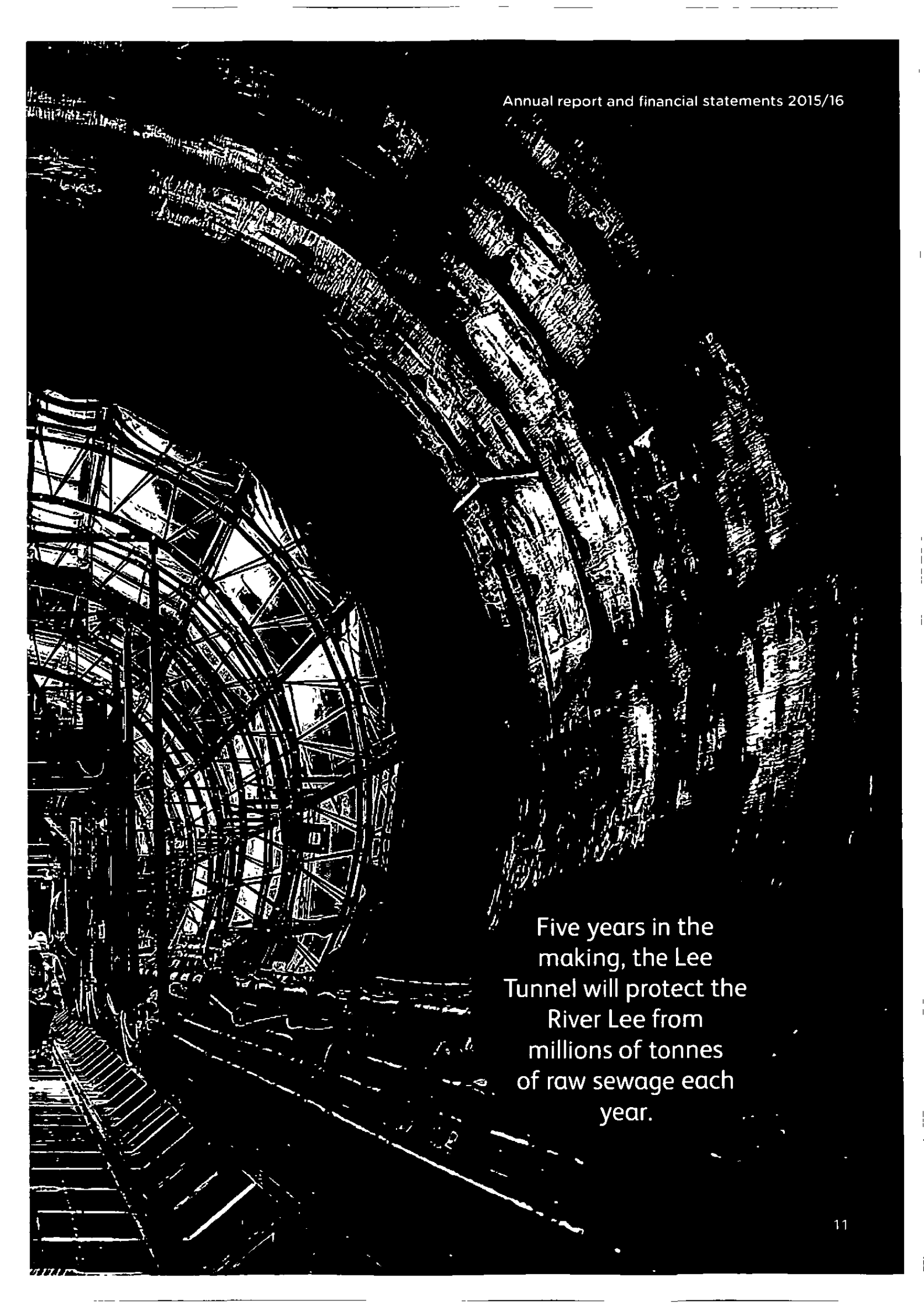
I am delighted to announce that the Board has appointed Steve Robertson as our new CEO, starting in September 2016. As CEO of Truphone since 2011, and previously of BT Openreach, Steve has demonstrated outstanding ability to innovate and meet customer needs in a regulated environment. He will be joining us at a time of significant change which will require an even sharper focus on our customer service. We look forward to Steve leading the company into this new era.



Sir Peter Mason
Chairman

Award-winning
photograph of
the Lee Tunnel by
Matthew Joseph





Five years in the making, the Lee Tunnel will protect the River Lee from millions of tonnes of raw sewage each year.

Our CEO's review



Martin Baggs
Chief Executive
Officer

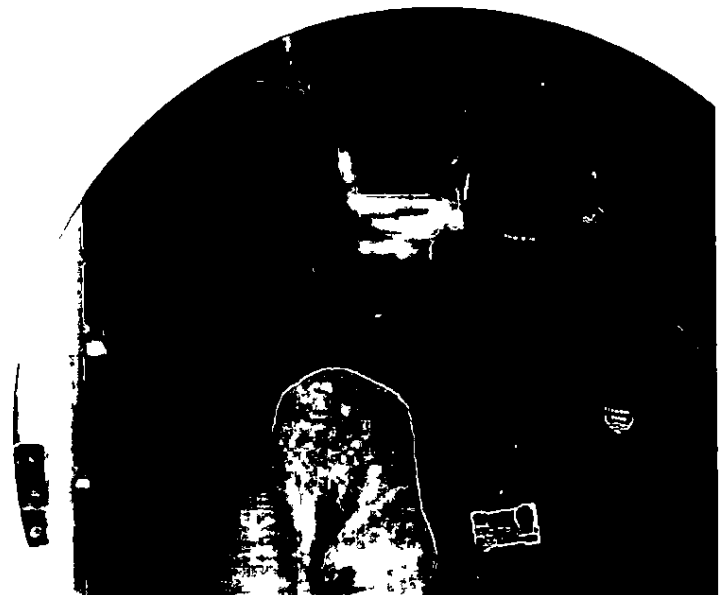
Across the Company our colleagues have worked hard to ensure a strong start to AMP6, significantly raising our customer service level, improving health and safety and successfully delivering over £1 billion of capital investment, approximately £240 per household, with our partners.

A strong start

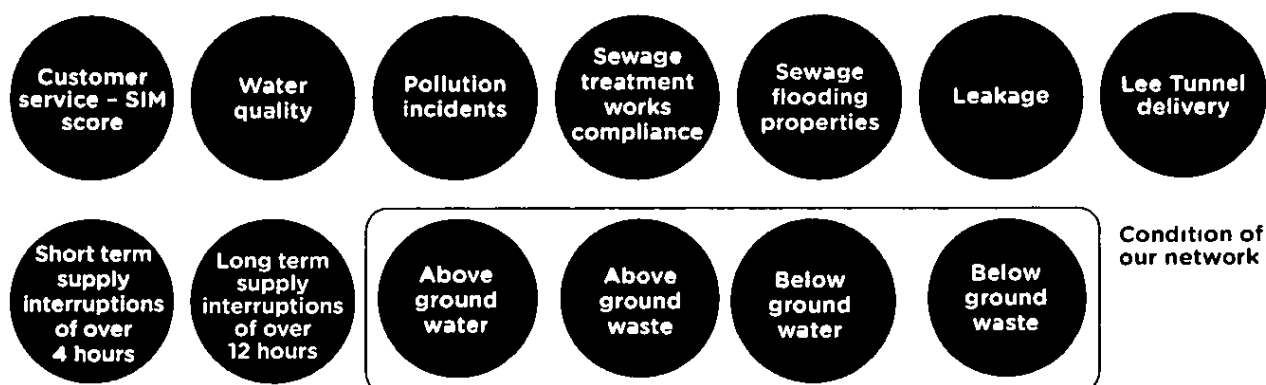
Of the 55 performance commitments we received one outcome delivery reward and two penalties in 2015/16, which will impact future revenues. We outperformed our target for water supply interruptions of over four hours, earning a reward of £3.1 million. We didn't meet our target for customers without water for over 12 hours and incurred a penalty of £4.7 million. We also received an £11.7 million penalty for sewer flooding, due to an issue identified by our internal audit team with our reporting process. Improvements to our controls have now been put in place. We are working hard to increase our rewards and avoid further penalties in the future.

2015 saw a highly competitive tender for the licence to build the Thames Tideway Tunnel which was awarded to Bazalgette Tunnel Limited in August 2015. The impact of the project on customers bills will be a lot less than was originally predicted. So far Thames Water has spent £1 billion to buy land and prepare for the project. We have committed to spend a further £400 million during AMP6 to complete our share of the works to connect the Thames Tideway Tunnel to our waste network. We are aiming to do this ahead of the original schedule to help Bazalgette Tunnel Limited complete its main tunnelling and construction work ahead of time.




Our totex spend (total spending) for 2015/16 was below the Final Determination level ("FD") by £31 million (including Thames Tideway Tunnel, in 2015/16 prices) which means that, so far we are on track to deliver efficiencies which will benefit customers in the form of lower bills in the future. For every £1 less than the totex allowance set by Ofwat in our FD that we spend by being more efficient 50 pence is returned to the customer.



Overview of our main commitments to customers and our performance against target



In line with the feedback we have received from our customers, we have rated our progress as red, amber or green using the following definitions

-  Performance met – at or above our Committed Performance Level ("CPL")
-  Performance not met but
 - within Ofwat allowed range without penalty (the "deadband") if defined or
 - within 5% of our CPL (if no defined Ofwat range) or
 - where condition of our network "asset health" is assessed as marginal
-  Performance not met and
 - below the deadband (if defined) or
 - more than 5% below our CPL or
 - where "asset health" is assessed as deteriorating

A full review of our 55 Ofwat performance commitments will be published in our Annual Performance Report later in June 2016. We have accepted challenging performance commitments for AMP6, but with strong foundations in place we are in a good position to fulfil them.

Putting customers first

Putting customers at the heart of everything we do and striving to provide excellent customer service at all times is an integral part of our AMP6 strategy. We have made significant investment to increase our resources and improve our service across the Company. I am pleased with the progress we have made, however the industry has also kept moving forward so there is still a lot for us to do to catch up to the leading companies. We have already seen a great start to 2016/17 with a noticeable drop in the number of complaints we receive, in particular second stage complaints.

Transformation and change

We are implementing a major cross-company transformation of areas of our business including customer experience, procurement (buying goods and services), operations and logistics, network maintenance, capital delivery and network data intelligence. Whilst the transformation initiatives are centrally co-ordinated, they are being tailored and driven by our Water, Waste and Retail businesses. Established in 2015 it has been pleasing to see each of these businesses mature and focus on their people, customers and the development of long-term plans.

After a successful roll-out, the main strategic transformation programmes are delivering strongly. We are becoming smarter and more strategic in the way we buy, manage and use our resources through our sourcing and logistics programme. 2015/16 saw the introduction of a number of initiatives which have been consolidated into a multi-functional logistics management centre. This will help to drive efficient planning, procurement and use of resources across our business. Our proactive over reactive programme encourages more planned maintenance, reducing the need for expensive, and disruptive, emergency work and we have already seen success at several of our treatment works. We will continue to empower our operational business managers to drive efficiency, tailored initiatives and local accountability.

We had 56 million interactions with customers in 2015/16.



At peak construction, 500 people were working on the Lee Tunnel which was officially commissioned by the Mayor of London in January 2016.

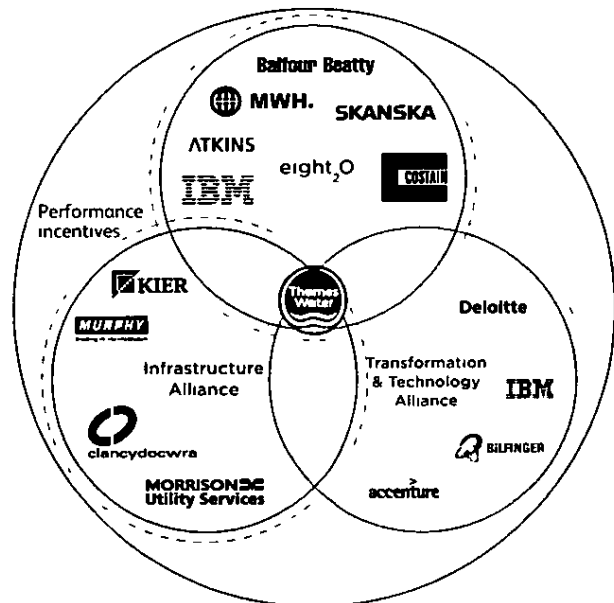
Delivering through alliances

I am delighted to say we have the third piece of our alliance jigsaw in place, following the announcement of a new Technology and Transformation Alliance (TTA) in April 2016. Designed to align information technology and operational technology to encourage innovation and cost savings, the TTA will sit alongside the existing eight₂O and Infrastructure Alliance.

Our unique alliance model brings industry leading specialists and expertise into the Thames Water family to perform both day to day operations and strategic planning in a collaborative environment, where ideas, opportunities and risks are shared. Within each alliance financial returns are linked to Thames Water's overall performance commitments. Our next priority will be to exploit opportunities for the alliances to align with each other to encourage further savings and innovation.

Set up to deliver approximately £1.8 billion of capital investment works this AMP, our eight₂O alliance has taken a careful approach to its design and costing to ensure we are finding the best solutions for customers. Since becoming operational in April 2015, eight₂O has begun to deliver water mains replacements for the water network flood protection for the waste network and work at a number of Thames Tideway Tunnel connecting sites.

The Infrastructure Alliance has celebrated its first anniversary and was established to manage the water network, improve our 'new connections' service, and deliver up to £1 billion of work in the period to 2020. With more than 1,800 employees in place, the first year has seen improvements in the way we handle our roadworks and the launch of an 'industry first' online quote service for clean water connections.



Our three alliances

Health and safety

We continue to refine our health and safety practices to help us achieve our commitment of 'zero incidents, zero harm, zero compromise'. Our health and safety programmes are delivered centrally, as well as being tailored by our individual business units, and I am pleased that the value of our enhanced approach has been recognised by employees. In our most recent employee survey, 90% of the 4,000 employees who responded 'strongly agreed' Thames Water takes health and safety seriously.

In the last three years we have increased investment in health and safety training by 50% with a focus on working in confined spaces, manual handling using power tools and scaffold safety. In 2015 we delivered 12,000 days of health and safety training compared to just 4,500 days three years ago and more than 400 frontline operational managers have now completed National Examination Board in Occupational Safety and Health ('NEBOSH') training which was historically only offered to health and safety teams.

We have introduced a revised approach to hazard reporting, encouraging a more proactive attitude to reporting concerns so we can take action to reduce the risk of injuries. To ensure the safety of our workers and those around them our personal protective equipment ('PPE') standards have become more stringent and mandatory drugs and alcohol testing has been introduced. The positive endorsement from our employees coupled with the success of our new initiatives reinforces our achievements in this area.

We have promoted health checks for all of our colleagues and 2,631 employees have taken advantage of the personal medical assessments this past year. We have also encouraged the roll-out to our contractors and alliance partners seeing many following suit.

A sustainable business

We take our responsibility to the environment very seriously. We have set ourselves an ambitious target of self-generating 33% of our own energy from renewable sources by 2020 and we are already generating 15%. Producing energy from sewage is fundamental to us achieving this goal and we have been investing in technology to increase the amount of energy we can generate. Due to challenges getting some of the new technology working to the required efficiency we didn't meet our energy expectation in 2015/16 but we expect this to improve in 2016/17 as we fine-tune the operation of existing facilities and get new equipment up and running. In 2016 we also signed an agreement to use the surface of one of our reservoirs for the installation of Europe's largest floating solar panel array so we can partly run our Hampton water treatment works using solar power. The solar farm will have a total installed peak capacity of 6.3 megawatts and is expected to generate 5.8 million kilowatt hours in its first year – equivalent to the annual consumption of around 1,800 homes.

Sir David Attenborough
opened Woodberry
Wetlands in April 2016:
"It's marvellous in this
heavily built-up area,
that you should have
a glimpse of real true
countryside".





Apprentices at a Thames Water site. We took on 24 graduates, 12 apprentices and 43 trainees in 2015/16.

As part of our commitment to the natural environment we have a programme in place to enhance and protect biodiversity on our sites. For example, working with the London Wildlife Trust, the Woodberry Wetlands, located at an operational reservoir in north London, was officially opened by Sir David Attenborough in April 2016 and will provide a wildlife habitat the community can enjoy.

Investing in people

Our success depends on the confidence, competence and performance of our employees. In support of our talent pipeline we took on 24 graduates, 12 apprentices and 43 trainees in 2015/16. Providing opportunities for people to learn and grow is fundamental to ensuring we have skilled people to benefit our customers and in the past year our colleagues completed over 20,000 days of training and development. We aim to recruit a team to work within Thames Water that is representative of the communities we serve and our policies and practices comply with current legislation. 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. We are making progress. Our current diversity profile across our total workforce is 32% female and 68% male and this remains consistent across management grades. We are pursuing a strategy to increase the diversity of our workforce and in 2016 70% of our new graduates will be female.

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

We seek to promote a culture of honesty and integrity in everything we do and will not tolerate acts of fraud, dishonesty, bribery, corruption or theft of assets or data. 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. It covers a wide range of human rights issues including discrimination, working conditions, modern slavery and human trafficking and equal opportunities. We have a confidential 24-hour whistleblowing helpline available where any employees can ask questions or raise concerns. Our contractors and alliance partners have agreed to follow the provisions of this code.

We have an extensive internal communications programme to keep all employees informed and engaged. In turn, we welcome feedback from our employees to ensure we adhere to our vision here for you in a changing environment and our six core values:

- take ownership
- take care,
- be respectful and value everyone
- reach higher – be better,
- be passionate about everything we do and
- 'be proud – be blue' – this has been interpreted in many ways by colleagues, but most importantly people are proud to be part of the team at Thames Water.

In 2015, 78% of our employees responded to our employee survey, up from 70% in 2014. This reflects the positive work we have been doing to increase engagement across the business.

We dedicate time to celebrating and recognising the achievements of employees at our three main award events – Be Proud Be Blue, Customer Spotlight and Excellence in Health & Safety

In October 2015 we launched our 'Share in Your Success' scheme allowing employees to save between £20 and £250 per month, with the potential to earn a bonus of between 5% and 35% after three years dependent on Thames Water's performance. In addition we continue to promote savings and health benefits such as our Cycle to Work scheme and store discounts, through our Benefits on Tap portal

Executive Team changes

Group Commercial and Transformation director, Jon Loveday, was appointed to the Executive Team in January 2016. Jon has extensive experience in supply chain management and change management and is working closely with our operations teams to deliver substantial efficiencies

In March 2016, Neil Clark joined Thames Water as Chief Information Officer from BAA. Neil is also the Head of our new Technology and Transformation Alliance. He has more than 25 years of experience in the commercial application of technology to drive business transformation in customer-focused and complex operational businesses

In the community

It is important we connect with the communities we operate in and we are pleased to have committed more than £1.3 million from our community investment fund in 2015/16 to 16 projects. These included projects to promote the enjoyment of our natural environment. In 2015/16 we beat our target to directly reach 15,000 children through our educational outreach programmes to raise awareness of our work and our key campaigns

After raising £2 million for Bangladesh over a four year period, we launched a new WaterAid campaign, 'Thames loves Malawi', in March 2016. We have committed to raising £2 million for the world's poorest country which suffers from very poor sanitation. We know our efforts will help improve the lives of people living in two towns who don't have safe water to drink - something many of us take for granted

A look forward

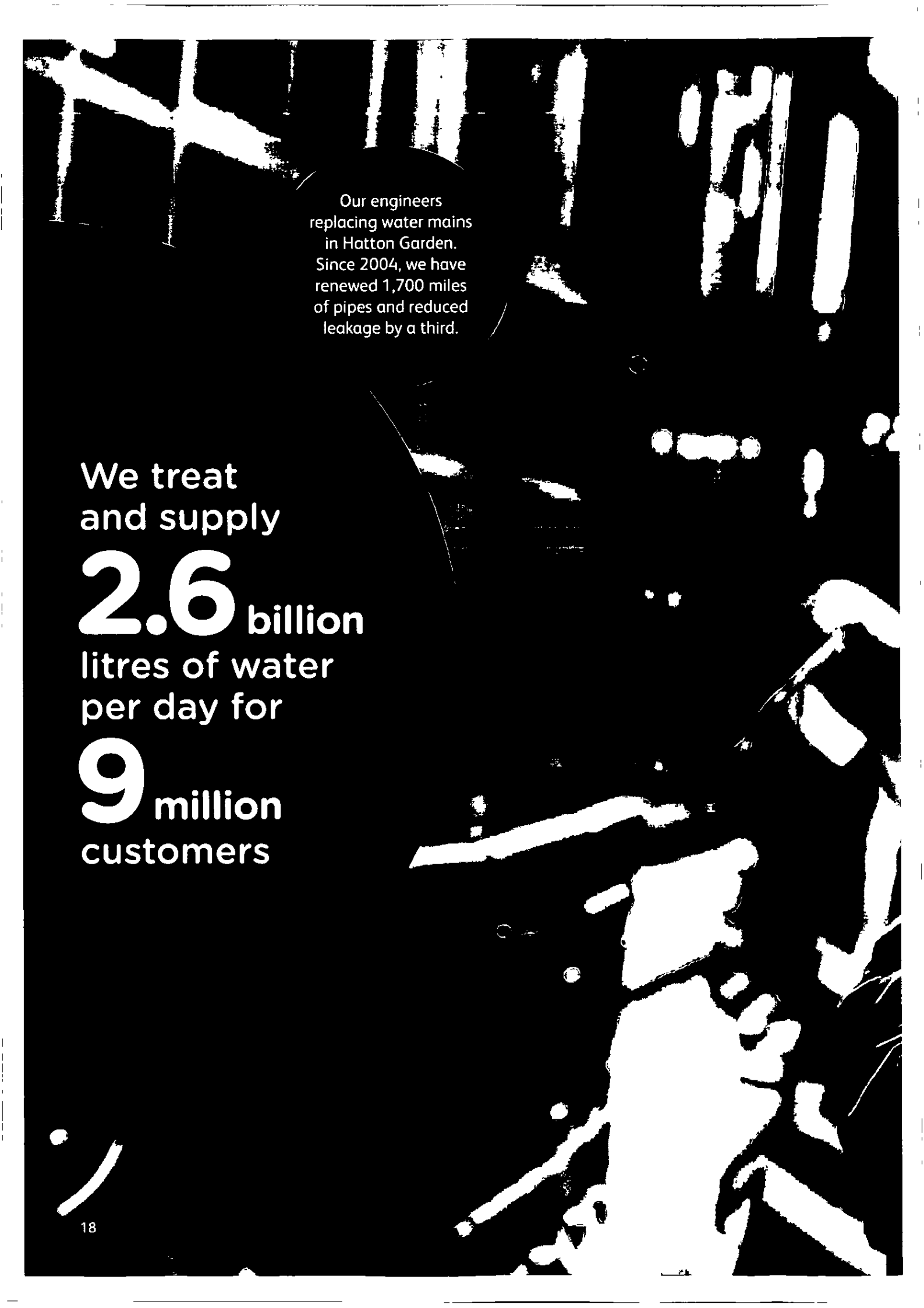
With four years to go in AMP6, we still have a lot to do to deliver our performance commitments. We provide some of the world's best quality water to our customers, and we need to keep working hard to give them a customer service to match. As we move through AMP6 we will remain focused on delivering a step change improvement in our customer service. We don't expect significant change to our financial performance in 2016/17. However, we do expect to deliver more for our customers, to continue to embed initiatives to improve our business capabilities and become more efficient. Our three alliances, individually and together, will play a key role in achieving this



Martin Baggs
Chief Executive Officer



New bird hide at Pink Hill Meadow at Farmoor reservoir. We have a programme in place to enhance and protect biodiversity on our sites, and offer opportunities for our customers to enjoy it.



Our engineers
replacing water mains
in Hatton Garden.
Since 2004, we have
renewed 1,700 miles
of pipes and reduced
leakage by a third.

We treat
and supply

2.6 billion

litres of water
per day for

9 million
customers



Spotlight on water



Bob Collington OBE
Managing Director
Water

It has been a pivotal year for our Water business and we achieved some important milestones including the successful mobilisation of our Infrastructure Alliance. With the aim of driving efficiency and delivering better customer service, this alliance currently sits at the heart of the water business.

We have established new performance hubs to help employees understand the impact their individual roles have on our company customer service level. Alongside our continued investment in the front line, these hubs have helped us to secure improved customer service levels by bringing together our employees in the field on a regular basis to discuss their areas of work and the impact they might have on other areas.

Always in supply

We know that having a reliable water supply is vital to our households and businesses and our performance in limiting the number of short-term supply interruptions greatly improved last year - we outperformed our target for customer water supply interruptions lasting over four hours. However, there were three major bursts on critical parts of our water distribution network which resulted in over 10,000 premises losing supply for more than 12 hours, and this along with a number of smaller bursts contributed to the condition of our network being officially downgraded to marginal from stable. To minimise the impact of significant bursts in the future, we have taken steps to improve our network monitoring systems and response to emergencies.

Drinking water quality

Providing clean and safe drinking water is a core objective and our customers continue to benefit from some of the highest quality water, both within the UK and globally. In 2015/16 we provided an average of 2.6 billion litres of drinking water every day and outperformed our key drinking water target set by the Drinking Water Inspectorate (DWI). To ensure we provide a consistently high quality product to our customers, we perform more than 400,000 water quality tests on water samples each year, an average of more than 1,000 per day.

Managing water resources

The population of London is set to grow to 11 million by 2050, the equivalent of adding both the populations of Birmingham and Edinburgh. Coupled with climate change, this huge population growth will put further pressure on the already water-stressed south east. To future proof our supply, we are prioritising initiatives to reduce leakage and promote water efficiency. Longer-term, we are working with a wide range of stakeholders to draw up our next water resources management plan which will be submitted in 2018. It will consider measures to increase resources available to our growing region, such as water transfer, storage and reuse.

We outperformed our leakage target close to our lowest ever, for the tenth consecutive year. This was a key milestone for us. Since 2004 we have renewed 1,700 miles of pipes and reduced the leakage from our 20,000 mile network by a third. We have committed to replacing a further 370 miles of pipes and reducing leakage by nearly 9% between 2015 and 2020.

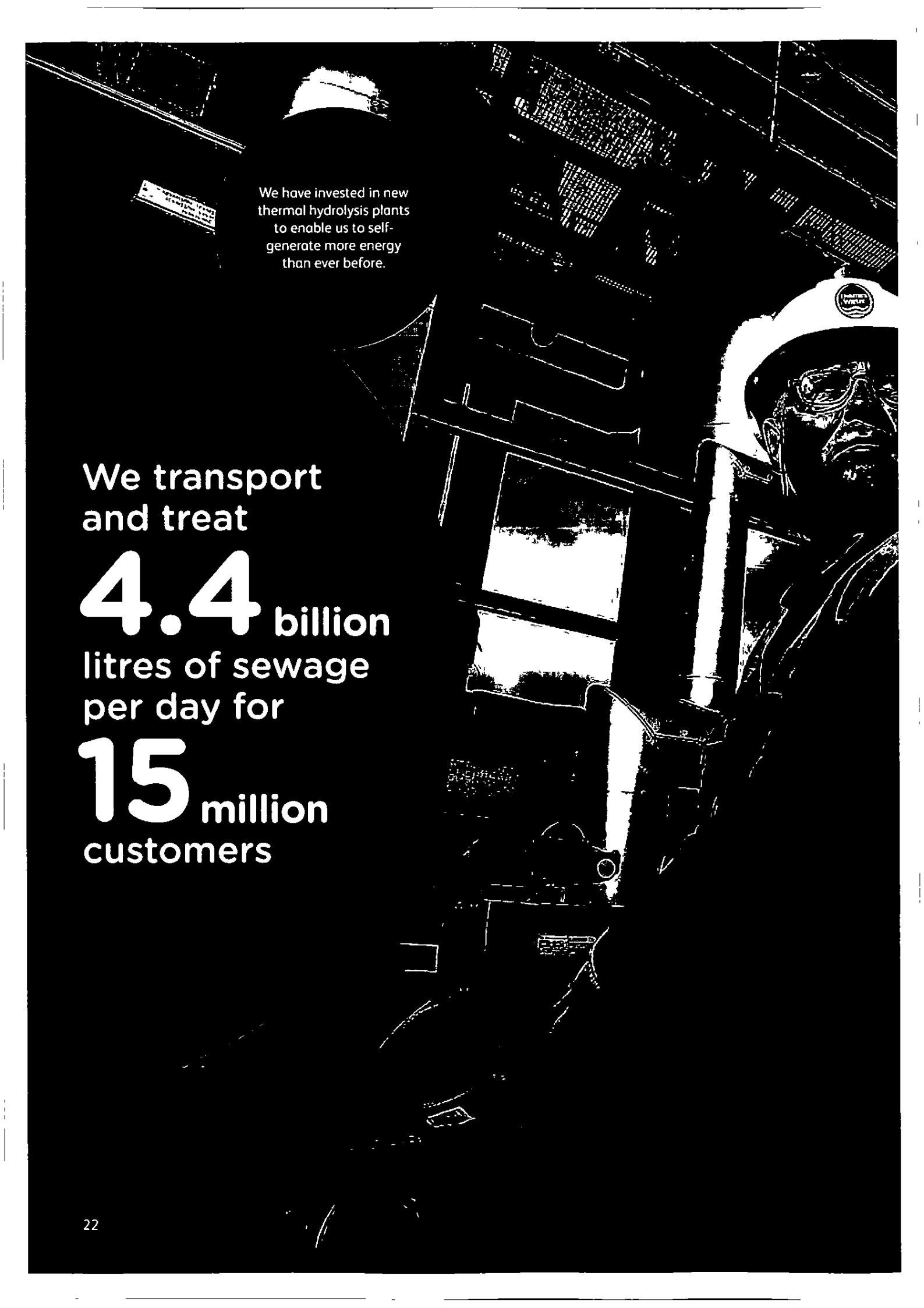
We have become the first UK water company to roll out smart meters using state of the-art wireless technology, which will transform the way we run our network. Due to be connected to 80% of households by 2030, over 42,000 customers in London have already had smart meters installed. Smart meter technology provides regular meter reading updates, allowing customers to keep up-to-date with their usage, and encouraging them to be more efficient with water as they pay for what they use. The regular flow of data from our smart meters provides a ground breaking and cost-effective way for us to locate broken pipes, by detecting a continual flow of water and will enable us to fix more leaks on customers' properties than ever before.

We continue to promote key water efficiency messages. In 2015/16 we conducted 33,500 free home visits to install nearly 79,000 free water saving devices and give customers tailored advice on how they can save water, energy and money. As part of these visits we fixed several hundred 'leaky loos' for free, saving nearly 700,000 litres of water a day. In 2015/16, 85,000 of our households benefited from approximately 327,000 free water saving devices such as shower heads which use less water, and we have helped 20,000 households with our online Water Energy Calculator.

One of the challenges we face, particularly in London, is illegal connections to our pipes and the water taken is often attributed to leakage. This is unfair to people who pay their bills and could pose a risk to water quality, so we set up a dedicated team to tackle the problem. We have already seen success with over 300 investigations accounting for 22 mega-litres of 'missing' water and the benefits will be passed on to our paying customers.



Over 42,000 smart meters have already been installed as part of our commitment to future proof our water supply.



We have invested in new thermal hydrolysis plants to enable us to self-generate more energy than ever before.

We transport and treat

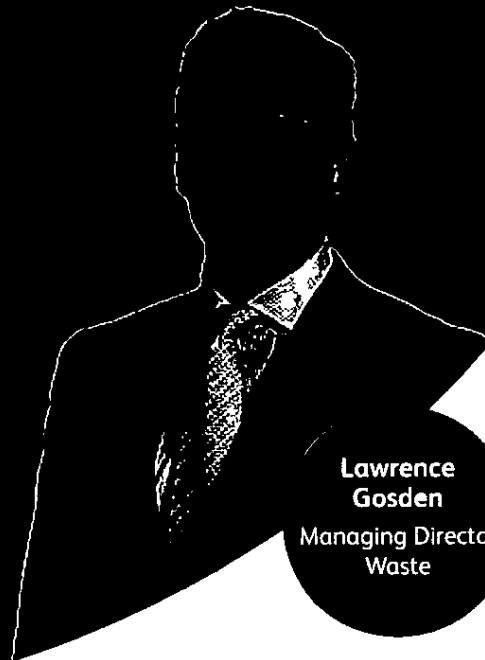
4.4 billion litres of sewage per day for

15 million customers



We are in the process of adopting 4,600 private pumping stations ahead of new legislation.

Spotlight on waste



Lawrence Gosden
Managing Director
Waste

The commissioning of the Lee Tunnel in January 2016 was a defining moment for the Waste business. It is a great example of what we are doing proactively to increase the capacity of our waste network for a 21st century population, and there is more to come.

Across the rest of the Waste business we have made significant investment into customer service and to improve the condition of our network. We have also been focusing on implementing site specific efficiencies, and the adoption of approximately 4,600 private pumping stations, ahead of new legislation requiring us to take control of them from autumn 2016.

Putting customers first

We continue to focus on improving customer satisfaction by resolving complaints more effectively and reducing sewer flooding, which we know are key requirements of our customers. In May 2016 we opened a customer solution centre in partnership with our Waste network contractor which brings together customer call handling and operational expertise in a 'one stop shop'. This reduces the number of times a customer might be passed between call agents, and we are confident that this will enable us to deliver a further improvement in service levels.

Sewer flooding is an unpleasant experience for our customers. To address the problem more effectively, we have taken a more proactive approach by investing in additional preventative measures such as manhole alarms, network intelligence and more proactive cleaning of our sewer network. Heavy rain can overwhelm our sewers so we have put plans in place to protect our network and reduce the risk of flooding during wet weather. We also need to reduce the huge amount of fat, oil, grease and wet wipes entering our network, which we know cause blockages in our sewers leading to sewer flooding. We have continued to drive awareness of our 'Bin it – don't block it' messages to customers in hotspot areas, but there is still more work to do.

Reducing environmental impact

To minimise our impact on the environment, we are investing in technology to increase the amount of energy we can produce from sludge – the residual solids from our sewage treatment process. New thermal hydrolysis plants (THP), which extract more methane from sewage waste, are being commissioned to enable us to generate more energy than ever before. We have also replaced engines at seven combined heat and power plants (CHP) to increase the amount of energy produced from methane.

We saw a dramatic 49% reduction in pollution incidents within our Waste business. In part this reflected milder weather in 2015/16 but increased investment and improvements to our monitoring and site operations were also major factors. This has been important in demonstrating that we have taken proactive action in this area. Performance of our 350 sewage treatment works was good and we met the expected standards.

Strengthening our network

As a result of our continued investment over recent years, we are pleased to say the condition of our network has improved. In July 2015, we began a £220 million, three-year upgrade project at Deephams sewage treatment works to accommodate the predicted population increase in the area. This major overhaul of one of our largest sewage treatment works is progressing well.

The £280 million Counters Creek project to increase the capacity of our network in west London and prevent sewer flooding is due to begin construction in 2017, subject to local planning approval. In preparation, we have been proactively engaging the local community at each stage of the process and the second phase of consultation has just been completed.

Alongside these major capital projects, we are also investing in Sustainable Urban Drainage (“SuDs”) initiatives, to help rain water drain away in areas which are prone to flooding after being paved over for development. In October 2015, we launched our £20 million Twenty 4 Twenty project to transform 20 hectares of land to SuDs over the next five years – as part of this scheme we have started work on a key project at Battersea which is delivering around 75% of our performance commitment.

To raise awareness, we have been running ‘Bin it – don’t block it’ campaigns in sewer blockage hotspots across our region.





Handled
3.3 million
customer
queries

Thames
Water

We are investing nearly £90 million in new technology and systems that will transform how we manage the customer relationship to ultimately deliver a better service for customers.



Visit us online
meswater.com

56
million
interactions
in 2015/16

Spotlight on retail

Ian Cain
Managing Director
Retail

We have seen a year-on-year improvement in our customer service performance. We have approximately 56 million interactions with customers a year, so it is crucial we provide customers with a great experience.

Improving customer satisfaction

Our SIM score, which is monitored by Ofwat and incorporates our customer satisfaction score, increased from 72.6 to 76.7 out of 100. Each of our Water, Waste and Household Retail businesses improved their service levels in 2015/16. We know there is more to do and we are seeing further improvements in the early months of 2016/17.

To deliver what customers value most, our focus has been on first-time resolution. To achieve this we are increasing the number of front-line agents and field staff, providing them with additional training and supporting our agents with a new knowledge management system which enables customer queries to be answered more effectively and efficiently. We have also doubled the number of customer representatives who visit customers across the Thames Water region to resolve issues for customers. As well as helping to increase our customer satisfaction scores, we saw a significant, 23% reduction in the number of written customer complaints and this trend has continued into 2016/17. We have already seen a 3% improvement in the first-time resolution rate of written complaints but there is no time to rest as we strive to reach our performance target of 95%. We were pleased to see our second stage complaints fall by 31% in 2015/16 highlighting that we can deliver an exceptional service first time.

We know it is frustrating for customers to be passed between multiple call agents, so we have been trialling new ways of handling calls that come into our call centres about problems with our network. We have set up 'one stop shop' call centres which combine both customer and operational expertise in one place, to encourage a quicker resolution for the customer.

Reducing customer debt

We face the continuing challenge of ensuring customers pay their water bills and a persistent failure to pay can result in 'bad debt'. This debt, which occurs more frequently in London, affects all customers. For us, approximately £13 a year is added to customers bills to account for those that don't pay our charges. Contrary to popular belief, most bad debt comes from those who don't want to pay their bill rather than those who can't afford it. We have been seeking effective ways to discourage a refusal to pay, and actively supporting customers who genuinely can't.

In 2015, we introduced a new, utility industry-leading debt management system for household customers. A key feature of this system is its ability to map and segment our customer database according to ability to pay, likelihood of paying and external payment behaviours. This enables us to tread carefully and fully

understand a customer's circumstances before taking action which could involve legal proceedings or affect their credit history. We have seen positive results with bad debt, as a percentage of revenue, falling from 3.6% to 3.2%.


To help those who can't pay we have implemented an improved debt reduction strategy. We helped 5,206 customers with £4.4 million of debt in 2015/16, through our customer assistance fund. We also provided support with a means-adjusted tariff to help customers remain debt-free with us.

Transforming customer experience

We have invested in new technology such as a new online account management system to extend our online capability and make it easier for household customers to find what they need themselves. Launched in April 2015, over 300,000 customers have already signed up to use the system, with these customers now being able to receive paperless billing and change their account details online. We have retendered and realigned service agreements with key suppliers to help us improve customer experience when dealing with our essential back office functions.

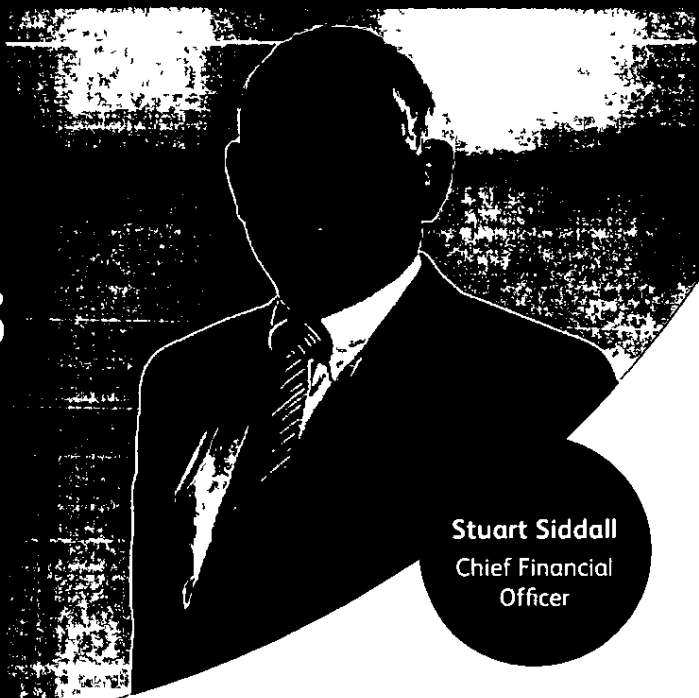
Our new customer relationship management and billing programme was mobilised in 2015. We are investing nearly £90 million in new technology and systems that will transform how we manage the customer relationship to ultimately deliver a better service for customers. When complete, it will make it easier for frontline employees to manage their interaction with customers, get things right first time and have a more powerful set of tools at their fingertips.

We have set ourselves high targets for AMP6 in how we interact with our customers, putting them at the heart of everything we do to provide consistently good customer service, first time, every time. Improving customer satisfaction, tackling bad debt and transforming the customer experience are all integral to our retail strategy. We made some positive strides towards achieving these goals and we expect to improve further in 2016/17.



We have been trialling new 'one stop shop' call centres, which combine customer service agents and field operations expertise in one place.

Our CFO's review



Stuart Siddall
Chief Financial Officer

We have seen a solid start to this AMP6 regulatory period and are in a strong financial position to support the delivery of our performance commitments for our customers.

Our financial review

Our three major alliances, which have been set up as part of our cross company transformation programme provide a platform for us to streamline our business and drive cost savings. For every £1 less than the totex allowance set by Ofwat in our Final Determination ("FD") that we spend because of efficiency 50 pence is returned to the customer.

We have invested more than £1 billion on average per annum, for the last 11 years, into our business to enhance our resilience and deliver major capital projects. These include the Deephams sewage treatment works upgrade, Lee Tunnel and development works for the Thames Tideway Tunnel before Bazalgette Tunnel Limited ("BTL") took over responsibility for delivery. As 2015/16 was a year of significant change for the Company, and given the uncertainty relating to the Thames Tideway Tunnel (now resolved by appointment of BTL to deliver), the Board agreed that no dividends would be paid to external shareholders in respect of 2015/16.

To support our capital investment programme, we have maintained a robust balance sheet, a prudent level of gearing and strong credit ratings. This allows us to raise capital more cost effectively and provides us with greater ability to access the debt markets.

In the interest of being transparent about our finances we published, in October 2015, an update to 'Our Finances Explained' on our website.

Adoption of new accounting standards

These financial statements are our first full-year set of financial statements prepared in accordance with European Union ("EU") International Financial Reporting Standards ("IFRS"). Details of how the transition to IFRS has affected our financial statements, which were previously reported under UK GAAP (UK Generally Accepted Accounting Practice), are shown in note 30.

Revenue in 2015/16

Revenue for the year has increased from the previous year by 2.5% to £2,039.5 million. This is as a result of inflation, a marginal increase in domestic consumption from population growth and the re-profiling of revenue from later years of AMP6 into the year ended 31 March 2016 to avoid volatility in bills.

Revenue is shown after a deduction of £37.7 million which is 1.8% of revenue (2015: £36.6 million, 1.8%), relating to amounts billed in 2015/16 and now considered to be irrecoverable (bad debt) from our customers.

Operating expenses

Net operating costs have increased by £21.4 million (1.5%) from the previous year which is at a lower rate than the growth in revenue. This demonstrates the positive effect of our cost control measures which have led to operational efficiencies.

After adjusting for the one-off £100 million pension curtailment gain reflected in the 2014/15 results, employment costs have increased by £2.3 million. This is primarily as a result of the increase

Key financial performance indicators

	2016	2015
	£m	£m
Revenue	2,039.5	1,990.2
Operating expenses	1,419.4	1,398.0
Net finance expense	257.2	270.9
Profit before tax	511.2	364.7
Profit after tax	566.4	363.6
Capital expenditure excluding intangibles	1,198.7	1,369.2
Net debt	10,154.2	9,523.6
Dividends paid	82.4	169.9
Interest cover*	1.8	2.0
Gearing**	81.0%	80.1%
Credit rating***	Baa1 stable	Baa1 stable

* Based on interest payable – excludes accretion on RPI debt

** Ratio of covenant net debt to Regulatory Capital Value ("RCV")

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

in front line staff to improve customer service, with our average staff numbers rising by 5.2% from the previous year

A reduction of £10.6 million in bad debt costs recognised within operating expenses has primarily resulted from improved household cash collection rates as we implement a new debt management system and transform our cash collection processes

Maintenance and running costs for our waste and water businesses have risen by £18.0 million as we strive to take a more proactive approach to network maintenance, reduce response times when issues arise and improve customer service

Net finance expense

The business is funded partly through external borrowing in the form of public and private bonds issued in the debt capital markets and bank loans from relationship banks. We are required to pay interest on any amounts that we borrow. The Company's net interest

payable, excluding the effect of capitalised interest costs of £114.4 million (2015: £86.4 million), has increased by £14.3 million (4.0%) from 2014/15 as a result of new borrowings undertaken in the year. Our strong investment grade credit rating means that we continue to be able to obtain financing at favourable interest rates.

Fair value of derivatives

The Company has approximately £3 billion of derivative financial instruments (face value) which include £2.25 billion of forward starting interest rate swaps that have fixed a significant element of the cost of debt we expect to borrow between 2016 and 2020.

During the year a fair value gain of £37.4 million on derivative financial instruments has been recognised in the income statement, compared to a fair value loss of £44.5 million in the previous year, driven by lower forecast RPI (inflation) rates.



Thames Water staff at the start of the 2016 Reading half-marathon, with Humphrey the camel who raised money for WaterAid.

Profit before tax

A summary of the movement in our profit before tax is summarised below

	31 March 2016
	£m
Profit before tax for the year ended 31 March 2015	364.7
Increase in revenue (note 2)	49.3
Increase in operating expenses (note 3)	(21.4)
Increase in profit on sale of property, plant and equipment	32.1
Increase in other operating income (note 5)	6.6
Decrease in net interest payable (note 6)	13.7
Movement in gains/(losses) on financial instruments (note 7)	66.2
Profit before tax for the year ended 31 March 2016	511.2

Capital expenditure

We continue to invest heavily in improving and maintaining our network and infrastructure to ensure that our customers always have a safe and reliable service. Capital expenditure for the year totalled £1,198.7 million (2015: £1,369.2 million) which included progress on key projects as follows:

	31 March 2016
	£m
Thames Tideway Tunnel – development and interface works	128.4
Lee Tunnel – commissioned in 2016	80.9
Deephams Sewage Treatment Works upgrade	68.6
Our new Customer relationship management and billing (“CRMB”) system *	22.4
Counters Creek – West London sewer flooding alleviation scheme	15.7

* Including spend on intangible assets

Spend on the Thames Tideway Tunnel represents development costs, including acquiring land and engineering costs incurred prior to the appointment of BTL in August 2015. Subsequent to this, our costs will be limited to the cost of work required to connect our network to the tunnel and land acquisition costs. Capital spend relating to the Thames Tideway Tunnel reduced by £201.3m compared to 2014/15.

Net debt and cash flow

Net debt, which is the total of external borrowings less cash at bank and in hand, has increased by £630.6 million to £10,154.2 million, largely due to increased borrowing to fund our extensive capital investment programme.

The cash balance has remained stable year-on-year. The decrease in cash generated from operating activities has been offset by a reduction in capital expenditure.

Dividends

The Company's shareholders have invested considerable amounts of capital and retained profits into the Company. The return on their investment takes the form of dividends paid by the Company, the level of which is determined by our operational and financial performance.

During the year the Company has paid dividends of £82.4 million (2014/15: £169.9 million). All dividends paid in respect of the current year were made to other companies within the Kemble Water Group, to service their own debt obligations and working capital requirements. External shareholders have not received any dividends relating to this financial year (2014/15: £100.0m).

Gearing and interest cover

The money we collect from customer bills does not quite cover the amount we spend on maintaining and improving our network each year. We supplement this with external finance (debt) from banks, pension funds, insurance companies and other entities – all of which are independent of our shareholders. Our gearing ratio, which is the net debt to Regulatory Capital Value (“RCV”) ratio, has increased from 80.1% to 81.0% as a result of increased borrowing during the year to fund our investment programme.

The Company is part of a Whole Business Securitisation group (Securitisation Group). As part of the Whole Business Securitisation agreement with our secured creditors, we are required to maintain certain ratios within certain financial limits. During the year ended 31 March 2016, our gearing of 81.0% was well below our mandated maximum of 85%. Our interest cover (the ratio of our profits to interest payable) at 1.8x was well above the minimum level mandated of 1.1x.

Credit rating

In accordance with the Company's licence of appointment, the Company continues to maintain a strong investment grade credit rating, as assigned by external ratings agencies Moody's and Standard & Poor's ("S&P"). The assessment by these two agencies provides an independent view of our performance and future prospects.

In their most recent credit opinion in September 2015, S&P assigned ratings of A- (Class A) and BBB (Class B) and maintained a negative outlook. S&P has recognised a number of positive developments since 2014, particularly in relation to mitigating the risk associated with the Thames Tideway Tunnel project, but have identified the following as areas of weakness relative to the rest of the industry: infrastructure serviceability, customer service and the level of bad debt expense. These are areas on which we continue to focus, and whilst we have seen improvements during the year, we are committed to delivering further improvements over the course of AMP6.

In February 2016, Moody's affirmed the Baa1 rating of the Company and maintained the outlook for its credit rating as stable, citing the low business risk profile of Thames Water and the relatively stable and predictable cash flows generated under a well-established and transparent regulatory framework as drivers behind the rating. Whilst the Company is protected from the main construction risk of the Thames Tideway Tunnel – a credit positive, Moody's continues to recognise that TWUL is exposed to reputational and financial challenges associated with the Thames Tideway Tunnel project.

Pensions

The Company operates two defined benefit pension schemes. The actuarial valuations, dated March 2013, have been updated for this year end on behalf of the Company by independent and professionally qualified consulting actuaries PricewaterhouseCoopers LLP. This valuation shows that the net pension deficit has reduced from £353.9 million as at 31 March 2015 to £260.0 million as at 31 March 2016. This reduction has been primarily caused by use of a higher discount rate in the actuarial calculation, driven by higher yields on AA-rated corporate bonds, which is consistent with other companies that operate a defined benefit pension scheme.

There is a recovery plan in place, as agreed between the Company Directors and Scheme Trustees, to restore each scheme to a fully funded position. The March 2013 actuarial valuation has committed the Company to making additional contributions to each scheme annually. These additional amounts, calculated by a qualified and independent actuary working on behalf of the Scheme Trustees, are

intended to restore the funding level of the two schemes by 2020 and 2025 respectively. Recovery payments under this plan have averaged £20 million per year across the two schemes.

The updated triennial valuation, dated 31 March 2016, is expected to be finalised by the scheme actuary in June 2017. This valuation will include an updated funding recovery plan which will be agreed between the Scheme Trustees and the Company. The Company Directors intend to work closely with the Scheme Trustees throughout this process and remain committed to maintaining a strong and viable pension scheme for active members.

Taxation

This year, the Company has paid around £160 million in taxes, including central and local government business rates, PAYE and National Insurance.

Our capital investment of over £1 billion in 2015/16 has resulted in capital allowances, which delay our corporation tax payments. Similar to previous years, this means we have not paid any corporation tax during the year. The capital allowances regime means our customer bills are £12 lower than they otherwise would be and remain the third lowest combined bill in the UK. The capital allowances scheme has benefits for the wider economy by promoting investment in infrastructure.

The UK corporation tax rate is due to fall from 20% to 18% from 1 April 2020, which has had the effect of reducing the Company's deferred tax liabilities by £108.4 million, of which £120.9 million is included in the income statement. This represents a reduction in the level of corporation tax payable in future years and therefore does not constitute a refund from HMRC. Ultimately this will benefit our customers in the form of lower bills in future years.

Capital and financial risk management policies and objectives

The Company's operations expose it to a variety of capital and financial risks. The Kemble Water Holdings Limited Group's ("the Group") treasury operations are managed centrally, by a specialist team in the UK. The team operates with delegated authority of, and under policies approved by, the Board of Directors. Risks are therefore managed on a Group-wide basis.

The operation of the treasury function is governed by specific 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.

Capital risk management

Capital risk relates to whether the Company is adequately capitalised and financially solvent. The key objectives of the funding strategy are to retain the Company's investment grade credit rating, provide liquidity sufficient to fund ongoing obligations and maintain customer bills at a level which is both affordable and sustainable.

**Strong credit
rating:
Baa1 (stable)**

The Board reviews the Company's exposure to these risks and actively oversees the treasury activities reviewing treasury policy and approving the treasury strategy and funding plan on an annual basis

The capital structure of the Company consists of net debt and equity as disclosed in note 19. The Company's net debt is comprised of cash and cash equivalents, short term investments, derivative financial instruments, bank loans and intercompany loans from subsidiary undertakings that issue secured bonds.

The Company is part of a Securitisation Group of companies. The Company guarantees the funding activity of subsidiary companies established to raise debt finance in international capital markets under the terms of the Whole Business Securitisation. The Securitisation Group is required to comply with certain financial and non-financial covenants. The financial covenants include an interest cover ratio and a net debt to RCV ratio. The Securitisation Group complied with these ratios throughout the financial year. Further details of these covenants are shown on page 32.

The Group's funding policy is to maintain a broad portfolio of debt (diversified by source and maturity in order to protect profits against risks arising from adverse movements in interest rates and currency exposure) and to maintain sufficient liquidity to fund the operations of the business for a minimum of a 15-month forward period on an on-going basis. Derivative financial instruments are used to an extent to manage interest rate risk, inflation risk and foreign exchange risk. No open or speculative positions are taken.

The securitisation includes covenant obligations to manage the maturity profile of debt arrangements: the nominal value of debt maturing within any 24-month period cannot exceed 20% of RCV and maturing debt within a single regulatory period cannot exceed 40% of RCV.

Financial risk management

(i) Market risk

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

Financial instruments entered into by the Company include RPI-linked bonds, loans and swaps. These instruments are exposed to movements in the UK RPI index. The Company is a regulated water company with RPI-linked revenues. Therefore the Company's index-linked borrowings form a partial economic hedge as the assets and liabilities partially offset.

The Company's foreign currency risk exposure results from debt raised in currencies other than Sterling. The Company uses cross-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. The Company has no material unhedged monetary assets and liabilities denominated in a currency different from the local currency of the Company. Further disclosures regarding financial instruments can be found in note 19.

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

The securitisation includes covenant obligations to manage the interest rates risk of the Securitisation Group within specific parameters. At least 85% of total outstanding debt liabilities in the current regulatory period and at least 75% in the next period should be in either index-linked or fixed rate form.

In mid-2014 the Company executed £2.25 billion of forward starting pay fixed/receive floating interest rate swaps of a five to seven-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 Company against adverse movements in underlying interest rates by matching projected future debt issuance against a derivative instrument with a fixed cash flow. Derivatives are revalued to fair value at the end of each reporting period.

(ii) Credit risk

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

Under the terms of the Whole Business Securitisation agreement, counterparties to the Company's short-term investments and

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

The Company has a statutory obligation to provide water and sewerage services to customers within its region. Due to the large area served by the Company and the significant number of household and business customers within this area, there is considered to be no concentration of trade receivables credit risk; however, the Company's credit control policies and procedures are in place to minimise the risk of bad debt arising from its trade receivables. Amounts provided against trade receivables and movements in the provision in the year are disclosed in note 15.

(iii) Liquidity risk

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

Details of the Company's borrowings and other financial instruments are disclosed in note 18 and 19, respectively.

Actuarial risk management

The defined benefit pension schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk. Details of these risks are disclosed in note 23.

The trustees have taken a number of steps to control the level of investment risk within the schemes over the last year, including reducing the schemes' exposures to higher risk assets and increasing the level of protection against adverse movements in interest rates and inflation. The trustees of both schemes continue to review the risk exposures in light of the longer term objectives of the respective schemes.

Viability statement

The Directors have assessed the viability of the Company over a three year period to 31 March 2019. In making this assessment, the Directors have considered the current position of the Company, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and ability to maintain a strong investment grade credit rating whilst having regard to the principal risks and uncertainties as described on pages 36 to 41.

As part of the Company's recurring Price Review process, five year Company Business Plans ("CBP's") are developed, the latest of

which covers the five year period ending 31 March 2020. As part of the Company's financial resilience assessment, management has designed a number of 'stress tests' which subject the Company's existing model, that underlies the Company's planning processes, to a number of different scenarios and tests its sensitivity to these. The stress tests consider factors of which the likelihood of them occurring, either individually or in combination, is less than remote. These include:

- fluctuations in interest rates
- fluctuations in inflation rates
- increase in operating expenditure
- inability to secure new finance and/or delays in raising finance
- unforeseen maintenance and capital expenditure

Management have prepared a detailed methodology statement that sets out the approach taken to assessing the long-term viability of the Company, which details the variables tested and their affect on the financial covenants of the Company. Taking account of the range of scenarios considered, the Directors believe that the Company has sufficient mitigating actions to address the particular circumstances and events identified should they arise.

The Directors consider that a three year period is reasonable given the nature of the industry in which the Company operates and to more closely align with the regulatory planning process given the changes in the regulatory framework that are being proposed.

Taking into account the Company's current position and its principal risks, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the next three years.

Relationship with Bazalgette Tunnel Limited

From 2016/17, we will begin to collect revenue on behalf of BTL. As the cash is collected, we will pass it over to BTL. This non-appointed revenue will be excluded from our key performance indicators which is consistent with our banking covenants.

The cash collected and paid over to BTL during the period of construction will represent a prepayment for the use of the tunnel once the project is complete. As a result of this unique arrangement and the resultant accounting treatment, the Company's revenue will increase and during the construction of the Tunnel there will be no associated costs reflected in the Company's income statement. This will increase the Company's profits during the construction phase (2016-2022) but such profits will not be supported by cash. The Directors will ensure that the underlying results of the Company are reported and not distorted by the accounting arrangements.

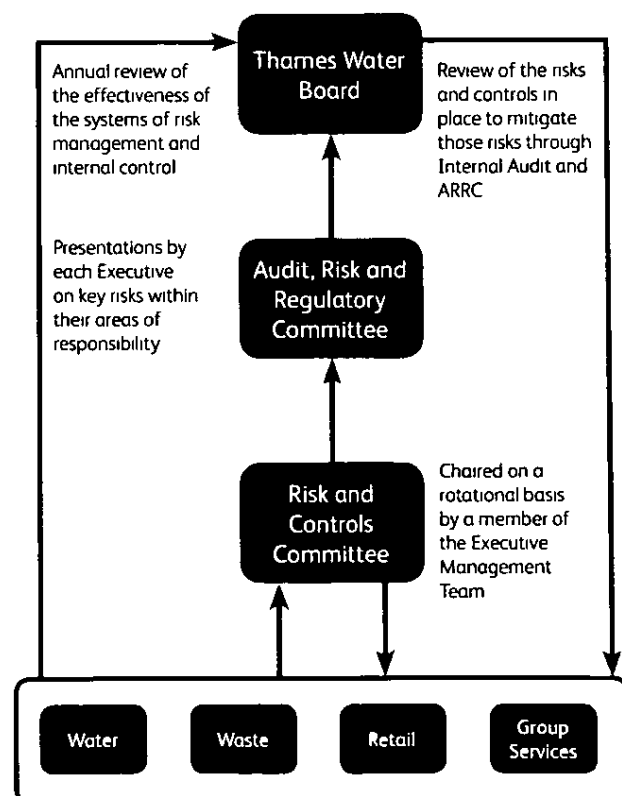
Principal risks and uncertainties

Managing the risks that could prevent the achievement of the Company's objectives is a core element of our day-to-day business activities. This is undertaken using a practical and flexible framework which provides a consistent and sustained approach to risk evaluation. The Company's approach reflects its status as a regulated utility providing essential services and operating as part of the Critical National Infrastructure for the UK.

The risk management framework

Under the framework responsibility for effectiveness of the Group's risk management policy sits with the Board, with oversight on behalf of the Board performed by the Audit Risk & Regulatory Committee ("ARRC") and the Executive. In addition the Risk & Controls Committee ("R&CC"), an Executive sub-committee is responsible for regular oversight and monitoring of key risks, opportunities and related controls. Thames has also established a Security Board chaired by the CEO to have further oversight in respect of threats and risks to our systems (cyber-attacks), data protection, our people and security of our key assets.

The principal, key corporate risks are reported to the Board each month and reviewed in detail by the ARRC each quarter.



Approach to risk management

The systems of internal control and risk management are designed to manage rather than eliminate the risk of failure to meet business objectives and can only provide reasonable not absolute assurance against material misstatement or loss

Risk owners throughout the business identify and assess risks and carry out risk mitigation actions. In doing so, they are supported and challenged by the Risk and Controls Committee. As part of a continuous improvement approach, this year the levels of integration and performance in the enterprise risk management processes have been enhanced. This includes implementation of a corporate risk management tool, a new risk and controls policy and

revised processes. The risk management process covers strategic, legal and regulatory, financial and operational risks, all linked to the corporate objectives. Assessment of risk considers the likelihood of the risk materialising and the potential impact it might have. This enables implementation of effective controls to manage risks and consider further mitigation plans where necessary.

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

Legal and regulatory environment

Risk description	Risk impact	What we are doing to manage the risk
Failure to adapt to changes in the regulatory landscape due to the introduction of competition	<p>The Water Act (2014) will enable non household customers to choose their retail provider for water and sewerage services in England from April 2017. To facilitate the new market, Ofwat has set separate price controls for retail and wholesale activities.</p> <p>If the Company fails to make adequate preparations to operate in the new marketplace it could face challenges which could lead to a financial penalty and reputational damage.</p>	<p>Compliance with regulatory obligations and competition law remain key areas of focus and the Company is working closely with Ofwat and the Market Operator Services Limited (MOSL) to prepare the business for these changes.</p> <p>The Company has a business transformation programme in place that is intended to meet all open market requirements on 1 April 2017.</p> <p>As part of the market readiness programme the Company is required to submit 'Assurance Letters' to the Regulator at specified intervals between now and market opening in April 2017. An Assurance Plan has been developed that includes external assurance and the first letter was submitted in February 2016.</p>
Failure to comply with key regulation and legislation	<p>TWUL is a highly regulated business with defined requirements from three main regulators: Ofwat, the Environment Agency and the Drinking Water Inspectorate as well as legal obligations. Any non-compliance with applicable laws and regulations could result in prosecution, financial penalties and fines, or in a worst case scenario loss of the Company's operating licence.</p>	<p>The Company has a clear understanding of regulatory and key legal obligations. Compliance with legislation is monitored through internal audit and assurance programmes. Legislative compliance also features strongly in the annual control self-certification process.</p> <p>The legal team continues to monitor new and changing legislation and training is provided throughout the Company for key legislation.</p>

Customer Service

Risk description	Risk impact	What we are doing to manage the risk
Failure to improve and maintain service levels	<p>Customers and stakeholders will become dissatisfied if TWUL is unable to deliver the level of service expected</p> <p>In the period 2015-2020 Outcome Delivery Incentives ("ODIs") have been introduced. Performance is linked to financial penalty or reward in some cases.</p> <p>Some of the largest potential penalties the Company may incur are attached to the service incentive mechanism ("SIM"), used by Ofwat to assess the company's relative customer service performance. Other key areas of focus are leakage, supply interruptions or incidences of low pressure caused by a lack of asset or system resilience, sewer flooding and sewage treatment works compliance.</p>	<p>Focus in 2015/16 has been on improving interaction with customers and resolving issues as quickly as possible. This has yielded positive results in 2015/16 but the Company recognises that it has much to do to meet stakeholders increasing expectations.</p> <p>The Company manages incidents and events that do arise through Executive led response teams to minimise the impact to customers and to the environment.</p> <p>To improve the levels of service delivered to our customers in the future the company is</p> <ul style="list-style-type: none"> investing in new technology for our customers, (a new website and updated online account management system) and implementing a new billing system which will improve the management of the relationship with non household customers via our frontline employees the full benefits of the new technology will be seen from 2017/18 onwards. Benefits seen in 2016/17 will be improvements to underlying processes made throughout the design, build and implementation phases.

Operations, Assets and People

Risk description	Risk impact	What we are doing to manage the risk
Inability to economically and efficiently deliver services and capital projects through Alliance partnerships	The Company has a capital investment programme of £4.5 billion to deliver between 2015 and 2020. Failure to deliver the capital programme to time, cost and quality measures could result in us failing to achieve operating performance, efficiency and cost benefits as well as increased delivery costs or a failure to meet obligations.	The Company has established Alliance partnerships with market leading organisations to provide a collaborative approach to proactively manage delivery, mitigate risk and achieve business benefit across services. The business is focused on delivering a range of projects that should reduce Totex on a sustainable basis.
Inability to provide water or treat waste due to failure of key assets and/or processes	<p>The provision of safe and reliable water and wastewater services are essential to maintain public health and protect the environment.</p> <p>A failure at one of the Company's major assets could significantly impact the safety of the workforce and the public, as well as interrupting supply to customers and breaching environmental and regulatory targets.</p> <p>Within the PR 14 Final Determination the waste infrastructure below ground assets were classified as deteriorating. 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>The business plan for 2015-2020 includes an investment programme aimed at maintaining/improving the resilience of the network and operational sites in order to reduce the risk of failure and incidents.</p> <p>The Company is building new intelligent tools in order to give it improved insight into how assets are performing so the Company can act before failure.</p>
The environments in which the Company operates and the work it undertakes exposes the workforce, business partners and the community to hazards that could harm their health, safety and wellbeing	<p>The health, safety and wellbeing of employees, partners, and the public are the priority. The Company has a zero tolerance approach: zero harm, zero incidents and zero compromise.</p> <p>Failure to comply with company policies and procedures could result in serious injury or loss of life which would have tragic implications for individuals and their families and communities.</p> <p>This could also result in prosecution under the Health & Safety at Work Act and/or the Corporate Manslaughter Act.</p>	<p>The Company has developed a strong safety culture, with a clearly defined strategy, safety protocols and standards that are set, monitored and reported to the Board and the Executive.</p> <p>The Company works closely with partners and suppliers to ensure it operates in a safe environment and continues to introduce initiatives based on emerging risk areas to reinforce its targets of zero harm, zero incidents and zero compromise.</p> <p>Some of the initiatives the Company has introduced in 2015/16 include:</p> <ul style="list-style-type: none"> • implementation of the AMP6 health and safety engagement strategy across the supply chain • the introduction of the Institute of Occupational Safety and Health managing safety course for all supervisors • a revised drug and alcohol policy, mobile phone use policy, personal protective equipment standards implemented across Thames Water and contractors, and • the introduction of animated incident learning to provide a visual understanding of incidents and what's being done differently.
Loss of data or interruptions to key business systems	<p>The volume and complexity of cyber security threats are increasing and constantly evolving. The Company takes security seriously and considers it a high priority to protect the systems used to hold and process data.</p> <p>Loss or misuse of data could result in breaches of legislation, including, but not limited to, data protection legislation or the payment card industry data security standards (PCI-DSS) standards, which could have an adverse impact on operational assets, and/or lead to significant fines and damage to the reputation of the Company.</p>	<p>The Company has used industry experts to review the level of maturity in this area and to benchmark the security framework. The Company is developing a Cyber Security Improvement Programme designed to improve the IT and physical security controls and has established a Thames Water Security Board chaired by the Chief Executive Officer.</p> <p>An extensive cyber security awareness programme for employees and the supply chain is underway. Employees and key contractors undergo mandatory cyber security awareness and data protection training.</p>

Financing the business

Risk description	Risk impact	What we are doing to manage the risk
<p>Inability to finance the company and maintain target credit ratings</p> <p>TWUL is subject to a financial covenant that requires at each periodic review, TWUL to apply to Ofwat for a price determination which in the reasonable opinion of the TWUL directors would allow at a minimum, a credit rating the same as the original credit rating at the establishment of the securitisation (A3/BBB+)</p>	<p>TWUL has a debt funding requirement of c £3.5bn in AMP6 (2015 - 2020)</p> <p>Changes in interest rates, or the lack of available credit or a fall in credit ratings could put at risk the Company's ability to efficiently finance the investment programme, or finance debt maturities when they become due</p> <p>An increase in the cost of funding may put pressure on key financial covenants and potentially lead to restricted dividend payments</p> <p>Poor operational/financial performance could lead to a downgrade in ratings</p>	<p>TWUL's capital structure and ability to source debt funding is underpinned by a focus on the maintenance of strong investment grade credit ratings. The funding strategy is resilient and approved by the Board annually. This includes funding and risk management strategy including management of refinancing risk, counterparty risk and interest rate risk. TWUL has an established Treasury function that manages these complex arrangements.</p> <p>The Company is funded predominantly by debt in the form of long-term bonds and loans, predominantly in fixed or RPI-linked form, diversified by source and maturity.</p> <p>Focus is on maintaining stable credit ratings and a strong liquidity and cash position which includes a 5 year revolving credit facility of £950m (currently undrawn).</p> <p>Moody's credit rating agency has affirmed the credit ratings of TWUL and moved all ratings to stable outlook. The Company remains on negative outlook with S&P. The agency will undertake a review at the end of the financial year 2015/16 with a focus on operational performance, SIM and customer service performance, bad debt and key financial ratios.</p> <p>The Company monitors and forecasts key financial covenants and aims to ensure that adequate headroom for uncertainties is available.</p>
<p>Inflation rates</p>	<p>Water companies earn a return on their RCV, which is adjusted by the 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 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 Company's debt is linked to RPI.</p> <p>The Company maintains headroom versus key financial covenants in order to manage such risk. The Company forecasts covenant headroom to the end of the regulatory period on a monthly basis.</p>

Inability to fund pension commitments

Changing demographics and fluctuations in investment markets affect funding requirements for pension commitments. The deficit on the defined benefit schemes as at 31 March 2016 was £260m. The 2016 valuation is underway.

In recent years the Company has reduced benefits available and kept the affordability of pension schemes under review. It has agreed a pensions strategy aimed at fully reducing the pensions deficit by 2025 and containing future pension costs. The strategy and associated mitigating action plans will be monitored and investment performance will be kept under review to ensure the schemes are managed effectively and remain sustainable.

High levels of bad debt which cannot be recovered needs to be written off. The law prohibits the disconnection of a water supply from certain premises including domestic dwellings as a method of enforcing payment.

High customer debt levels continue to be an issue for the Company. The area in which the Company operates covers London and the Thames Valley where the proportion of people in rented accommodation is higher than other parts of the UK. This, the Company believes increases revenue loss due to non-payment of debt, which places an additional burden on those who do pay. The bad debt percentage for 2015/16 is 3.2% (2014/15 3.6%). Failure to adequately manage cash collection processes has a detrimental impact on the Company results.

The Company is transforming its credit management arrangements. The Company has

- invested in a new debt management system,
- improved the quality of data and established new data sources,
- invested in staff training. This has led to better identification of, and support for, those customers who want to pay the bills but find they are unable to do so, and
- put in place a new strategy for collection through debt collection agencies and increased litigation where necessary.

The Company is implementing a new customer relationship management and billing system.

O Corp Gover

ur orate nance

Chairman's introduction



Following on from the review of corporate governance that took place in March 2015 which resulted in a number of changes to the Board and its Committees, this year has been one of stability for the Board and focus has been on the continuous development of good governance across the organisation. This includes ensuring that the Company not only adheres to, but takes a lead on, good health and safety practice, that sound financial controls and regulatory monitoring are in place and that the Company continues to ensure that the Customer is always at the heart of everything we do.

There have been two changes to the composition of the Board over the past year. Chris Heathcote departed in June 2015 to be replaced by Mark Braithwaite. Mark brings extensive experience to the Board and as a past CFO of the Company is well placed to help guide the Company forward. We also announced the appointment of the Company's Strategy and Regulation Director, Nick Fincham, to the Board in April 2016. Nick has been a highly effective member of the Executive Team over the past five years including leading the way in the last regulatory price review, and we are delighted to welcome him to the Board.

The Board believes that high standards of corporate governance are integral to its relationship with stakeholders and to the delivery

of the Company's strategic aims. The Board considers that the Company has complied with the provisions and practice of the UK Corporate Governance Code where possible with the exception of those provisions which are explained on page 51 in line with the 'Comply or Explain' principle. The Board also ensures that the Company's governance processes align with Ofwat's Principles of Board Leadership, Transparency and Governance.

Throughout the year the Board has visited key operational sites across the organisation, such as Beckton Sewage Treatment Works, our Customer Operations Centres in Reading and Swindon, and to the operations of one of our key business partners, Lanes for Drains. This has provided the Board members with valuable insights into the day to day workings of the Company and its partners, its culture and the demonstration of its core values across all areas of the organisation.

As part of the Company's continuing commitment to good governance, an independent external review of both the Board as a whole and of individual performance by its members, was conducted in December 2015. The 'Board Evaluation' section on page 54 provides further details of the review and its findings, with key areas of focus for 2016/17 including succession planning, an induction programme for new directors and building on the



Company's existing efforts to ensure that the Board visits a range of operational sites across the business

Following on from the decision by the Company's Chief Executive Officer, Martin Baggs, to step down in 2016, the Nominations Committee conducted a thorough search for his successor. In May 2016 the Company announced that Steve Robertson had been recruited to be Thames Water's new Chief Executive Officer, and will join the Company in early September 2016.

The Nominations Committee will shortly commence the search for a replacement for the Company's Senior Independent Director and Chair of the Audit, Risk and Regulatory Committee, Michael Pavia, who will step down from the Board after ten years as a director of the Company once a new Independent Non-Executive Director has been appointed. Following the decision by the Company's CFO Stuart Siddall, to retire at the end of 2016, the Committee will also commence the search for his successor.

I would personally like to thank Martin, Stuart and Michael for their contributions to the Company and to wish them well for the future.

Looking forward, the introduction of competition to areas of the Retail sector in 2017 will provide a key area of focus for the Board and its Committees. The provision of quality customer service remains a primary objective and we will continue to focus our efforts on this during 2016 and beyond.

Sir Peter Mason
Chairman

Our corporate governance

Chairman's introduction	44
The Directors and Executive team	46
Corporate Governance report	51
Remuneration Committee report	58
Nominations Committee report	76
Audit, Risk and Regulatory Committee report	78
Customer Service Committee report	84
Directors' report	86

Meet our Directors



Sir Peter Mason KBE

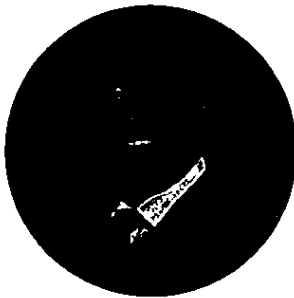
Chairman (69)

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

Sir Peter was the senior Non Executive Director of BAE Systems plc until May 2013 and until October 2008 was a Board member of the 2012 Olympic Delivery Authority. He is currently a Non Executive member of the Board of Spie S.A., senior Independent director of Subsea 7 S.A. and Chairman of AGS Airports Limited.

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

Executive Directors



Martin Baggs

Chief Executive Officer (51)

Martin became CEO of Thames Water Utilities Limited in March 2010 having been a Non Executive Director since 2006.

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

Martin is a Chartered Civil Engineer, a Fellow of the Institution of Civil Engineers and a member of the Worshipful Company of Water Conservators. He is a Director of Water UK and Vice-President of the Institute of Water.

Martin has announced his decision to step down as CEO of Thames Water Utilities Limited in 2016.



Stuart Siddall

Chief Financial Officer (63)

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

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

Stuart has announced his decision to retire at the end of 2016.



Nick Fincham

Strategy and Regulation Director (45)

Nick was appointed to the Thames Water Utilities Limited Board in April 2016. Since April 2011 Nick has been a member of the Company's Executive Committee as Director of Strategy and Regulation. In this role he successfully oversaw the Company's business planning for the PR14 price control review ensuring that it was focused on the needs of the customer.

Before joining Thames Water, Nick spent six years as Director of Economic Regulation and Competition Policy at the Civil Aviation Authority.

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

Appointed Non-Executive Directors



Mark Braithwaite

Non Executive Director (50)

Mark Braithwaite joined Thames Water Utilities Limited as a Non Executive Director in June 2015. Mark is Head of Utilities and Networks for Macquarie Infrastructure and Real Assets (MIRA) in Europe. Mark joined MIRA in 2011 having previously been Chief Financial Officer of Thames Water Utilities Limited. Prior to joining Thames Water, Mark was Finance Director of the customer and energy divisions at EDF Energy plc and before that held a number of Senior Finance positions at Seeboard plc.

Mark is a Non Executive Director of Arqiva, Viesgo, Czech Gas Networks and Techem.

Mark is a trustee of Leadership through Sport & Business, a UK social mobility and employability charity.

He is a fellow of the Institute of Chartered Accountants in England and Wales and a Member of the Association of Corporate Treasurers.



Christopher Deacon

Non Executive Director (68)

Christopher became a Non Executive Director of Thames Water Utilities Limited in December 2006. He is an independent infrastructure and project finance consultant, adviser to OFGEM and a Non Executive Director of various companies in the infrastructure and PPP market place.

His career in banking and structured/infrastructure finance has spanned over 20 years acting as adviser and banker in major infrastructure and project financings around the world. He has acted as a consultant on large infrastructure projects both in the public and private sectors, with assignments including Eurotunnel, Channel Tunnel Rail Link, Tube PPP, and other transport infrastructure projects.

Christopher is a director of the trading company of London Business School and a past School Governor. He is Treasurer/Trustee of the Franco British Council UK Section.



Nick Horler

Non Executive Director (57)

Nick Horler was appointed as a Non Executive Director of Thames Water Utilities Limited in April 2014. He has been a member of the Board of the Royal Mail since 2010 and a member of the Board of the Go Ahead Group since 2011. He is Chair of Alderney Renewable Energy and Chair of Meter Provida Ltd and became Chair of Adler & Allan in March 2015. He was Chair of the Advisory Board of KPMG's Energy and Natural Resources practice from 2011-2014.

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



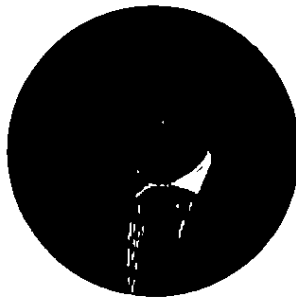
Guy Lambert

Non-Executive Director (39)

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

Guy is responsible for sourcing and executing new investments in the utilities sector and overseeing the existing utilities portfolio. Guy's previous roles include Corporate Finance and Advisory Manager at Macquarie Capital London and Corporate Finance and Advisory Analyst at Dresdner Kleinwort Wasserstein.

Guy has an MSc in Economics from Erasmus University in Rotterdam, Netherlands.



Dipesh Shah OBE, FRSA

Non Executive Director (63)

Dipesh became a Non Executive Director of Thames Water Utilities Limited in October 2007. He is a Non Executive Director on the Boards of Cannacord Genuity Group Inc, the Crown Estate, Cavendish Fluor Partnership and the EU Marguerite Fund where he is Chairman of the Investment Committee. He is Trustee of the British Youth Opera, Governor of Merchant Taylors' School and Chairman of ANHD International Advisory Services Ltd.

Dipesh was the Chief Executive of the UK Atomic Energy Authority and of various large businesses in the BP Group. He was a Non Executive Director of Babcock International Group plc, Lloyd's of London and JXO Oil & Gas Plc. He was Chairman of Vinidian Group plc, HgCapital Renewable Power Partners LLP and the European Photovoltaic Industry Association and was a member of the Government's Renewable Energy Advisory Committee from 1994 to 2002.

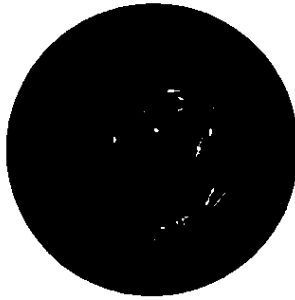
Independent Non-Executive Directors



Michael Pavia

Senior Independent Non Executive Director (69)

Michael became a Non Executive Director of Thames Water Utilities Limited in December 2006 and was appointed as Senior Independent Non Executive Director in June 2013. Michael is a Fellow of the Institute of Chartered Accountants in England and Wales and he brings extensive experience in management of regulated businesses. Michael was previously Group Finance Director of Seaboard group, Chief Financial Officer of the London Electricity Group (EDF Energy Group) and a Non Executive Director of Salamander Energy plc. He is currently a Non Executive Director of Telecom Plus plc, Wales & West Utilities Limited and Chairman of their audit committees. He is Non-Executive Chairman and a founder shareholder of PetroGranada Ltd, an oil exploration company. Michael will step down as a Director of the Company in 2016.



Dame Deirdre Hutton DBE

Independent Non-Executive Director (67)

Dame Deirdre was appointed as an Independent Non Executive Director of Thames Water Utilities Limited in July 2010 and is the Chair of the Company's Customer Service Committee. She is Chair of the Civil Aviation Authority, Pro Chancellor of Cranfield University and was a Non Executive Director of Castle Trust until March 2016.

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



Lorraine Baldry OBE

Independent Non Executive Director (67)

Lorraine was appointed as an Independent Non Executive Director of Thames Water Utilities Limited in September 2014. She is Chairman of London & Continental Railways, Schroder Real Estate Investment Trust Limited, Inventa Partners Limited and Tri Air Developments Limited and is the Senior Independent Director of Cirde Holdings plc. She is a Governor at the University of the Arts, London.

Lorraine was Chief Executive of Chesterton International plc and prior to that held various senior positions at Prudential Corporation, Morgan Stanley and Regus. She is a former Chairman of London Thames Gateway Development Corporation and Central London Partnership and was a Non-Executive Director of St Ives plc and DTZ Holdings plc. Lorraine was a Board Member of the Olympic Delivery Authority.

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



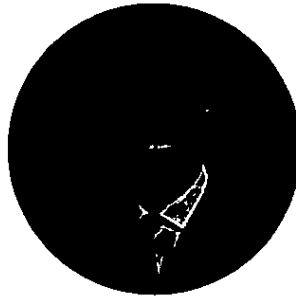
Ian Pearson

Independent Non-Executive Director (57)

Ian Pearson was appointed as an Independent Non Executive Director of Thames Water Utilities Limited in September 2014. He has been Chairman of Octopus VCT2 plc for five years and is Chairman of CrowdBnk Ltd. Amongst other advisory roles he has been a member of PwC's UK Advisory Board for five years.

Ian had various roles in Government between 2001 and 2010 when he stood down as an MP. He was Economic Secretary to the Treasury between 2008 and 2010 and prior to that he had roles as Science and Innovation Minister, Minister for Climate Change and the Environment, Minister for Trade, and as a Minister in Northern Ireland.

Ian studied PPE at Balliol College, Oxford before gaining a Masters and Doctorate at the University of Warwick.



Ed Richards CBE

Independent Non Executive Director (50)

Ed Richards was appointed as an Independent Non Executive Director of Thames Water Utilities Limited in July 2010. He was Chief Executive of Ofcom until December 2014, having previously been the Chief Operating Officer. He was a senior policy advisor to the Prime Minister for media, telecoms, the internet and e-Government and Controller of Corporate Strategy at the BBC. He has worked in consulting at London Economics Ltd as an advisor to Gordon Brown MP and began his career as a researcher with Diverse Production Ltd where he worked on programmes for Channel 4. He was previously a Vice Chairman of the Body of European Regulators for Electronic Communications (BEREC).

Ed is a Director of Donmar Warehouse and a Governor of the London School of Economics and recently formed a new company, Flint Global.

Ed was awarded the CBE for services to the communications industry in the Queen's birthday honours list in 2015.

Meet our Executive Team

Thames Water's Executive Team is responsible for the day-to-day running of the business. The Executive Team consists of the Chief Executive Officer (CEO), the Chief Financial Officer (CFO), the Strategy and Regulation Director, and seven functional directors.



Richard Aylard CVO
External Affairs and Sustainability Director

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

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



Janet Burr
Human Resources Director

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

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



Ian Cain
Managing Director, Retail

Ian joined Thames Water in November 2013, having previously held the position of Managing Director at Centrica's Credit Energy business, where he played a key role in establishing British Gas as the UK's leading energy supplier. As Managing Director for its Credit Energy business, Ian drove the improvement of service and value generation, delivering programmes to improve billing, debt management, customer service processes and sales effectiveness.

At Thames Water, Ian has responsibility for our Retail Non Household and Retail Household businesses, as well as leading the significant investment programme of both businesses to improve customer service performance.

Annual report and financial statements 2015/16
The Directors and Executive Team



Neil Clark
Chief Information Officer

Neil joined Thames Water in March 2016 having previously been the Chief Information Officer at British Airports Authority and Heathrow. Graduating with a Maths degree, Neil went on to join the graduate training scheme at British Airways where he had an extensive career in a number of leadership roles across the organisation.

Neil has over 25 years of experience in the commercial application of technology to drive business transformation in customer focused and complex operational businesses.



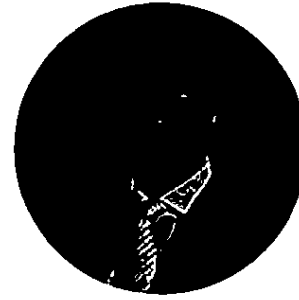
Bob Collington OBE
Managing Director, Water

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

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

Bob also serves as a Board Member for UK Water Industry Research, the independent company that facilitates research for the Water Industry in the UK.

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



Lawrence Gosden
Managing Director, Wastewater

Lawrence Gosden is the managing director of Thames Water's Waste business and was previously Thames Water's asset director, having been capital delivery director since October 2011. He joined Thames Water in October 2007 and has previously held senior positions principally in Southern Water and South East Water.

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

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



Jon Loveday
Group Commercial and Transformation Director

Jon joined Thames Water in January 2013 and was appointed to the Executive Team in January 2016. He is responsible for the Company's alliance strategy, procurement, supply chain, logistics and estates operations, as well as leading our major transformation programmes and developing future growth opportunities.

Previously, Jon worked for BT's Openreach business, where he managed the outsourced engineering contracts for the UK's superfast broadband roll-out, along with the inventory, logistics, distribution and fleet operations for 30,000 engineers. A Chartered Surveyor, Jon spent the early part of his career successfully delivering major construction projects across London and the South East, and then 10 years leading operational businesses and national commercial roles for Morgan Sindall plc and Rok plc.

Corporate Governance report

The UK Corporate Governance Code 2014 (the "Code") applies to accounting periods beginning on or after 1 October 2014. The Board has reviewed its operations and governance framework and confirms

that as at the date of this report the Company has complied with the provisions set out within the Code, except as detailed in the tables below

<p>Provision A.3 1 requires that the Chairman should on appointment meet the independence criteria set out in B 1 1</p>	<p>The Chairman is considered by the Board to be independent but in terms of provision B 1 1 of the Code was not considered independent on appointment as he was appointed by the shareholders of Kemble Water Holdings Limited</p>
<p>Provision B 1 2 requires that at least half the Board, excluding the Chairman, should comprise non-executive directors determined to be independent.</p>	<p>In accordance with the Ofwat corporate governance principles, though not the Code provision, the Independent Non Executive Directors including the Chairman, represent the largest single group on the Board</p> <p>The Board considers that the balance of half of the Non-Executive Directors being independent (as defined under the provisions of the Code) provides sufficient balance to ensure that the Board operates in a fair and transparent manner</p>
<p>Provision B2 1 requires that the Company establish a nominations Committee comprising a majority of independent Non-Executive Directors</p>	<p>The composition of the Nominations Committee comprises four Non-Executive Directors, of whom two are considered to be independent under provision B 1 1 of the Code and the company Chairman</p> <p>The Committee is chaired by the company Chairman, who is considered by the Board to be independent but in terms of provision B 1 1 of the Code was not considered independent on appointment (see Provision A.3 1, above)</p>
<p>Provision D 2 1 requires that the Company establish a remuneration Committee comprising at least three independent non executive directors</p> <p>In addition, the company Chairman may also be a member of but not chair, the Committee if he or she was considered independent on appointment as Chairman</p>	<p>The composition of the Remuneration Committee comprises four Non Executive Directors, of whom two are considered to be independent under provision B 1 1 of the Code, and the company Chairman</p> <p>The Committee is chaired by the company Chairman who is considered by the Board to be independent but in terms of provision B 1 1 of the Code was not considered independent on appointment (see Provision A.3 1 above)</p>

Ofwat Principles of Board Leadership, Transparency and Governance

Ofwat's 'Board Leadership Transparency and Governance – Principles' were published in January 2014 and, following consultation with shareholders, the Board approved a revised governance framework in order to comply with Ofwat's principles, which was implemented in March 2015

As part of its principles Ofwat considers that the Disclosure and Transparency Rules ("DTR") set out the standard of disclosure that regulated companies should operate, whether they be publicly or privately owned. The Company endeavours, where applicable, to comply with DTR

Leadership

Role of the Board

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

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

The SoDA also contains matters specifically reserved to the Kemble Water Holdings Limited Board for approval. These include approval of annual budgets, financial plans, financial statements, material transactions, such as major acquisitions, divestments, funding and investment proposals and certain strategic decisions. During the year the Kemble Water Holdings Limited Board accepted all recommendations from the Board on reserved matters.

The Board held three strategy days during 2015/16 to facilitate in-depth discussions on matters such as competition in the retail non-household sector, Water 2020 and the Company Business Plan 2015-2020. In addition to its formal reviews, informal discussions were held on subjects including the Company's strategies for water and waste, bad debt and its pension strategy.

Throughout the year a number of Board and Committee meetings were held at key sites across the business and members received first-hand experience of operations such as Customer Service, Health and Safety initiatives, new technology and the work undertaken by key business partners.

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

Division of responsibilities

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

The Chairman is responsible for leading the Board, ensuring its effectiveness, setting the agenda and ensuring effective dialogue with the Company's shareholders. In addition, he is responsible for ensuring that the Board receives accurate, timely and clear information and that constructive relations exist between Executive and Non-Executive Directors. The Chairman is also responsible for leading the effectiveness review of the Board, the most recent of which was conducted in December 2015. The Chairman maintains a dialogue with the Board outside of the scheduled Board meetings in order to keep them apprised of any matters of interest, and to ensure that any training requirements are duly arranged.

The Chairman is considered by the Board to be independent but in terms of provision B.1.1 of the Code was not considered independent on appointment as he was appointed by the shareholders of Kemble Water Holdings Limited. He is also Chair of the AGS Group, which is jointly managed by Macquarie Infrastructure and Real Assets and Ferrovial, with each party controlling 50%. Kemble Water International Holdings Limited is the major shareholder of Kemble Water Holdings Limited, and is in turn owned by various entities managed and/or advised by Macquarie.

Following the revised governance arrangements that were implemented in March 2015, Sir Peter remains Chairman of both Boards. The Boards of both Thames Water Utilities Limited and Kemble Water Holdings Limited consider that the appointment of Sir Peter Mason as Chairman of both companies does not present a conflict of interest in light of the purpose of Kemble Water Holdings Limited, which acts as a holding company for the regulated entity, Thames Water Utilities Limited.

The process to appoint the Chair is the responsibility of the Nominations Committee, and the existing Chair will be required to recuse himself from this process if he is a member of the Nominations Committee.

The Chief Executive Officer is responsible for the leadership and operational management of the Company within the agreed strategy and business plan. He is supported by the Chief Financial Officer, the Strategy and Regulation Director and seven functional directors (together, the "Executive Team"). During the year, none of the functional directors were members of the Board. Biographies for the Executive Team can be found on pages 46 and 49 to 50.

Composition of the Board

The Board is chaired by Sir Peter Mason and at the date of this report there were three Executive Directors (Chief Executive Officer, Chief Financial Officer and Strategy and Regulation Director), five Non-Executive Directors and five Independent Non-Executive Directors.

Non-Executive Directors

The Board considers that the Independent Non-Executive Directors all meet the independence criteria set out in provision B.1.1 of the Code, that they are independent in character and judgement and is satisfied that there are not any relationships or circumstances which are likely to affect, or could appear to affect, the director's independence.

Five Non-Executive Directors are nominated and appointed by the shareholders of Kemble Water Holdings Limited and are therefore not classified as Independent Non-Executive Directors.

Michael Pavia is the Senior Independent Director and is available to all stakeholders to answer any queries that cannot be addressed by the Chairman or other Executive Directors. He is also available to chair the Board and Committee meetings should the Chairman or Committee Chairman be unable to attend. During the year, Michael led the process to appraise the performance of the Chairman, further details of which are provided on page 54. Michael will step down as a Director of the Company in 2016 following the appointment of a new Independent Non-Executive Director.

The Articles of Association of the Company allow the Board to authorise conflicts, or potential conflicts, of interest. Directors are required to advise the Company Secretary of any actual or potential conflicts as soon as they arise so that they can be considered by the Board at the next available opportunity. Any director with a potential conflict of interest in relation to a specific matter under consideration by the Board or one of its Committees is required to recuse him/herself from the relevant meeting while this item is under discussion and may not participate in any vote on the matter. It is the Board's view that this procedure operated effectively during the year under review.

Changes to the Board

The appointments and resignations during and subsequent to the financial year are as follows:

- Chris Heathcote resigned 12 June 2015
- Mark Braithwaite appointed 16 June 2015
- Nick Fincham appointed 1 April 2016

Following his resignation from the Board in June 2015 the Company wishes to express its thanks to Chris Heathcote for his valued contribution to the Board during his time as a Non-Executive Director of Thames Water.

Following the announcement by the CEO Martin Baggs of his intention to step down in 2016 the Board commenced its search for his replacement. The recruitment process was led by the Chairman and the Nominations Committee on behalf of the Board with the assistance of the external search agency, Korn Ferry. In May 2016 the Company announced the appointment of Steve Robertson as the new CEO. Steve will join the Company in early September 2016.

The Board will shortly instigate a search for a new Independent Non-Executive Director to replace the outgoing Senior Independent Non-Executive Director Michael Pavia. The search will be led by the Chairman and the Nominations Committee with the assistance of the search agency Egon Zehnder.

The Board will also commence the process to replace the Company's CFO, Stuart Siddall, following his decision to retire at the end of 2016. Stuart will work alongside the Company's new CEO, Steve Robertson until the end of the year and will then retire.

The Independent Non-Executive Directors are appointed for three year terms. Details of Directors' contracts can be found in the Remuneration Report on pages 58 to 75. All Non-Executive Directors are now subject to annual re-election.

As a matter of good governance all Directors are required to disclose their other significant commitments to the Board. Neither the CEO nor the CFO acts for any FTSE company in the capacity of a Non-Executive Director or Chairman.

The Board includes two women (from a total of fourteen Directors) representing 14% of the total. Janet Burr is currently the only woman on the Executive Team from a total of ten members. The Company operates a formal equal opportunities, diversity and inclusion policy to which all employees are required to adhere and is continuing to focus on delivering improvements in this area.

A company-wide compliance programme is underway to ensure compliance with the provisions of the Modern Slavery Act 2015 and to demonstrate our commitment to eradicating slavery, forced labour or human trafficking within our organisation and supply chain. The Company will publish a statement in accordance with the Act during the summer of 2016.

Development

There is a compulsory induction programme for newly appointed Directors, designed to develop Directors' knowledge and understanding of the Company's operations and culture and includes meetings with the Executive Directors along with other members of the Executive Team and Company Secretary. The programme provides an overview of the financial and operational performance of the Company, the regulatory framework along with commercial and customer service perspectives.

Mark Braithwaite was the only new appointment to the Board during the financial year and brought with him a wealth of experience due to his position as a representative of the Company's major investor and as a former CFO of the Company. Induction training became mandatory from 1 April 2015 and therefore following his appointment Mark attended a series of meetings and presentations with senior management as part of his induction process.

Continuous training is provided for Directors during the year by way of site visits, presentations and circulated updates. During 2015/16, guidance was provided to the Board on topics including:

- competition in the Retail Non Household sector – preparing for the introduction of Competition in 2017
- Water 2020 – a review of the regulatory framework for wholesale markets and the 2019 price review
- pensions strategy - a review of the key issues, risks and opportunities relating to the pension schemes operated by Thames Water
- Customer Relationship Management and Billing system – the business case for the implementation of a new system

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

Information and support

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

Directors have access to independent professional advice at the Company's expense. In addition, the Company Secretary is available to advise on corporate governance matters to ensure that the Company and the Board operate within applicable legislation, rules and regulations. The Company Secretary will also ensure that any concerns that are raised by the directors are recorded clearly in the board minutes. The appointment and removal of the Company Secretary is a matter requiring approval from the Board.

Board evaluation

An externally facilitated Board evaluation is conducted every three years as required by the Code, with reviews between conducted internally by the Company Secretary. A detailed evaluation of the Thames Water Utilities Limited Board was conducted by Egon Zehnder in December 2015. During the year Egon Zehnder was also appointed to undertake the search for a new Senior Independent Director and Chair of the Audit, Risk and Regulatory Committee and the Board is satisfied that no conflict of interest has arisen as a result of their appointment for both matters.

This year's review also included a comprehensive approach with a team effectiveness review as well as an assessment of the skills/diversity audit both around the Board table and relative to the peer group. The process was conducted by a combination of structured questionnaires which reflected Ofwat's governance principles and individual interviews. The principal conclusions of the evaluation were presented to the Board at its April 2016 meeting.

The review concluded that the Board was operating effectively and in an open and transparent manner, particularly in light of the significant structural change to the Board that had taken place. All Non-Executive Directors were found to contribute fully and effectively to the Board as a whole. The performance of the individual Board committees was also evaluated. It was found that all of the Committees functioned well and that each had an effective Chair. The Audit, Risk and Regulatory Committee, which had been formed by combining the Audit and Risk Review Committee and the Regulatory Committee was felt to be working well but would be reviewed again after twelve months to ensure that its performance remained effective in light of the volume of information under consideration.

A number of recommendations were made following the review and these are being addressed, led by the Chairman. They include the improvement of the process for and the depth of succession planning which is being taken forward by the Nominations Committee (see report on pages 76-77), an improvement in the induction process for new directors including site visits, which is being addressed by the Company Secretary, and more generally further clarification of the Board's responsibilities following the changes to the Board that were effected in March 2015 and the development of the Board's engagement with the development of the Company's strategy.

In addition, the Senior Independent Director, Michael Pava, led a separate evaluation of the performance of the Chairman. The review included consultation with Non-Executive Directors and the Executive Team, and concluded that the Chairman's leadership of the Board was thoroughly effective and consistently of a high quality and that the Chairman continued to demonstrate total commitment to the demands of the role.

Relations with shareholders

Dialogue with shareholders

The Board considers that there is sufficient dialogue with shareholders and that all shareholders are engaged on all major shareholder issues and concerns. The current structure of the Board ensures that all of the shareholders are directly represented on the Board therefore enabling a regular and open dialogue with the other Non Executive Directors.

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

Shareholders receive regular updates on the Company's performance via the monthly Management Report.

Accountability

Financial & Business Reporting

The Board is mindful of its responsibility to present a fair, balanced and understandable assessment of the Company's position and performance, business model and strategy through the production of an annual report and financial statements and the Board is satisfied that it has met this obligation. This assessment is primarily provided in the Directors' Report on pages 86 to 88. The Statement of directors' responsibilities in respect of the Company's financial statements is set out on page 88.

a) Remuneration Committee

Membership of the Committee during 2015/16 was
Sir Peter Mason (Chair)
Mark Braithwaite (appointed 16 June 2015)
Christopher Deacon
Michael Pavia
Ian Pearson

The Remuneration Committee has prepared a separate report and is presented on pages 58 to 75.

b) Nominations Committee

Membership of the Committee during 2015/16 was
Sir Peter Mason (Chair)
Mark Braithwaite (appointed 16 June 2015)
Christopher Deacon
Michael Pavia
Ian Pearson

The Nominations Committee has prepared a separate report and is presented on pages 76 to 77.

Board Committees

Throughout the financial year 2015/16 Thames Water had four standing committees each of which is described in more detail in individual reports on pages 58 to 85. In addition, the Thames Tideway Tunnel Committee was disbanded in November 2015, following transfer of responsibility for the project to Bazalgette Tunnel Limited.

The workload of the committees includes the scheduled meetings during the year in addition to any ad hoc meetings, workshops and written updates, frequently requiring considerable amounts of time. All Directors are routinely invited to attend board committee meetings in addition to the nominated committee members.

Health, Safety and Environment ("HSE") matters are considered in detail by the Executive Health, Safety and Environment Committee, which is chaired by the CEO and which meets on a quarterly basis. In addition, HSE matters are a standing item for discussion at monthly Executive Committee meetings. Detailed reports are provided to the Board of Directors at every scheduled Board meeting. Further details of the Company's HSE policy and progress during the year can be found on pages 14 to 15.

Each of the committees has terms of reference which have been approved by the Board. These were reviewed during 2015/16 as part of the corporate governance programme and with reference to the ongoing review of the Shareholder Agreement by the Company's shareholders. The chairs of each of the committees provide updates to the Board on the work of their respective committees at each Board meeting. Minutes of the committee meetings are available to all Directors. Membership of each of the committees is detailed below. Attendance by committee members at the relevant meetings is set out in the Attendance Table on page 57.

c) Audit, Risk and Regulatory Committee

Membership of the Committee during 2015/16 was

Michael Pavia (Chair)
Lorraine Baldry
Mark Braithwaite (appointed 16 June 2015)
Christopher Deacon
Ian Pearson
Dipesh Shah
Ed Richards
Chris Heathcote (resigned 12 June 2015)

The Audit, Risk and Regulatory Committee has prepared a separate report and is presented on pages 78 to 83

d) Customer Service Committee

Membership of the Committee during 2015/16 was

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

The Customer Service Committee has prepared a separate report and is presented on pages 84 to 85

e) Thames Tideway Tunnel Committee

Membership of the Committee until its closure in November 2015 was

Sir Peter Mason (Chair)
Martin Baggs
Mark Braithwaite (appointed 16 June 2015)
Michael Pavia
Ian Pearson
Stuart Siddall
Chris Heathcote (resigned 12 June 2015)

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

The Committee received a delegation of authority from the Board to take all the necessary decisions in respect of advancing the Project. Membership of the Committee was carefully monitored in order to address any potential conflict concerns

During the year the Committee met seven times until its closure following Ofwat's award of the licence to the Infrastructure Provider ("IP") Bazalgette Tunnel Limited. Over the course of the year the Committee provided direction and oversight to the Project including specifically in relation to the tender for the IP which was concluded in August 2015. Attendance by Committee members is set out in the Attendance Table on page 57

Directors' attendance at Board and Committee meetings for the financial year 1 April 2015 to 31 March 2016 is summarised in the table below

	TWUL Board	Audit Risk & Regulatory Committee	Remuneration Committee	Nominations Committee	Customer Service Committee	Tideway Committee (to Nov 2015)
Total meetings held	6	5	8	2	4	7
Directors who remained in office during the period						
Sir Peter Mason	6	1	8 ^c	2 ^c	-	7 ^c
Martin Baggs	6	5	7	2	4	7
Lorraine Baldry	6	5			2	
Christopher Deacon	6	5	8	2		-
Nick Horler	5		-	-	3	
Dame Deirdre Hutton	6	-	-	-	4 ^c	
Guy Lambert	6	-	-	-		-
Michael Pavia	6	5 ^c	8	2	-	6
Ian Pearson	6	5	8	2		7
Ed Richards	6	5		-	3	
Dipesh Shah	6	3		-	3	-
Stuart Siddall	6	4	4	1	3	7
Directors who were appointed during the period						
Mark Braithwaite*	4/4	3/5	4/5	2/2		1/2
Directors who resigned during the period						
Chris Heathcote*	2/2	1/1	3/3		-	4/5

Denotes membership of a Committee to 31 March 2016

^c Denotes chair of the relevant Committee to 31 March 2016

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

Remuneration Committee report



I am pleased to present the 2016 Directors' Remuneration Report for Thames Water Utilities Limited. In this report, I set out the information necessary to demonstrate the link between the Company's strategy and its performance and the remuneration outcomes for our Executive Directors. The Remuneration Committee ("Committee") is committed to transparency and best practice reporting and as such this report reflects the structure of reporting required by the Department for Business, Innovation & Skills ("BIS") for listed companies and best practice guidance from Ofwat.

The Committee undertook a detailed review of our Executive Directors' remuneration during the year ended 31 March 2015, to coincide with the commencement of the 2015-2020 regulatory review. This report therefore concentrates on the application of the policy and arrangements which were adopted, to ensure they have been operating as intended.

Approach to remuneration

The Company has an ambitious business plan to deliver its strategic objective of becoming one of the best Water and Wastewater Companies in the UK. This includes continuing to make significant improvements in customer service while maintaining high quality drinking water, the highest levels of asset health and delivering key financial performance targets to ensure that we remain attractive for investment.

The Committee believes that achievement against these objectives will deliver strong long-term financial performance and enable our customers to receive value for money on a sustainable basis. As we seek to ensure remuneration outcomes are linked to business performance, our remuneration policies and practices have been aligned to these financial and customer business objectives.

2015/16 performance and reward

Over the course of the year, the Company has made important progress in several key areas. We have made significant improvements in our Customer Service performance, moving our SIM score from 72.6 to 76.74 over the year. In relation to asset health, our target is to deliver all four asset classes (Water above ground, Wastewater above ground, Water below ground and Wastewater below ground) as stable by 2018. We have delivered against key asset health targets, including leakage and pollutions, although additional focus is required on sewer flooding. In addition, we have further reduced safety incidents to match the best in our industry and all of this against a backdrop of delivering some strong financial results.

The Committee reviewed the outcome of the 2015/16 annual bonus for the Executive Directors in this context. The bonus outcome was 71.33% of a maximum 112.5% of salary for both the CEO and CFO and reflects an excellent financial performance, with both EBIT and Cash Available for Distribution well above target, furthermore the Company has exceeded on delivery of its transformation programmes and customer service performance has improved against some very demanding targets.

As reported and measured last year, our 2010 Long term incentive plan ("LTIP") was designed to release awards in 2016 and 2017. As such, there will be a further cash payment of LTIP based on our performance under AMP5. This was calculated as 82.28% of a maximum of 150% of salary for the CEO and the CFO.

As reported in the Remuneration Committee Report for the year ended 31 March 2015, a new LTIP was introduced aligned to our priorities under AMP6 and the first tranche was granted in 2015. This 2015 award is due to vest in 2018, subject to performance targets being achieved. Further awards will be made annually with

the next being made during 2016. This scheme will run for three years and will be tested against performance targets in 2019.

The Executive Directors received salary increases of 5% effective from 1 July 2015. While this was higher than the increases awarded to other employee groups, the award followed a detailed benchmarking review exercise similar to that which the business undertakes annually for other roles. This review highlighted that the basic salary for these roles was below the median against a peer group of benchmarked companies and accordingly a higher award was agreed.

A similar review was also undertaken for Non-Executive Directors ("NEDs"), and committee chair fees. The review highlighted the increased workload and complexity for the NEDs who were either chairs or members of the various board committees following the restructuring of the boards to address regulatory change in April 2015. Following this review, new fees of £15,000 for the chair of the Audit Risk & Regulatory Committee, and £10,000 for the chair of other committees were agreed. In addition fees for NEDs who are members of committees were increased from £50,000 to £60,000 per annum to ensure that they reflect benchmark fee scales in similar organisations.

Full details of the Executive Directors' remuneration for 2015/16 can be found in the single figure of remuneration table on page 67.

Approach for 2016/17 onwards

In November 2015, we announced that our current CEO, Martin Baggs, will leave the Company at the end of 2016. In April 2016, Stuart Siddall, our current CFO, also announced his retirement which will take effect from the end of December 2016. The Committee would like to thank both Martin and Stuart for their support and engagement during their successful tenures as the CEO and CFO of Thames Water Utilities Limited.

We are pleased to confirm that Steve Robertson has been appointed to the role of CEO and will commence employment in September 2016. We are also pleased to confirm that Nick Fincham has been promoted to the Board in the role of Strategy and Regulation Director with effect from 1 April 2016.

Along with our independent advisers we will continue to review the remuneration policy and seek to ensure its effective and appropriate implementation. At this stage, no specific changes to our current arrangements have been identified in respect of 2016/17.

I trust that you find this report clear and helpful and that it demonstrates our commitment to building a sustainable business which balances a clear focus on always putting our customers first in terms of the value and service which they receive, alongside producing appropriate returns to investors.



Sir Peter Mason
Chair, Remuneration Committee



Remuneration policy

The Remuneration Committee has formulated its position on remuneration policy against the following list of principles

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

Comparator groups

There has been no change to the comparator groups agreed by the Committee in 2014/15, as outlined in the previous year's report, as part of a wider executive remuneration benchmarking review looking at both base salaries and total compensation. The comparators used are all water and sewerage companies and other appropriately sized utilities.

This comparator group was identified as the most appropriate for the future as the selected companies either operate within similar industries with adjustments being made for their size, or reflect the size and complexity of Thames Water.

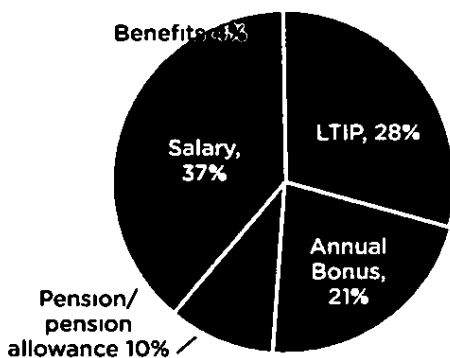
Balancing short and long-term remuneration

Our strategy to develop an appropriate mix of short and long term incentives and measures which drive the highest standards of performance across the Company is unchanged from previous years. As outlined in last year's report the 2015 LTIP (running from 2015 to 2018) and Manager's Annual Bonus schemes were specifically designed to provide a good balance of short and long-term incentives and this has been successful in delivering focus on a range of performance criteria as outlined in the charts below.

The Remuneration Committee carefully considers the blend of remuneration linked to health and safety, customer service, operational, regulatory and financial performance in order to produce well balanced short-term and long term incentive plans. Fixed annual elements, such as salary, pension and benefits, are set to ensure current and future market competitiveness enabling us to attract and retain high performing executives.

The short term incentives are used to drive performance primarily over the forthcoming year. To complement this, the long-term incentives, measuring performance over a three year rolling basis, are in place to encourage behaviours and performance to contribute

Target Performance



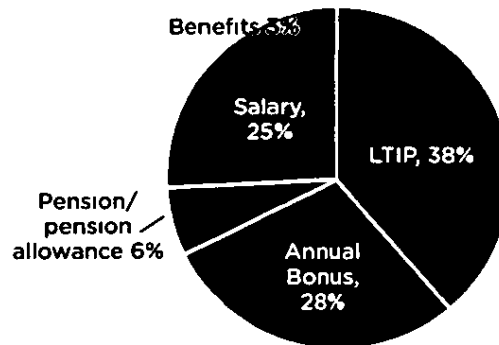
Fixed, 51%

Variable, 49%

Short-term, 63%

Long-term, 37%

Maximum Performance



Fixed, 34%

Variable, 66%

Short-term, 56%

Long-term, 44%

and work towards the Company's longer term strategic goals to deliver strong performance during the AMP and beyond. The LTIP under the new cycle has been designed to motivate and reward initiatives for making the Company successful on a sustainable basis whilst providing a value for money service to customers and encouraging value creation.

The Remuneration Committee selected the performance conditions which are central to the Company's overall strategy and are the key metrics used by the Board and Executive Team to oversee the operation of the business. For example Customer Service performance makes up 25% of the annual bonus and 50% of the LTIP. The performance targets are proposed by management and

approved by the Board through the Remuneration Committee. The Remuneration Committee is of the opinion that the performance targets for the annual bonus and LTIP are commercially sensitive and that it would be detrimental to the Company to disclose them before the start of the financial year. Disclosure of these targets will take place retrospectively. Our targets for 2015/16 are disclosed on page 69 of this report.

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

Our Remuneration policy

The overall principles to the remuneration policy remained unchanged in 2015/16. The new LTIP and Bonus schemes which applied during the year comply with this policy by enhancing the mix of short and long term incentives to the overall remuneration package for Executives and senior leaders. We summarise the key elements of our policy below.

Element of pay	Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
Base salary	To attract, retain and recognise status and responsibility to deliver strategy	<p>Base salary is paid in 12 monthly instalments during the year.</p> <p>Salaries are reviewed annually by the Remuneration Committee taking into account an individual's performance, the external market and internal and external economic factors.</p> <p>Any changes are effective from 1 July in the relevant financial year.</p>	<p>Annual salary increases will not normally exceed average increases for all employees. Larger increases may be applied where the Remuneration Committee considers this to be necessary e.g.</p> <ul style="list-style-type: none"> changes to the scope and responsibility of a role where market conditions indicate a level of under competitiveness the Remuneration Committee judges there is a risk in respect of attracting and retaining executives <p>Where the Remuneration Committee exercises its discretion to recommend increases above the average for other employees, the resulting salary will not exceed the competitive market range.</p>	Salary levels will be determined by individual performance, the external market and internal and external factors.
Benefits	To provide market competitive benefits consistent with role	Benefits are paid in 12 monthly instalments during the year or are benefits that are available as and when required on a one-off basis where applicable.	Benefits will include payments for car allowance, private medical insurance, life assurance, group income protection and a general entitlement to 25 days holiday. The CEO will also receive a housing allowance where appropriate.	None

Annual report and financial statements 2015/16
Remuneration Committee report

Element of pay	Purpose and link to strategy	Operation of element	Maximum potential value and payment at threshold	Performance metrics used, weighting and time period applicable
Pension or pension allowance	To provide cost effective saving benefits for employees	Payments are made in 12 monthly instalments during the year, directly to the individual or into their pension scheme	Contribution of 25% of base salary for Executive Directors	None
Annual Bonus	To motivate the Executive Directors to achieve the Company's key financial, customer, operational and strategic objectives through a combination of financial, customer and personal performance targets.	Annual bonuses are paid three months after the end of the financial year to which they relate. The Remuneration Committee reserves the right to reduce bonus payments if overall Company performance does not warrant payment. In addition clawback clauses are being applied for a period of two years after the payment is made	Annual target of 56.25% of base salary and maximum of 112.5% of base salary There will be no minimum payment. Health and safety will act as an underpin whereby if performance falls below a certain level, the overall bonus pay out would either be reduced in whole or in part. The Remuneration Committee could reduce incentive pay-outs on a discretionary basis if appropriate	Performance measures are Financial measures. <ul style="list-style-type: none"> Operating Profit (25%), EBIT Cash performance (25%) Customer Measure <ul style="list-style-type: none"> Customer Service (CSAT score) 25% Transformation Programme (15%) Personal performance (10%)
Long-Term Incentive Plan (LTIP) 2015	To reward performance over three year cycles, balancing the need for excellent performance in both the short and long-term	As the Company is privately owned, the LTIP is a cash scheme, not share based. The scheme is a 3 year rolling scheme which commenced in April 2015. Payment will be made in July 2018. Clawback clauses are being applied for a period of two years after the LTIP payments vest.	Annual target award of 75% of base salary. Annual maximum award of 150% of base salary. Award determined by performance set out in the plan and as set out by the Remuneration Committee. There will be no minimum payment but Asset Health (the condition of our assets) will act as an underpin determining the proportion of the final award payable. The Remuneration Committee also have the discretion to reduce incentive pay-outs if considered appropriate.	Vesting is conditional on performance conditions including <ul style="list-style-type: none"> Adjusted Regulatory Capital Value (RCV) less net debt (50%) Customer Service (relative SIM) (50%)

Consideration of employment conditions elsewhere in the Company

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

The HR Director consults with the Remuneration Committee on approving the performance targets for all bonuses and Long Term Incentive arrangements along with the remuneration packages offered to senior managers within the Company. The Remuneration Committee makes recommendations to the Board for the approval of any payments made under these schemes to Executive Directors as well as the levels of payments under the corporate elements of these schemes for all levels of management.

In keeping with the business objective to link payment and performance and following feedback from our people that they wanted an opportunity to share in the success of the business, the Remuneration Committee agreed to the launch of a new cash saving scheme aimed at engaging our entire workforce with Company level performance. Under the scheme, named Share in Your Success, employees are given the option to open a savings account managed independently by Barclays Bank, with an incentive to earn an additional cash bonus after three years. The cash bonus will be calculated based on each employee's level of savings, limited to a minimum of £20 and a maximum of £250 per month, and the Company's performance in terms of EBIT and Customer Service. As such, this scheme focusses participating employees on the same critical high level performance drivers as are in the manager's bonus scheme. Further schemes will be reviewed following an assessment of the success of this first scheme.

Annual report and financial statements 2015/16
Remuneration Committee report

Approach to Remuneration on Recruitment

The Committee and Board approve the remuneration to be offered to Executive Directors on recruitment and takes the approach that offers will be in line with the market and that it will pay no more than is necessary to attract appropriate candidates to a role. Any new Executive Director's remuneration would include the same elements and be subject to the same constraints as those for existing Executive Directors (as set out on page 61 to 62 of this report). It is not the Company's policy to make any additional payments arising from forfeited payments from a previous employer. Should the situation arise it would need to be approved by the Board. We can confirm that no such additional payments were made to Steve Robertson on his appointment to the role of CEO.

Service contracts and policy on payment for loss of office

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

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

Dates of Directors' service contracts/letters of appointment

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

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

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

	Initial Contract Start Date	Length of Each Period of Appointment	Expiry Date of Current Contract
Chairman			
Sir Peter Mason	01/12/2006	3 Years	01/04/2017
Independent Non-Executive Directors			
Lorraine Baldry	01/09/2014	3 Years	31/08/2017
Dame Deirdre Hutton ¹	22/07/2010	3 Years	21/07/2018
Michael Pavia ²	01/12/2006	3 Years	21/07/2016
Ian Pearson	01/09/2014	3 Years	31/08/2017
Edward Richards ¹	22/07/2010	3 Years	21/07/2018
Non-Executive Directors			
Mark Braithwaite	16/06/2015	N/A	N/A
Christopher Deacon	01/12/2006	N/A	N/A
Chris Heathcote	21/06/2013	N/A	N/A
Nicholas Horler	14/04/2014	N/A	N/A
Guy Lambert	15/10/2014	N/A	N/A
Dipesh Shah	15/10/2007	N/A	N/A

¹Dame Deirdre Hutton and Edward Richards were issued with new contracts in July 2015 for a further 3 years.

²Michael Pavia was issued with a new contract in July 2015 for a further 1 year

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

Annual report and financial statements 2015/16
Remuneration Committee report

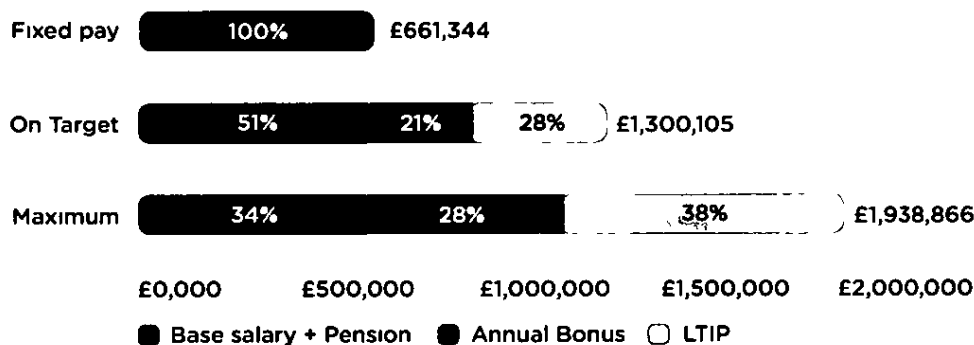
Total remuneration opportunity

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

- fixed pay represents the base salary for 2015/16 plus the value of pension contributions and benefits. The value of pension is as a fixed percentage of the basic salary;
- on target performance is the level of performance required to deliver 50% (56.25% of base salary) of the maximum annual bonus and 50% (75% of base salary) of the full LTIP award and
- maximum performance would result in the maximum bonus payment (112.5% of base salary) and 100% vesting of LTIP award (150% of base salary)

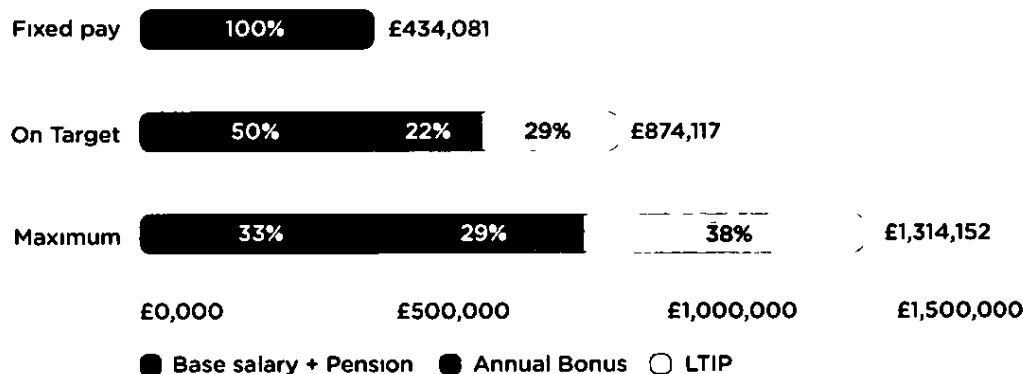
Martin Baggs – Chief Executive Officer

The chart below summarises structure of the CEO's remuneration package under three performance scenarios showing the value and pay mix for each



Stuart Siddall – Chief Finance Officer

The chart below summarises structure of the CFO's remuneration package under three performance scenarios showing the value and pay mix for each



Non-Executive Director (“NED”) fee policy

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

Statement of consideration of shareholder views

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

Statement of Implementation of remuneration policy in 2015/16

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

Remuneration for Executives and Non-Executives (audited)

The remuneration of the Executive and Non-Executive Directors during 2014/15 and 2015/16 is set out below:

	Salary/Fees		Taxable Benefits		Annual bonus ⁵		LTIP ⁴		Pension related benefit		Total Group Remuneration ⁶	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive Directors												
Martin Baggs ¹	481	460	53	53	381	380	0	1,049	120	115	1,015	2,057
Stuart Siddall ²	331	317	15	15	248	262	0	741	83	79	677	1,414
Chairman												
Sir Peter Mason	325	325	-	-	-	-	-	-	-	-	325	325
Independent NEDs												
Lorraine Baldry	57	29	-	-	-	-	-	-	-	-	57	29
Dame Deidre Hutton	64	49	-	-	-	-	-	-	-	-	64	49
Michael Pavia	73	59	-	-	-	-	-	-	-	-	73	59
Ian Pearson	57	29	-	-	-	-	-	-	-	-	57	29
Edward Richards	53	49	-	-	-	-	-	-	-	-	53	49
NEDs												
Mark Braithwaite	48	-	-	-	-	-	-	-	-	-	48	-
Christopher Deacon	57	49	-	-	-	-	-	-	-	-	57	49
Nic Horler	56	43	-	-	-	-	-	-	-	-	56	43
Guy Lambert ³	50	23	-	-	-	-	-	-	-	-	50	23
Dipesh J Shah	57	49	-	-	-	-	-	-	-	-	57	49
Chris Heathcote	9	45	-	-	-	-	-	-	-	-	9	45
Total	1,718	1,526	68	68	609	642	0	1,790	203	194	2,598	4,220

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

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

3 G Lambert's fees are paid to the shareholder's nominated Company and not to the individual.

4 Note on LTIP Payment. The table shows no value under the 2010 LTIP for Martin Baggs and Stuart Siddall. The full values, £1,049,070 (Martin Baggs) and £740,520 (Stuart Siddall) under the 2010 LTIP scheme vested in 2015 following the end of the five year performance period and as such are not reported here. The amounts were included in the equivalent 2014/15 remuneration disclosures. No amounts in respect of the 2015 LTIP are included above. These amounts will be disclosed in the 2016/17 remuneration report and details of the arrangement of payments to Martin Baggs and Stuart Siddall in 2016/17 are detailed on page 73.

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

6 Total Remuneration shown is allocated 70% to TWUL and 30% to Kemble Group for Martin Baggs, Stuart Siddall and Sir Peter Mason. The costs for all INEDs and NEDs are allocated 100% to TWUL, except for Christopher Deacon and Guy Lambert whose costs are allocated 70% to TWUL and 30% to Kemble Group.

Of total Executive Directors' remuneration of £1,691,694 (2015: £3,470,157) £1,184,186 (2015: £2,429,110) is for the Executive Directors for their services to Thames Water Utilities Limited and has been disclosed within Note 4 to the financial statements. In addition, the Executive Directors received total remuneration of £507,508 (2015: £1,041,047) for their services to other companies within the Kemble Water Holdings' Group. No operational distinction is made between services provided by the Directors to one or the other.

Annual report and financial statements 2015/16
Remuneration Committee report

Non-Executive Directors that have left in the year

	Salary/Fees		Taxable Benefits		Annual bonus		LTIP		Pension related benefit		Total Group	
	£'000		£'000		£'000		£'000		£'000		£'000	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Christopher Heathcote	9	45	-	-	-	-	-	-	-	-	9	45

Additional requirements in respect of the single total remuneration figure table
Base salary (audited)

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

	Base Salary 01/07/2015	Base Salary 01/07/2014	Percentage Increase
Martin Baggs	£486,675	£463,500	5%
Stuart Siddall	£335,265	£319,300	5%






Annual bonus (audited)

The 2015/16 annual bonus plan aimed to reward significant improvement in the Group's financial and corporate performance including customer performance whilst recognising individual contribution. The maximum level of award for the 2015/16 scheme for Executive Directors was 112.5% of salary.

The following table sets out the total amount of the bonus which is payable under the Annual Management Bonus Scheme 2015/16. The payments under this scheme will be made in July 2016.

Executive Director	Amount Determined by Regulatory Performance
Martin Baggs, CEO	£360,843
Stuart Siddall, CFO	£248,581

The performance measures were selected as being the most critical for the organisation during 2015/16. The personal performance element of the bonus is based on the performance of the Executive Directors against the business transformation programme and their key business objectives. Bonuses are earned by reference to the financial year and usually paid in July following the end of the financial year. Performance against the bonus targets and the resulting bonuses payable to the Executive Directors in respect of 2015/16 are shown opposite.

	Threshold	Target	Maximum	Weighting Outcome (% of award)	CEO Max Actual £'000	CFO Max Actual £'000
EBIT	Threshold: £624m Target: £634m Actual: 641m Max: £654m			25%	137	94
				16.8%	92	63
Cash performance	Threshold: £54m Target: £74m Actual: 91m Max: £114m			25%	137	94
				17.8%	98	67
Customer service (Absolute CSAT)	Threshold: 4.4 Actual: 4.49 Target: 4.55 Max: 4.6			25%	137	94
				10%	55	38
Personal Performance – transformation programme	Actual: 75%			15%	82	57
				11.25%	62	42
Personal performance – Personal objectives	Actual: 100%			10%	55	38
				10%	55	38

Annual report and financial statements 2015/16
Remuneration Committee report

LTIP (audited)

The 2010 LTIP which covered AMP5, was designed for payments to vest each year in 2013, 2014 and 2015 subject to the achievement of performance conditions. Of the final vest in 2015 this would be released in three equal payments in July 2015, 2016 and July 2017. The final two payments are subject to a reduction should there be a material deterioration in the financial performance of the company or significant fall in service in that year.

The Committee agreed that there was no significant deterioration in performance and therefore the July 2016 payments are made in full based on the Executive Directors' performance against the LTIP targets over the period 1 April 2010 to 31 March 2015. These outcomes were set out in the Remuneration Report for the year ended 31 March 2015.

Total pension entitlements (audited)

The Executive Directors are eligible to participate in the Company's defined contribution pension scheme, with the Company making contributions equivalent to 25% of base salary. No element of bonus or LTIP is pensionable. Where contributions in to the scheme would be in excess of the annual allowance limit, or where the individual has reached the life time allowance, a cash allowance in lieu of these pension contributions can be paid. For 2015/16 both Martin Baggs and Stuart Siddall received only a cash allowance. Neither of the Executive Directors participates in a defined benefit pension scheme.

Executive Director	Cash Allowance in Lieu of Pension 2015/16	Total Payments 2014/15
Martin Baggs, CEO	£120,220	£115,031
Stuart Siddall, CFO	£82,818	£79,244
Total	£203,038	£194,275

Aggregate Directors' emoluments (audited)

	2015/16	2014/15
Salaries	£812,155	£777,100
Taxable benefits/allowances	£68,000	£68,000
Bonuses	£609,424	£641,192
Pension payments	£203,038	£194,275
NED fees	£906,000	£1,049,000
Total	£2,598,577	£2,729,567

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

Payments for loss of office (audited)

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

Payments to past Directors (audited)

No payments were paid to any past Directors during 2015/16

Performance Graph and CEO pay in last six financial years

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

The cascade of pay

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

Percentage change in CEO remuneration compared to all employees

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

	% change 2015/16 against 2014/15		
	Basic Salary	Benefits ¹	Bonus
CEO	5%	0%	(4.95%)
All Employees (Manager Grade) ²	2.40%	0%	N/A ³
All Employees (Non-Manager Grade)	2.10%	-	-

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

² Managers are reported separately from all employees as their pay is determined separately. Employees by collective bargaining and managers through personal contracts. In addition bonus does not form part of non-manager's remuneration package

³ The managers' bonus figures for 2015/16 will not be available until after the publication of this report when personal performance ratings will be submitted

Relative importance of spend on pay

The following table sets out the percentage change in operating profit, shareholder distributions and overall spend on pay for the year ending 31 March 2016

	2015/16	2014/15	Year on year change	
	£m	£m	£m	
Operating profit	742.2	684.9	57.3	8.4%
Shareholder distributions	0	100.0	(100)	(100%)
Total payroll costs including pensions	241	228.7	12.3	5.4%

Shareholder distributions are those made to external shareholders outside of the Kemble group in respect of the relevant financial year. The Directors believe that this is the most relevant measure to use as a comparison

Annual report and financial statements 2015/16
Remuneration Committee report

Statement of implementation of remuneration policy in the following financial year

The remuneration policy will be implemented during 2016/17 as follows

Salary

	Base Salary 01/07/2016 (£'000)	Base Salary 01/07/2015 (£'000)	Percentage Increase (%)
Martin Baggs	£486.7	£486.7	0%
Stuart Siddall	£335.3	£335.3	0%
Nick Fincham	275.0	N/A	N/A

Steve Roberston is being appointed to the Board in 2016, however since he had not commenced employment at the date of publication of this report details of his package will not be disclosed until the 2017 report. Nick Fincham was appointed to the Board in April 2016 and therefore no salary is reported for the previous year.

Annual bonus targets for 2016/17

The performance targets for the annual bonus for 2016/17 for Executive Directors will be based on the weightings shown below

Measurement area	Weighting for 2016/17
Operating profit	25%
Cash performance	25%
Customer service (CSAT)	25%
Strategic group objectives	15%
Individual Performance	10%

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

Performance measures for long-term incentives to be awarded in 2016/17

Awards under the LTIP are made annually based on two measures outlined in our policy. As with the Company bonus scheme, specific performance targets are deemed to be commercially sensitive and will not be disclosed before the start of the financial year but outcomes against these targets will be disclosed on vesting of the award in 2018.

Arrangements with CEO and CFO for 2016/17

Martin Baggs CEO and Stuart Siddall CFO will be leaving Thames Water in 2016/17. In order to give the Company greater flexibility to identify and recruit the best candidates in to the CEO and CFO roles, it was agreed that the salary and all benefits for both directors will be paid up until 31 March 2017. This date will also be used as the relevant date for pro-rating any Management Annual Bonus or LTIP payments under the good leaver provisions of the schemes. Details of final payments are provided below.

Martin Baggs CEO	
Base Salary	Annual salary of £486,675 will continue to be paid monthly until 31 March 2017. On leaving before 31 March 2017 by agreement, any outstanding payments will be made.
Benefits	Annual Pension Allowance of £121,669, Car Allowance of £15,000 and Housing Allowance of £36,000 will continue to be paid monthly until 31 March 2017. On leaving before 31 March 2017 by agreement, any outstanding payments will be made.
Annual Management Bonus	2015/16 £360,843 will be paid in July 2016 2016/17 £273,755 will be paid as on target bonus (50% of maximum) on leaving
LTIP	2016 (year 4 of LTIP 2010) £349,690 will be paid in July 2016 2017 (year 5 of LTIP 2010) £349,690 will be paid on leaving 2018 (2015 LTIP) £243,338 (On Target performance pro-rated to 2/3rds) will be paid on leaving 2019 (2016 LTIP) £121,669 (On Target performance pro-rated to 1/3rd) will be paid on leaving

Stuart Siddall CFO	
Base Salary	Annual salary of £335,265 will continue to be paid monthly until 31 March 2017. On leaving before 31 March 2017 by agreement, any outstanding payments will be made.
Benefits	Annual Pension Allowance of £83,816 and Car Allowance of £12,500 will continue to be paid monthly until 31 March 2017. On leaving before 31 March 2017 by agreement, any outstanding payments will be made.
Annual Management Bonus	2015/16 £248,581 will be paid in July 2016. 2016/17 £188,587 will be paid as on target bonus (50% of maximum) on leaving.
LTIP	2016 (year 4 of LTIP 2010) £246,840 will be paid in July 2016 2017 (year 5 of LTIP 2010) £246,840 will be paid on leaving 2018 (2015 LTIP) £167,663 (On Target performance pro-rated to 2/3rds) will be paid on leaving 2019 (2016 LTIP) £83,816 (On Target performance pro-rated to 1/3rd) will be paid on leaving

Annual report and financial statements 2015/16 Remuneration Committee report

NED annual fees (audited)

The Chairman and NEDs receive a fixed fee for their duties which reflects their responsibilities and time commitments. They are not entitled to any annual bonus, long term incentives, pension benefits or benefits in kind. NED fees were increased with effect from 1 July 2015 following a full benchmarking review. In recognition of the significant additional responsibilities and workload, a higher fee was agreed for NED's and INED's who sit on one of the board committees. At the same time additional fees were also agreed for the chairs of the Customer Service Committee and the Audit, Risk and Regulatory Committee. The revised fee rates for 2016/17 and 2015/16 are shown below.

	Total Annual Fees 01/07/2016	Total Annual Fees 01/07/2015	Percentage Increase
Chairman	£325,000	£325,000	0%
Independent NED / NED (non-committee member)	£50,000	£50,000	0%
Independent NED / NED (committee member)	£60,000	£50,000	20%
Chair of the Customer Service Committee¹	£70,000 ¹	N/A	N/A
Chair of the Audit, Risk and Regulatory Committee²	£75,000 ²	£59,000	27%

¹ This is the normal Non Executive Director fee plus an additional £10,000 in respect of services as a committee member plus an additional £10,000 in respect of services as Chair of the Customer Service Committee. In 2015 there was no additional fee for the Chair of the Customer Service Committee.

² This is the normal Non Executive Director fee plus an additional £10,000 in respect of services as a committee member plus an additional £15,000 in respect of services as Chair of the Audit, Risk and Regulatory Committee.

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

The Remuneration Committee is Chaired by Sir Peter Mason and consists of two further independent Non-Executive Directors and two Non-Executive Directors. The following table sets out the attendance of the members of the Committee during the year.

Committee Member	Number of Meetings during Term	Number of Meetings Attended
Sir Peter Mason (Chair)	8	8
Michael Pavia	8	8
Christopher Deacon	8	8
Ian Pearson	8	8
Mark Braithwaite	5	4

Committee's key activities & responsibilities

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

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

Meeting	Activities
April 2015 (two meetings in April)	Review of proposed structure, performance measures and appropriate weighting for the proposed 2015 LTIP and Bonus schemes Review of performance against targets for the 14/15 bonus and 2010-2015 LTIP targets Review of further iteration on the employee cash savings plan Review of first draft of Remuneration Report
May 2015	Further review of proposed performance measures for the proposed 2016 Bonus scheme Review of Thames Tideway Tunnel Bonus and LTIP recommendations Further review of performance against targets for the 14/15 bonus and 2010-2015 LTIP targets Further review of draft of Remuneration Report Review of NED fees Review of Executive Pay
July 2015	Review and agreement of 2015/16 Bonus measures for recommendation to the Board Review and agreement of 2016 LTIP measures for recommendation to the Board
September 2015	Further review of NED fees and recommendation to the Board Review of resourcing, skills and headcount Review of talent pipeline and succession
November 2015	Review of defined benefits pension scheme strategy Review of employee benefits Approval of bonus scheme amendments Review of Employee Engagement activity
January 2016	Further review of pension scheme challenges
February 2016	Review of proposed structure, performance measures and appropriate weighting for the proposed 2016 LTIP and Bonus schemes Review of performance against targets for the 15/16 bonus and 2015 LTIP targets Review of first draft of Remuneration Report Review and approval of Pay Review budget

Advisers to the Remuneration Committee

During the year, the Remuneration Committee was assisted by PricewaterhouseCoopers LLP. They were re-appointed by the Remuneration Committee and advised on the design of the new LTIP, management bonus plan and provided benchmarking on Executive Director pay. They were paid a total of £43,600 on a time/cost basis. In addition, the Committee was assisted by Mercers in relation to Non-Executive Director fees. They were paid a total of £9,000 on a one-off project basis. The Remuneration Committee is satisfied that the advice they received from both PricewaterhouseCoopers LLP and Mercers is objective and independent.

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

The Remuneration Committee report was approved by the Board on 9 June 2016, and signed on its behalf by



Sir Peter Mason
Chairman

Nominations Committee Report



It has been a busy time for the Nominations Committee over the past few months. The primary focus of the Committee has been the search for a new Chief Executive Officer to replace Martin Baggs, who is due to step down later in 2016. In May we were delighted to announce that Steve Robertson has been appointed to this position and will join the Company at the beginning of September 2016.

The Committee will shortly commence the search for a new Senior Independent Director to replace Michael Pavia, who is due to step down as a Director of the Company in 2016 after ten years on the Board. Following the announcement of the decision by the Company's CFO, Stuart Siddall, to retire at the end of 2016, the Committee will also begin the search for his replacement.

During the year the Committee evaluated and subsequently approved the appointment of the Company's Strategy and Regulation Director Nick Fincham to the Board. Nick has been a highly effective member of the Executive Team over the past few years, including leading the way in the last regulatory price review, and we are delighted to welcome him to the Board.

The Committee also approved the appointment of two new members of the Executive Team, Neil Clark as Chief Information Officer and Jon Loveday as Group Commercial and Transformation Director. Biographies of both Neil and Jon can be found on page 50.

In addition to its work on the recruitment of Board and Executive Team members, the Committee has also been engaged in the continuing review of succession planning. Whilst good progress has been made in this area, the Committee will continue to work toward the improvement of the internal succession pipeline for key roles and to ensure that a clear succession process for both Executive and Non-Executive Directors is in place.

The role of the Committee

The Committee was established in March 2015 following a review of the Company's corporate governance arrangements. It consists of two Non Executive Directors Christopher Deacon and Mark Braithwaite (following his appointment on 16 June 2015) and two Independent Non Executive Directors, Michael Pavia and Ian Pearson. Chris Heathcote was also a member of the Committee until his resignation on 12 June 2015. The Committee is chaired by the Company's chairman, Sir Peter Mason.

The Committee met twice during the year. Attendance by Committee members is set out in the Attendance Table on page 57.

The main duties of the Committee are:

- to review, from time to time, the structure, size and composition of the Thames Water Utilities Limited Board and its committees and to make recommendations to the Board with regard to any adjustments that are deemed necessary;
- to keep under review the leadership needs of the Company and to satisfy itself that plans are in place for orderly succession for appointments to the Board so as to maintain an appropriate balance of skills and experience on the Board;
- to review the proposed recommendation of any individuals for the appointment to the post of Executive Director or Non Executive Director and;
- to review the recommendations of the CEO in relation to the appointment of all senior executives and senior management of the Group (other than in relation to the CEO which shall be a matter for the Committee to review).

The process for making new appointments is led by the Chairman. Independent, external consultants are engaged where appropriate to conduct the search for suitable candidates who are considered on the basis of their skills, experience and fit with the existing members of the Board. All candidates are considered in accordance with the Company's formal equal opportunities, diversity and inclusion policy.

In the search for a new CEO the Company engaged the services of Korn Ferry to work alongside the Nominations Committee. Egon Zehnder have been engaged to assist with the recruitment of a new Independent Non Executive Director to replace Michael Pavia.



Audit, Risk and Regulatory Committee Report



In March 2015 the Audit and Risk Review Committee and the Regulatory Committee combined to form the Audit, Risk and Regulatory Committee. Throughout the year under review the combined experience of the joint Committee members and attendees has enhanced the oversight over audit, risk and regulatory matters, ensuring a consistent and collegiate approach to these areas within the Company. The combining of the two committees has resulted in efficient and effective Governance across the Company. The Committee's workload is significant and we will assess the demands of the combined responsibilities towards the end of 2016.

Responsibilities of the Committee

The Audit, Risk and Regulatory Committee (the "Committee" or "ARRC") has primary responsibility for exercising oversight over the accuracy and completeness of the financial statements and for reviewing any matters of significance affecting the regulation of the Company. In addition, it is responsible for monitoring compliance with the risk management framework applied by the Board for financial operational matters. In this role, the Committee reviews plans for the undertaking of the internal audit function.

The Committee will advise the Board on matters falling within the scope of its responsibilities. Such advice may be in the form of minutes of its meetings, supporting papers and written and oral reports at Board meetings.

The main responsibilities of the Committee are

- to exercise oversight over the accuracy and completeness of the Annual Report and Accounts ("AR&A") including ensuring that the AR&A present a fair, balanced and understandable view of the Company;
- to ensure the AR&A gives a true and fair view of the Company's results and is in compliance with financial reporting requirements, regulatory accounting guidance and corporate governance;
- to make informed decisions regarding accounting policies, practices and disclosures, assessing whether the key estimates and judgements made by management are appropriate;
- to review the effectiveness of the external auditor;
- to make recommendations to the Board on the appointment or reappointment of the auditor and to be responsible for the tender of the audit from time to time and to agree the fees paid to the auditor;
- to review the scope and results of internal and external audits;
- to assess the adequacy of the Company's internal audit function and the Company's internal control and risk framework;
- to review the governance, policy and strategy of decisions with regulatory implications;
- to review guidance on current, emerging and future regulatory matters and advise the Board on regulatory strategy.

Annual report and financial statements 2015/16 Audit, Risk and Regulatory Committee report

- to review the Company's progress in delivering against the regulatory requirements as established through the regulatory price review process,
- to review the assurance arrangements for the reporting of regulatory data as required by Ofwat under its Company Monitoring Framework
- to oversee the preparation of formal regulatory publications and submissions including those relating to price setting regulatory performance, regulatory price reviews and consultations,
- to review the Company's procedures for whistleblowing, reporting fraud and other unethical or inappropriate behaviour; and
- to ensure that allegations which are brought to the attention of the ARRC are promptly investigated by the Head of Audit and Assurance

Composition and experience

During the year the ARRC comprised three Non Executive Directors (Dipesh Shah, Christopher Deacon and on his appointment on 16 June 2015 Mark Braithwaite) and four Independent Non Executive Directors Michael Pavia (the Committee Chairman) Lorraine Baldry Ian Pearson and Ed Richards Chris Heathcote was also a member of the Committee until his resignation on 12 June 2015 The ARRC was attended by the CEO and CFO and other senior managers as appropriate The external auditors, KPMG LLP also attended these meetings

The ARRC met five times during the financial year ended 31 March 2016 In addition to the formal meetings of the Committee the Chairman of the Committee also met with both the Head of Audit and Assurance and KPMG LLP as required throughout the year

Michael Pavia is a Fellow of the Institute of Chartered Accountants in England and Wales ("ICAEW") with extensive financial and accounting experience The Board regards Michael Pavia as the member of the Committee possessing recent and relevant financial experience Michael will step down as a Director and member of the Committee in 2016

Further biographical details of the members are set out on pages 47 to 48

Review of the year

In addition to undertaking its duties, the ARRC was engaged with senior management in relation to several issues throughout the year receiving presentations and participating in workshops to fully understand some of the key issues being dealt with in the day-to-day running of the business

The ARRC was actively involved in regularly assessing the following significant issues with management throughout the year

- cash collection rates levels of receivable and the associated level of the bad debt provision
- management's judgment of the completeness and valuation of all provisions, and
- management's application of the Company's revised policy in respect of the classification of costs between operating expenditure and capital expenditure following the implementation of International Financial Reporting Standards ("IFRS")

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

In order to gain a deeper insight into other key areas the Committee reviewed papers throughout the year on the following additional topics

- regular updates on the implementation of International Financial Reporting Standards
- the Company's preparedness for market opening through its "Competition 2017" programme of work including the production of the first letter of assurance, submitted to Ofwat in February 2016, and the associated external assurance,
- Ofwat's 2016 review of the non household retail price control ahead of market opening
- Ofwat's "Water 2020" programme, which is establishing the regulatory framework for PR19 and beyond,
- Ofwat's Wholesale Revenue Forecasting Incentive Mechanism, and how it compares to the Company's licence
- arrangements for the production and approval of the 2016-17 charges, and the associated impact on customer bills
- external assurance performed on a range of financial and non-financial data and KPIs being included in the regulatory and statutory accounts
- compliance with the Corporate Governance Code requirement to include a statement of viability in the annual report and accounts
- review of the cyber security risk posed to the organisation led by the Chief Information Officer and Head of Audit and Assurance

Annual report and financial statements 2015/16 Audit, Risk and Regulatory Committee report

- review of the expected changes to the Data Protection Act and the Company's assessment of the changes needed to comply with expected regulations,
- update on the impact of the February 2015 court ruling that Companies including Thames Water were 'Public Authorities' as defined under the Environmental Information Regulations 2014 and therefore had to comply with the Regulations, and
- the top corporate risks for the Company including presentations from the Executive on the top ten risks within their individual areas of responsibility on a rolling basis through the year

Financial reporting and significant issues

The ARRC considered prior to recommending their approval to the Board the integrity of the 2015/16 financial statements including the regulatory financial statements of the Company. In undertaking this review, the ARRC discussed the critical accounting policies and judgements applied with management and the external auditors including meetings with KPMG LLP not in the presence of the executive directors. It discussed a report from the external auditors identifying the significant accounting and judgemental issues that arose in the course of the audit. The ARRC also considered the management letter for issues and judgements raised and monitored action taken by management as a result of any audit recommendations.

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

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

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

- Management's judgment of the completeness and valuation of the provisions

The Committee reviewed the levels of provisions held by the Company throughout the year, questioning and challenging the basis for such provisions. The Committee was provided with details of the main assumptions around the recognition and valuation criteria applied over provisions and upon review of this information decided that the level of provisions for the above matters was appropriate.

- Management's application of the Company's revised policy in respect of the classification of costs between operating expenditure and capital expenditure following the implementation of International Financial Reporting Standards

Through review and discussion of the interim and year-end financial statements, and discussion of the levels of overheads capitalised in the year the Committee concluded that adequate rigour had been applied by management to ensure appropriate application of the Company's capitalisation policy as revised for the full implementation of IFRS.

The Committee also reviewed specific judgemental areas where a more detailed review of capitalisation of certain costs was performed by management.

The above three items represented the key estimates and significant judgements reviewed by the ARRC since 31 March 2015 and align to those agreed. The Committee also considered other areas of management judgement and considered in detail management's review of the interim results.

Review of annual financial statements

Prior to the 31 March 2016 Annual Report being presented to the Board for formal approval the ARRC, at the request of the Board, considered whether the Annual Report is fair, balanced and understandable and whether it provides the necessary information for all stakeholders to assess the Company's performance, business model and strategy. The ARRC considered the consistency of accounting policies across the Company, the methods used to account for significant or unusual transactions, whether the Company had followed appropriate accounting standards and whether the Company had made appropriate estimates and judgements taking into account the views of KPMG LLP. The ARRC further considered whether appropriate disclosure had been made in the financial statements, the strategic report and the Corporate Governance report.

Based on consideration of the above items and the other work performed by the ARRC from 1 April 2015, the Committee was satisfied that, taken as a whole, the Annual Report and Accounts is fair, balanced and understandable and provides the information necessary for stakeholders to assess the Company's position and performance, business model and strategy.

External audit

The Committee is responsible for overseeing relations with the

Annual report and financial statements 2015/16 Audit, Risk and Regulatory Committee report

external auditors including the approval of fees and makes recommendations to the Board on their appointment and re-appointment

In 2015/16 the Committee oversaw the relationship with KPMG LLP including (but not limited to) whether fees for audit or non-audit services were appropriate. It reviewed KPMG LLP's terms of engagement, the scope and execution of their audit work. The Committee assessed the independence and objectivity of the external auditors, taking into account relevant UK professional and regulatory requirements and the relationship with the auditors as a whole, including the provision of any non-audit services in accordance with the Policy for the Provision of Non Audit Services

Auditor appointment

An annual review is conducted by the Committee, in conjunction with key members of the Finance function, of the level and constitution of the external audit and non-audit fees and the effectiveness independence and objectivity of our external auditors, KPMG LLP

The annual review includes consideration of

- the external audit process
- the auditors' performance and quality of work,
- the expertise of KPMG LLP and our relationship with them, and
- the results of questionnaires completed by employees engaged with the audit and members of the ARRC

The results of the review were discussed with the ARRC and the Committee agreed with the conclusion that KPMG were effective, independent and objective

Auditor independence and objectivity

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

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

The ARRC met with KPMG LLP on several occasions during the year without management present providing the external auditors with the opportunity to raise any matters in confidence

Following this year's annual review the ARRC is satisfied with the effectiveness, independence and objectivity of KPMG LLP

Non-audit services

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

Details of the fees paid to the external auditor during the year ended 31 March 2016 for audit and non-audit services are set out in note 3 to the statutory financial statements

Total fees for audit and non-audit services incurred during the year amounted to £2.1m (2015: £3.6m)

	2016	2015
	£'000	£'000
-	-	-
Fees payable for the audit of the Company's financial statements	374	297
<i>Fees payable to the Company's auditor for other services</i>		
Audit related assurance services	155	93
Other assurance services	755	688
Taxation compliance services	-	11
Other tax advisory services	16	60
Corporate finances services	570	2,376
Other services	224	161
Total aggregate remuneration	2,094	3,686

Fees included £0.6m (2014: £2.4m) of fees in respect of consultancy advice provided on the Thames Tideway Tunnel. These costs have been capitalised as part of the design phase of the project. The contract for these services was subject to competitive tender in line with the Company's procurement process where all firms that provided proposals were considered and shortlisted by reference to predetermined and objective selection criteria. These fees will not be repeated in future years as the Thames Tideway Tunnel project closed during 2015

Other assurance services include £0.5m (2014: £0.2m) related to work performed in the review of the Company's non financial reporting submissions specifically the reporting of the Company's 'Performance Commitments'. A separate team from KPMG LLP including another partner was put in place with the appropriate

Annual report and financial statements 2015/16

Audit, Risk and Regulatory Committee report

skills and qualifications to deliver this work and is considered complementary to the external audit work undertaken by KPMG LLP

The Committee considered the level of non-audit fees and safeguards put in place relating to non audit work, including written representations from KPMG LLP which confirmed their independence, and was satisfied that the non audit fees incurred have not resulted in a loss of independence or objectivity of KPMG LLP

Audit tender

The Company adopts the same approach to audit tendering as a FTSE 100 company and the ARRC will therefore keep under review legislative proposals from the EU and the Competition and Markets Authority. In alignment with the EU regulatory framework for statutory audit the Company will operate a ten-year rotation of its auditors, however the ARRC may recommend that the Company puts the audit out to tender at any time, based on the results of the assessments of auditor independence and audit quality outlined above. KPMG LLP were appointed after a competitive tender for the 31 March 2009 financial year end audit. There are no contractual obligations restricting our choice of external auditors and no auditor liability agreement has been entered into by the Company.

Audit information

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

Internal audit

The Committee monitored and reviewed the effectiveness of the Company's internal audit function in the context of the Company's overall risk management systems. In particular, in 2015/16 the Committee considered and approved the remit and activities of the internal audit function ensuring that it had adequate resources and appropriate access to information to enable it to perform its function effectively, in accordance with the relevant professional standards and was free from management or other restrictions. During the year the Committee reviewed and approved the appointment of a new Head of Audit and Assurance, an experienced and appropriately qualified member of management with nearly 15 years of audit experience.

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

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

Inputs to the plan include risk registers, corporate priorities and

objectives, external research and benchmarking of emerging risks and trends and discussions with members of the Executive and Senior Leadership Group.

The plan is approved by the ARRC in January each year with focus given to not only the areas which are being covered but also those that are not, to ensure that the plan aligns with the Committee's view of risks.

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

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

Confidential reporting procedures and whistleblowing

The Committee Chairman reported formally in the year ended 31 March 2016 to the Board on Committee's proceedings and on all matters within its duties and responsibilities at each subsequent Board meeting. The Committee Chairman also provides a verbal report to the Group Audit Committee when required. The Committee made recommendations to the Board as it deemed appropriate on any area within its remit where action or improvement was needed and reported to the Directors on its activities through the circulation of the Committee minutes. The Head of Audit and Assurance was given direct access to the Chairman of the Committee and the Chairman of the Board.

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

Internal control, risk and compliance

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

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

The ARRC routinely reviews the effectiveness of the systems of internal control and risk management principally by means of reports in respect of the above activities and makes reports to the Board thereon

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

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

The ARRC kept the adequacy and effectiveness of the Company's internal controls and risk management systems under review in 2015/16. The ARRC approved for recommendation to the Board the statements to be included in the 2015/16 statutory and regulatory reports concerning internal controls and risk management. The Committee reviewed the risk management strategy approved by the Board and was satisfied that the Board received regular and sufficient reports on internal controls from management.

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

The ARRC reviewed the principle risks and uncertainties appearing on pages 36 to 41

Regulatory matters

In line with its responsibility to assist the Board in reviewing current and future regulatory matters, the Committee considered a number of key regulatory developments over the course of the year and oversaw the preparation of a number of formal regulatory publications and submissions.

Tariffs 2016/17

The Committee oversaw the development of the Company's 2016-17 charges. This included consideration of the regulatory environment (including developments in the scope of Ofwat's duties), the timeline for establishment of the charges and the associated assurance and governance approach. The Committee was also presented with information on indicative bill impacts for a range of typical unmetered, assessed and metered household and non-household customers.

Ofwat's 2016 review of the non-household retail price control. The Final Determinations issued by Ofwat in December 2014 set the non-household retail price control and default tariffs for only two years. In doing this Ofwat undertook to carry out a further price review during 2016 ahead of market opening in April 2017. The main reason for this additional step was to allow companies time to review their cost and margin allocations and potentially re-balance their default tariffs.

The Committee considered Ofwat's November 2015 consultation on this review along with the Company's proposed response. The Committee subsequently reviewed the Company's proposed approach to preparing for the submission, including the governance and assurance arrangements and considered the key decisions required to be made by the Company to enable a successful submission.

Water 2020

Ofwat has published four initial consultation documents on Water 2020. The Committee was presented with the key aspects of Ofwat's consultation, including potential changes to the price review process, which it duly considered. As part of these consultations the Committee considered the Company's planned consultation responses.

Ofwat will make its decisions on the December 2015 consultation in May 2016 following which it will consult further to provide more detailed methodologies.

Retail non-household market opening

Throughout the year the Committee provided oversight of the Company's readiness for the opening of the retail non-household market in April 2017. This included reviews of the industry context, the key milestones in the process, the associated assurance requirements and the status of internal arrangements.

Outside the formal calendar of meetings, an additional workshop was arranged for members of the Committee to review the Company's first market readiness assurance letter and the supporting assurance and evidence. Following this review the Committee reported to the Board on the status of activity and recommended the approval of the first assurance letter from the Company to Ofwat.

Customer Service Committee Report

Building on the good progress made in 2014/15 in reducing customer complaints and increasing the level of customer satisfaction, the Company continues to focus on improving its customer service, with a number of major initiatives being implemented during the year. Focus has been on gaining further insight into the needs and requirements of our customers and how best to meet them.

The Committee closely monitors and reviews the Company's performance in respect of customer satisfaction and how it has performed compared to its peers. Best practice across the industry as a whole has improved and it is essential that the Company continues its best efforts to provide the level of service expected by our customers.

Going forward, the introduction of competition to the Retail Non-Household Sector which is scheduled to commence in April 2017 will bring major challenges for the Company and will ensure that the need for high quality customer service remains at the forefront of the Company's aims. The Committee will continue to monitor progress across the business in preparation for this new era.

The role of the Committee

The Committee was established to focus on customer service, customer engagement and communications. The core activities of the Committee are to review and advise on areas of performance strategy and customer consultation and engagement.

The Committee comprises two Non-Executive Directors, Dipesh Shah and Nick Horler, and three Independent Non Executive Directors Dame Deirdre Hutton (the Chair of the Committee), Lorraine Baldry and Ed Richards.

The Committee met four times during the year. Attendance by Committee members is set out in the Attendance Table on page 57.

The main objectives of the Committee include the following areas:

- performance – the review of current Company position and performance against industry comparators and external best practice companies
- strategy – reviewing the development of the customer service strategy reflecting the challenges faced by the Company over the next five years and
- customer consultation and engagement – to review and advise on the various communications routes with consumers and customers

In addition to reviewing the regular key performance measures, the Committee considered the business case for the implementation of a new Customer Relationship Management and Billing ("CRMB") system, which is anticipated to be operational by 2017 in the Retail Non Household sector, and 2018 in the Retail Household sector.



The Committee undertook a detailed review of the Company's approach to the management and collection of bad debt. This included a workshop on bad debt that was provided to members of the Committee, together with the Audit, Risk and Regulatory Committee, held at the Company's Customer Operations Centre in Swindon. The workshop enabled the Committee to understand in more detail the plans for bad debt recovery and the progress that had been made against them in order to deliver a reduction in bad debt costs.

The Committee endeavours to consider a key item of Customer Service strategy in detail at each meeting supported by presentations, interactive sessions and external site visits. During the year, deep dives into the following subjects were conducted:

- **Water:** The review included an interactive session following the journey of a customer through the Thames Water Customer Service process. The Committee visited the Company's Operations Management Centre in Reading and experienced first hand the work of the Customer Assurance Team.
- **Waste:** The Committee visited one of the Company's leading Waste Service providers and received an overview of the planning capability, including a hands-on demonstration of some of the technology being used to improve response times and data collection.
- **Retail:** covering the development, engagement and management of people and a comprehensive review of the SIM programme.

Other items reviewed by the Committee during the year included the expansion of online account management and the importance of increased cyber security in this respect. The Committee also oversaw the transition to the new Business Process Outsourcing ("BPO") partners and contracts, the review and monitoring of key customer performance metrics, and the approach to Customer Engagement ahead of the 2019 Price Review.

Directors' report

The Directors present their annual report and the audited financial statements for the year ended 31 March 2016. These are the Company's statutory accounts as required to be delivered to the Registrar of Companies. This Directors' Report includes certain disclosures required under the Companies Act 2006.

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

The Directors have carried out a robust assessment of the principal risks facing the Company, including those that would threaten its business model, future performance, solvency or liquidity, and details of these risks and their management or mitigation can be found on pages 36 to 41.

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

Directors and their interests

A full listing of the Directors who held office during the year, and to the date of this report, unless specified, including any interest in the shares of the Company, has been included within the Remuneration Committee report on pages 58 to 75.

Corporate Governance

The Company's compliance with the UK Corporate Governance Code is reported on pages 51 to 57.

Dividends

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

- sufficient liquidity is maintained to enable the business to meet its financial obligations for at least 15 months
- the Company maintains a minimum of 2% headroom on its Regulated Asset Ratio covenant restrictions (see page 31), and
- post-dividend financial ratios remain within their agreed limits at both the balance sheet date and on a forward looking basis.

The Company paid dividends totalling £82.4million during the financial year 2015/16 (2014/15: £169.9million).

Going concern

The Directors believe after due and careful enquiry that the Company has sufficient resources for its present requirements and, therefore consider it appropriate to adopt the going concern basis in preparing the 2015/16 financial statements. In forming this assessment the Directors have considered the following information

- The Company's business activities, together with the factors likely to affect its future development performance and position are set out on pages 12 to 41. The financial position of the Company, its cash flows, liquidity position and borrowing facilities are described in our Chief Financial Officer's review on pages 30 to 35,
- Day-to-day working capital requirements are funded by the business. During the year £641.4 million, gross of issuance costs, of new external debt was secured and £267.4 million of debt repaid. There is no current requirement to raise additional finance to meet future project obligations. There are also cash balances and liquid resources of £812.0 million and undrawn committed facilities of £1,400.0 million,
- The undrawn committed facilities consist of £1,400 million facilities with a group of banks made up of a £950 million revolving credit facility that expires in 2020 with extension options that is not expected to be used in the ordinary course of business and £450 million of 364 day liquidity facilities due for renewal in August 2016. The liquidity facilities can only be used if the Securitised Group is in standstill
- The Company is in compliance with its financial covenant requirements as at 31 March 2016, and
- The Company's forecasts and projections taking account of reasonably possible changes in trading performance, show that the Company should be able to operate within the level of its current facilities and covenant restrictions for at least 12 months from the date of this report.

Material financial instruments

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

Research and development

The Company's research and development programme consists of a portfolio of projects designed to address technical needs across the range of water cycle activities, delivering innovative technical solutions aligned with business needs to address challenges for AMP5 and also provide specialist technical support to the business. Expenditure on research and development totalled £3.1 million for the year (2015: £4.0 million).

Political donations

No political donations were made by the Company (2015: £nil).

Greenhouse gas emissions

We ended the previous year with higher emissions than we had planned. We have made strong progress throughout 2015/16 in reducing our emissions, both by reducing our energy consumption, and by increasing our renewable self-generation.

In the last year we have reduced our emissions by 72.6 kTCO₂e to 751.3 kTCO₂e.

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

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

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

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

Intellectual property

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

Directors' indemnities

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

Insurance

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

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

Statement of Directors' responsibilities in respect of the annual report and financial statements

The Directors are responsible for preparing the annual report and financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law they have elected to prepare the financial statements in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU").

Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements the Directors are required to

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent,
- state whether they have been prepared in accordance with IFRS as adopted by the EU, and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Under applicable law and regulations, the Directors are also responsible for preparing a strategic report, Directors' report, Directors' remuneration report and corporate governance statement that complies with that law and those regulations.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and

dissemination of financial statements may differ from legislation in other jurisdictions.

We confirm to the best of our knowledge

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company taken as a whole
- the strategic report (pages 12 to 41) include a fair review of the development and performance of the business and the position of the Company, taken as a whole, together with a description of the principal risks and uncertainties that are faced, and
- the Directors consider the annual report, taken as a whole, is fair, balanced and understandable and provides the information necessary for investors to assess the Company's position and performance, business model and strategy.

Disclosure of information to the auditor

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

Auditor

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

The Directors' Report was approved by the Board of Directors on 9 June 2016 and signed on its behalf by



David Hughes
Company Secretary

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

Statutory Financial Statements

Independent auditor's report to the members of Thames Water Utilities Limited only

Opinions and conclusions arising from our audit

1 Our opinion on the financial statements is unmodified

We have audited the financial statements of Thames Water Utilities Limited for the year ended 31 March 2016 set out on pages 94 to 142. In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 March 2016 and of its profit for the year then ended,
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, and
- have been prepared in accordance with the requirements of the Companies Act 2006

2 Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit in decreasing order of audit significance, were as follows

Provision for doubtful debts included within trade receivables of £189.7 million (2015 £178.9 million) Refer to page 80 (Report from the Audit, Risk and Regulatory Committee), page 102 (accounting policy), page 119 (financial disclosures) ◀▶

The risk – The Company issues a large number of bills throughout the year to its 15 million customers across London, the Thames Valley and surrounding areas. It also relies on third parties to raise bills on its behalf where the Company provides waste water services only or where bills are collected by local housing associations as part of rental payments. A proportion of the Company's customers (predominantly household customers) do not pay their bills, either through choice or because they may be struggling financially with the overall cost of living. As a result, the Company is required to estimate the likely level of debts that will not be paid and record a provision for doubtful debts.

A significant level of judgement is needed to calculate the doubtful debt provision including the expected level of future cash collection and the anticipated level of cancelled and reissued bills. A change in any of these key assumptions could give rise to a material variance in the level of the doubtful debt provision recognised in the financial statements. Given the ageing profile of the Company's trade receivable balances, the level of judgement and the complexity of the provision calculations, the adequacy of the bad debt provision is considered a key audit risk.

Our response – For amounts billed directly by the Company, our procedures included,

- assessing the appropriateness of the doubtful debt provisioning policy which is based on historical cash collections, re-bills and write-offs
- with assistance from our IT specialists, testing the completeness and accuracy of the data extracted from the Company's billing system used to calculate the provision, including the data in respect of historic cash collection, write-offs, cancellation and loss on re-bill rates
- checking the mathematical accuracy of the bad debt model used by the Company, and verifying that the key inputs used, including historical trends and by comparison to averages that we independently collect across the industry, forecast cash collection rates agreed with our own analysis of historic trends, operational performance, historic write offs, the level of provisioning across the industry
- With regard to the bad debt associated with bills issued by the neighbouring water only companies (WOCs) for waste water services, challenging the assumptions applied by assessing the key assumptions against historical trends and also WOC industry data which we independently collect

We also assessed the adequacy of the disclosures made in relation to the policy applied and the level of provisions recorded

Classification of costs between operating expenditure £1,419.4 million (2015 £1,398.0 million) and capital expenditure £1,198.7 million (2015 £1,369.2 million) Refer to page 80 (Report from the Audit, Risk and Regulatory Committee), page 99 (accounting policy), pages 112 and 117 (financial disclosures) ◀▶

The risk – The company's substantial investment programme, over £1bn per annum, involves the development and maintenance of both infrastructure and non-infrastructure assets. Expenditure incurred on projects that enhance the network are treated as capital in nature, whereas expenditure for projects that maintain the asset are expensed as incurred as operating expenditure

Certain projects may contain a mixture of asset enhancement and maintenance, particularly where assets are being replaced or upgraded. Judgement is therefore required to ensure an appropriate allocation of costs between capital and operating expenditure.

In addition, initial and subsequent expenditure, including employee and other internal expenditure, on capital assets is capitalised only if it can be demonstrated that it is directly attributable to the asset, provides probable economic benefit to the Company and can be measured reliably.

Given the high degree of judgement involved in some projects there is a risk that costs are allocated incorrectly and capital and operating expenses are misstated.

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

- assessing whether the Company's capitalisation policy complies with relevant accounting standards, and in particular the criteria for capitalisation,
- testing compliance with the policy by assessing how the judgment had been applied to record costs as either capital or operating. For a sample of projects we met with management to review the nature of the project in terms of the work to be performed, and assessed the appropriateness of the classification made. This included testing controls over the review and authorisation of capital projects, including the reconciliation to the codes used in the financial systems
- with assistance from our own IT specialists, testing IT controls over the automated calculation of internal costs recharged to capital,
- considering the appropriateness of a sample of manual journals posted between capital and operating expenditure
- We also assessed the adequacy of the disclosures made in relation to the policy applied

Completeness and valuation of other provisions £40.7 million (2015 £32.2 million) ▲ (New risk)

The risk – The Company is regulated by Ofwat and monitored by other external agencies in the UK. The Company is subject to claims with contractors arising from historic projects and potential fines arising from environmental events (such as flooding). In addition, given the high level of annual spend, the Company engages with a number of contractors where disagreements may arise concerning scope and disallowable costs. Disputes surrounding claims and potential fines can often last for extended periods due to ongoing negotiations or, where relevant, the legal proceedings involved. Management are therefore required to make a best estimate based on the information available as at the year end. Such estimates are becoming increasingly judgmental and there is a risk that the final settlement is materially different to the amount provided.

Our response – In this area our audit procedures include

- reviewing any correspondence from external regulators or agencies in connection with material disputes,
- inquiring of management and the Company's external legal advisers regarding the nature of any claims, and the assumptions made with regard to the best estimate of the likely outcome. In assessing the key assumptions we have regard to publicly available information concerning other settled disputes within the Water industry for similar claims, and also the historical accuracy of management's estimate where claims are settled in the current year.

Based on the information obtained from these inquiries, as well as any other information obtained during our wider audit procedures, assessing the completeness of the claims included in management's internal reporting on material claims and the appropriateness of the recognised provision. We also assess the adequacy of the disclosures made in the financial statements concerning provisions recorded.

We continue to perform procedures over the completeness and valuation of accruals for contractor claims. However, the risk of contractor claims arising decreases at the beginning of the regulatory period as new contracts are entered into. Given that the financial year ended 31 March 2016 is the first year of the regulatory period 2016 – 2020, we have not assessed this as one of the risks that had the greatest effect on our audit individually and, therefore, it is not separately identified in our report this year. It has been included within the risk over completeness and valuation of Other Provisions shown above.

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

The materiality for the financial statements as a whole was set at £22 million (2015 £22 million). This has been determined with reference to a benchmark of the Company's total assets (of which it represents 0.13% (2015 0.13%), but has been considered as a percentage of PBT (approximately 4% (2015 6%) and turnover (1.08% (2015 1%)) as well.

We report to the Audit, Risk and Regulatory Committee any corrected or uncorrected identified misstatements exceeding £1 million, in addition to other identified misstatements that warranted reporting on qualitative grounds.

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

4 Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

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

In our opinion

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

5 We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to

- the Directors' statement of viability on page 35, concerning the principal risks, their management, and, based on that, the Directors' assessment and expectations of the Company's continuing in operation over the 3 years to 31 March 2019, or
- the disclosures in the accounting policies of the financial statements concerning the use of the going concern basis of accounting

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

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

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they consider that the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's position and performance, business model and strategy, or
- the Audit, Risk and Regulatory Committee does not appropriately address matters communicated by us to them

Under the Companies Act 2006 we are required to report to you if, in our opinion

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us, or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns, or
- certain disclosures of Directors' remuneration specified by law are not made, or
- we have not received all the information and explanations we require for our audit

On a consistent basis with 2015, in addition to our audit of the financial statements, the directors have engaged us to review their Corporate Governance Statement as if the company were required to comply with the Listing Rules and the Disclosure Rules and Transparency Rules of the Financial Conduct Authority in relation to those matters. Under the terms of our engagement we are required to review

- the Directors' statements, set out on pages 87 and 35, in relation to going concern and longer-term viability, and
- the part of the Corporate Governance Statement on pages 44 to 88 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review

We have nothing to report in respect of the above responsibilities

Scope and responsibilities

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



Robert Brent (Senior Statutory Auditor)

for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square
London
E14 5GL
9 June 2016

Income statement

For the year ended 31 March

	Note	2016) £m)	2015 £m
Revenue	2	2,039 5)	1,990 2
Operating expenses	3	(1,419 4)	(1,398 0)
Profit on the sale of property, plant and equipment		48 5)	16 4
Other operating income	5	73 6)	67 0
Operating profit		742 2)	675 6
Finance income	6	88.1)	88 6
Finance expense	6	(343 3)	(359 5)
Net gains/(losses) on financial instruments	7	26 2)	(40 0)
Profit on ordinary activities before taxation		511 2)	364 7
Taxation on profit on ordinary activities	8	55 2)	(1 1)
Profit for the year		566 4)	363 6

Statement of other comprehensive income

For the year ended 31 March

	Note	2016) £m)	2015 £m
Profit for the year		566 4)	363 6
Other comprehensive income			
<i>Items that will not be reclassified to the income statement</i>			
Net actuarial gains/(losses) on defined benefit pension schemes	23	113 4)	(126 9)
Deferred tax on net actuarial (gains)/losses	20	(30 8)	25 4
<i>Items that may be reclassified to the income statement</i>			
Losses on cash flow hedges		(65 0)	(154 4)
Deferred tax on losses on cash flow hedges	20	8 7)	30 8
Other comprehensive income/(expense) for the year		26 3)	(225 1)
Total comprehensive income for the year		592 7)	138 5

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

The accounting policies and notes on pages 98 to 142 are an integral part of these financial statements

Statement of financial position

As at 31 March

	Note	2016 £m	2015 £m	As at 1 April 2014 £m
Non-current assets				
Intangible assets	10	65 9	57 1	64 7
Property, plant and equipment	11	13,473 0	12,733 8	11,820 3
Investment in subsidiaries	12	0 1	0 1	0 1
Derivative financial assets	19	336 4	255 1	76 1
Intercompany loans receivable	13	2,315 0	2,115 0	2,015 0
Trade and other receivables	15	3 8	-	-
		16,194.2	15,161 1	13,976 2
Current assets				
Inventories and current intangible assets	14	20 7	9 6	6 7
Assets held for sale		1 0	0 2	0 3
Intercompany loans receivable	13	4 4	25 5	24 9
Trade and other receivables	15	559 8	533 4	523 8
Short term investments	19	289 5	277 1	489 0
Cash and cash equivalents	16	522 5	520 9	374 7
		1,397 9	1,366 7	1,419 4
Current liabilities				
Trade and other payables	17	(870 9)	(961 0)	(745 3)
Borrowings	18	(1,036 9)	(654 3)	(574 2)
		(1,907 8)	(1,615 3)	(1,319 5)
Net current (liabilities)/assets		(509 9)	(248 6)	99 9
Non-current liabilities				
Trade and other payables	17	(362 3)	(326 2)	(301 7)
Borrowings	18	(9,928 0)	(9,660 2)	(9,186 9)
Derivative financial liabilities	19	(940 9)	(832 1)	(453 5)
Deferred tax	20	(981.8)	(1,038 8)	(1,155 6)
Provisions for liabilities and charges	21	(97.6)	(97 9)	(96 4)
Retirement benefit obligations	23	(260.0)	(353 9)	(247 2)
		(12,570 6)	(12,309 1)	(11,441 3)
Net assets		3,113.7	2,603 4	2,634 8
Equity				
Called-up share capital	22	29 0	29 0	29 0
Share premium	22	100 0	100 0	100 0
Other reserves	22	892 0	952 9	1,107 2
Retained earnings	22	2,092 7	1,521 5	1,398 6
Total equity		3,113 7	2,603 4	2,634 8

The accounting policies and notes on pages 98 to 142 are an integral part of these financial statements

The financial statements were approved by the Board of Directors on 9 June 2016 and signed on its behalf by


Stuart Siddall
Chief Financial Officer

Company registered number 02366661 (England and Wales)

Statement of changes in equity

For the year ended 31 March

	Share capital £m	Share premium £m	Cash flow hedge reserve £m	Revaluation reserve £m	Retained earnings £m	Total equity) £m)
At 1 April 2014	29 0	100 0	-	1,107 2	1,398 6	2,634 8)
Profit for the year	-	-	-	-	363 6	363 6)
Loss on cash flow hedges	-	-	(154 4)	-	-	(154 4)
Deferred tax on cash flow hedge	-	-	30 8	-	-	30 8)
Actuarial loss on pension schemes	-	-	-	-	(126 9)	(126 9)
Deferred tax on actuarial loss	-	-	-	-	25 4	25 4)
Total comprehensive income	-	-	(123 6)	-	262 1	138 5)
Transfer of depreciation	-	-	-	(38 4)	38 4	-)
Deferred tax on depreciation transfer	-	-	-	7 7	(7 7)	-)
Dividends paid	-	-	-	-	(169 9)	(169 9)
At 31 March 2015	29 0	100 0	(123 6)	1,076 5	1,521 5	2,603 4)
Profit for the year	-	-	-	-	566 4	566 4)
Loss on cash flow hedges	-	-	(65 0)	-	-	(65 0)
Deferred tax on cash flow hedge	-	-	8 7	-	-	8 7)
Actuarial gain on pension schemes	-	-	-	-	113 4	113 4)
Deferred tax on actuarial gain	-	-	-	-	(30 8)	(30 8)
Total comprehensive income	-	-	(56 3)	-	649 0	592 7)
Transfer of depreciation	-	-	-	(38 4)	38 4	-)
Deferred tax on depreciation transfer	-	-	-	7 7	(7 7)	-)
Reduction in deferred tax rate	-	-	-	26 1	(26 1)	-)
Dividends paid	-	-	-	-	(82 4)	(82 4)
At 31 March 2016	29 0	100 0	(179 9)	1,071 9	2,092 7	3,113 7)

The accounting policies and notes on pages 98 to 142 are an integral part of these financial statements

Statement of cash flows

For the year ended 31 March

	Note	2016) £m)	2015 £m
Cash generated from operations	28	1,157 9)	1,212 9
Tax (paid)/received		-)	0 9
Net cash generated by operating activities		1,157 9)	1,213 8
<i>Investing activities</i>			
Interest received		107 7)	88 8
Purchase of property, plant and equipment		(1,262 4)	(1,307 4)
Purchase of intangible assets		(27.3)	(14 8)
Proceeds from sale of property, plant and equipment		14 7)	17 3
Net cash used in investing activities		(1,167 3)	(1,216 1)
<i>Financing activities</i>			
(Increase)/decrease in current asset investments		(12 4)	211 9
New loans raised		641.4)	600 9
Repayment of borrowings		(267 4)	(218 1)
Interest paid		(268 2)	(276 3)
Dividends paid		(82 4)	(169 9)
Net cash generated by financing activities		11 0	148 5
Net increase in cash and cash equivalents		1 6)	146 2
Net cash and cash equivalents at beginning of the year		520 9)	374 7
Net cash and cash equivalents at end of the year		522 5)	520 9

The statement of cash flows should be read in conjunction with the notes on pages 98 to 142

The accounting policies and notes on pages 98 to 142 are an integral part of these financial statements

Accounting policies

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

General information

Thames Water Utilities Limited ("the Company") is a company incorporated and domiciled in the United Kingdom under the Companies Act 2006. The address of the registered office is Clearwater Court, Vastern Road, Reading, RG1 8DB. The Company's principal activities are that of an appointed water and wastewater services provider, including acting as a retailer for household and non-household customers, operating in London, the Thames Valley and the surrounding area.

Statement of compliance with International Financial Reporting Standards ("IFRS")

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU"). These are the Company's first full IFRS financial statements and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The Company's previously reported results for the year ended 31 March 2015 have been restated, the effective date of transition to IFRS being 1 April 2014.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and the cash flows of the Company is provided in note 30. This note includes reconciliations of equity and total comprehensive income for comparative periods and of equity at the date of transition from previous reported numbers prepared under United Kingdom Generally Accepted Accounting Practice ("UK GAAP") to IFRS.

Basis of preparation

The financial statements for the year ended 31 March 2016, set out on pages 94 to 97, have been prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value, and the Disclosure and Transparency Rules ("DTR") issued by the Financial Conduct Authority. This is discussed in the Directors' Report on page 87.

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

Revenue recognition

Revenue represents the fair value of the consideration received or receivable in the ordinary course of business, excluding value added tax and trade discounts, for goods and services provided which are recognised in accordance with IAS18 *Revenue*. Revenue is recognised at the time of delivery of the service. Should the Company consider that the criteria for full revenue recognition are not met at the time of a transaction, recognition of the associated revenue would be deferred until such time as the criteria have subsequently been met. Bad debt on bills raised in the year, which are considered uncollectable based on historic experience, is recognised as a deduction to revenue to ensure revenue is recorded at fair value.

Revenue includes an estimate of the amount of mains water and wastewater charges unbilled at the period end, which are recorded within accrued income. The usage is estimated using a defined methodology based upon historical data and managerial judgement. When a new property is connected to the infrastructure network an estimate is made of the sales value of water supplied and wastewater charges incurred between the date of connection and the period end. Where actual results differ from estimates used, revenue is adjusted in the period for which the revision to the estimate is determined.

For unmetered customers, the amount to be billed is dependent upon the rateable value of the property, as assessed by an independent rating officer. The amount billed is recorded within deferred income and is apportioned to revenue over the period to which the bill relates.

The Company only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Company identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Company has not identified an occupant within six months the bill is cancelled and the property is classified as empty.

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the

financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the income statement.

Property, plant and equipment

Property, Plant and Equipment ("PP&E") is comprised of network assets (including water mains, sewers, pumped raw water storage reservoirs and sludge pipelines) and non-network assets. PP&E is stated at cost (or at deemed cost in the case of network assets, being the fair value at the date of transition to IFRS) less accumulated depreciation and provision for impairment.

The Company capitalises the directly attributable costs of procuring and constructing PP&E in accordance with IAS16 *Property, Plant and Equipment*. These costs include labour and other internal costs incremental to the business due to the scale and nature of the capital implementation programme of the Company. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and its cost can be measured reliably.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the associated asset. All other borrowing costs are included as finance expenses within the income statement.

Where items of PP&E are transferred to the Company from customers or developers, generally in the form of adopted water mains, self-lay sewers or adopted pumping stations, the fair value of the asset transferred is recognised in the statement of financial position. Fair value is determined based on estimated replacement cost. Where the transfer is in exchange for connection to the network and there is no further obligation for ongoing services, the corresponding credit is recognised immediately within revenue. Where the transfer is considered to be linked to the provision of ongoing services, the corresponding credit is recorded in deferred income and is released to other operating income over the expected useful economic lives of the associated assets as shown below.

The gain or loss arising on the disposal or retirement of an item of PP&E is determined as the difference between the sale proceeds and the carrying amount of the asset at the date the transaction arises, and is recognised separately in the income statement.

PP&E is depreciated to its estimated residual value over its estimated useful life, with the exception of freehold land which is not depreciated. Assets in the course of construction are not depreciated as these assets are not considered to commence their economic lives until they are commissioned, whereupon they are transferred into an appropriate category of PP&E.

The estimated useful economic lives are as follows:

	Years)
Network assets	
Reservoirs	250)
Strategic sewer components	200)
Wastewater network assets	150)
Water network assets	80-100)
Raw water tunnels and aqueducts	80)
Non-network assets	
Land and buildings	
Buildings	15-60)
Operational structures	30-100)
Plant and equipment	
Other operational assets	7-40)
Fixtures & fittings	5-7)
Vehicles	4-5)
Computers	3-5)
Fixed and mobile plant	4-60)

Grants and contributions

Contributions received in respect of certain infrastructure charges (where on connection of a new property to the network the Company receives cash from the developer towards the investment required to enhance network capacity, to meet new demand and maintain service levels) are treated as deferred income and released to other operating income over a 30 year period.

Contributions which are given in compensation for expenses incurred with no future related costs, including the cost of excavating, connecting and reinstating a new water supply to an existing mains connection, are recognised within other operating income in the period that they become receivable as no continuing obligation remains once the connection has been made

Intangible assets

Separately acquired intangible assets are stated at cost, less accumulated amortisation and any provision for impairment

Research expenditure is expensed to the income statement as incurred. Development expenditure is capitalised when appropriate criteria are met under IAS 38 *Intangible Assets*. Amortisation of the asset begins when development is complete and the asset is available for use. It is amortised over the period of expected future benefit on a project by project basis.

Amortisation is charged to the income statement on a straight-line basis over the estimated useful economic life of the intangible asset. These intangible assets are amortised from the date they become available for use. The estimated useful economic life is as follows:

	Years)
Development expenditure	3-25)
Software	5-10)

Non-current asset investment in subsidiary entities

Investments in subsidiary undertakings are stated at cost, less any provision for impairment.

Non-current assets held for sale

Non-current assets are reclassified as held for sale if all of the following criteria are satisfied:

- the carrying amount will be recovered principally through sale rather than through continuing use,
- the asset is available for immediate sale in its present condition, and
- a sale is considered to be highly probable.

On initial reclassification as held for sale, non-current assets are measured at the lower of the previous carrying amount and fair value less costs to sell, with any adjustments being recognised within the income statement. Once classified as held for sale no further depreciation or amortisation is recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value ("NRV"). 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 basis. Inventory is assessed for obsolescence on an item-by-item basis and when determined to be obsolete is written off immediately to the income statement.

Purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) are recorded within current inventories as intangible assets, initially at cost and subsequently at the lower of cost and net realisable value. A provision is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement.

Leased assets

Leases where the Company obtains assets which transfer substantially all the risks and rewards of ownership to the Company are treated as finance leases. The lower of the fair value of the leased asset and the present value of the minimum lease payments is capitalised as an asset, with a corresponding liability representing the obligation to the lessor. Lease payments are treated as consisting of a capital element and a finance charge, the capital element reducing the obligation to the lessor and the finance charge being written off to the income statement at a constant rate over the period of the lease, in proportion to the capital amount outstanding. Depreciation is charged at the shorter of the estimated useful economic life and the lease period.

All other leases are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives and premiums received are recognised in the income statement as an integral part of the total lease expense and are released to the income statement on a straight line basis.

over the term of the lease. Leases of land are ordinarily treated as operating leases, unless ownership is transferred to the Company at the end of the lease.

On completion of construction of the Thames Tideway Tunnel, the Company will be granted use of the tunnel under a 125 year lease. As substantially all the risks and rewards of ownership are transferred to the Company and the lease is for a substantial part of the tunnel's life, the Company will account for the transaction as a finance lease. The tunnel will be therefore recognised as an asset within PP&E and depreciated over the life of the lease. On inception of the lease, the tunnel will be recognised at fair value, being the prepayment plus the present value of the minimum lease payments, with a corresponding liability being recognised as a finance lease payable. Interest will be recognised in the income statement over the period of the lease.

Provisions for liabilities and charges

Provisions are recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

The Company is subject to a number of claims which relate to and include commercial and contractual disputes, which are handled and defended in the ordinary course of business. The Company 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 available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience.

Provisions for insured liabilities are recognised or released by assessing their adequacy using current estimates of future cash flows under insurance contracts.

Provisions are discounted to present value using a pre-tax discount rate that reflects the risks specific to the liability, where the effect is material.

The Company is subject to Outcome Delivery Incentives ("ODIs") where failure to achieve targets can lead to financial penalties and outperformance can result in financial rewards. These penalties and rewards are in the form of revenue adjustments or Regulated Capital Value ("RCV") adjustments. The Company does not recognise a provision for penalties or rewards in the period in which they are incurred or achieved as the financial impact of these is taken in the following Asset Management Plan ("AMP") period.

Risks, opportunities and innovation ("ROI") funds

The Company has entered into certain alliance arrangements with a number of third parties. The alliance agreements include incentive mechanisms which result in the alliance partners sharing in any over or underspend on contracted works, as well as sharing in outcomes against TWUL's performance commitments. During the year ended 31 March 2016 there were two alliances responsible for delivering various works over AMP 6.

A notional ROI fund for each alliance is created and built up over the AMP, and ultimately paid to alliance partners at contractual percentages, once certain conditions, as specified in the contract between the Company and the alliance partners, are satisfied.

A provision for ROI amounts is recognised when the Company has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Conversely, a receivable for ROI will be recognised when the Company has a right to receive cash at a future date, the amount can be reliably estimated and receipt is virtually certain.

ROI amounts arising from an over or underspend against the contracted cost for a capital project, where the spend is directly attributable to the asset created, is deemed to be an integral cost in bringing an asset into the condition and location for use as intended by management and therefore is capitalised as part of the cost of the asset and depreciated over the asset's useful life.

ROI amounts arising from operating expenditure over or underspend against the contracted cost, where the spend cannot be directly attributed to a capital asset, is recognised directly in profit or loss as the spend is incurred.

ROI amounts resulting from an ODI penalty or reward is recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Retirement and other employment benefits

Defined benefit schemes

The Company operates two, independently administered, defined benefit pension schemes, both of which are closed to new employees. Actuarial valuations are carried out as determined by the Trustees, using the projected unit credit method for both schemes at intervals of not more than three years. The rates of contributions payable and the pension cost are determined on the advice of the actuaries, having regard to the results of these valuations.

The difference between the value of defined benefit pension scheme assets and liabilities is recorded within the statement of financial position as a retirement benefit or obligation. Defined benefit pension scheme assets are measured at fair value using the bid price for assets with quoted prices. Defined benefit pension scheme liabilities are measured at the reporting date by an independent actuary using the projected unit credit method and discounted at the current rate of return on high quality bonds of equivalent term and currency to the liability.

Service cost, representing the cost of employee service in the period, and scheme administration expenses are included within operating expenses in the income statement. The net finance cost is calculated by applying the discount rate used for the scheme liabilities to the net deficit.

Changes in the retirement benefit obligation may arise from

- differences between the return on scheme assets and interest included in the income statement,
- actuarial gains and losses from experience adjustments, or
- changes in demographic or financial assumptions.

Such changes are classified as *re-measurements* and are charged or credited to equity and recorded within the statement of comprehensive income in the period in which they arise.

Defined contribution schemes

The Company operates a Defined Contribution Stakeholder Pension Scheme ("DCSPS") managed through Standard Life Assurance Limited. From 1 April 2011 the DCSPS is the only scheme to which new employees of the Company are eligible. The assets of the DCSPS are held separately from those of the Company and obligations for contributions to the scheme are recognised as an expense in the income statement in the periods during which they fall due.

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

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. These are recognised as the present value of the benefit obligation.

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

During the year, the Company launched a new 'Share in Your Success' scheme. The scheme is open to all employees. Employees are able to contribute between £20 and £250 per month from their salary into a savings account over a three year period. At the end of the three years, the employee is then entitled to all of the cash they have sacrificed during that period, plus interest that has accrued on that balance, and a 'bonus' element paid by the Company of up to 35% of the amount invested. If an employee is to leave the Company within the three year period, then they are entitled to the amount they have invested up until the point of departure, including the interest due in that period.

Non-derivative financial instruments

A financial instrument is any contract that gives rise to a financial asset in one entity and a financial liability or equity instrument in another entity. Non-derivative financial instruments comprise trade and other receivables, cash and cash equivalents, loans and borrowings and trade and other payables.

Trade and other receivables

Trade and other receivables are measured at fair value on initial recognition. Subsequent to initial recognition they are measured at amortised cost using the effective interest method. If there is objective evidence that the asset is impaired it is written down to its recoverable amount and the irrecoverable amount is recognised as an expense within operating costs. Debt is only written off after all available economic options for collecting the debt have been exhausted and the debt has been deemed to be uncollectable. This may be because the debt is considered to be impossible, impractical, inefficient or uneconomic to collect, and is assessed by management on a case-by-case basis.

Included within trade receivables 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. This assessment is made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends. A provision is also made against debts due from Water Only Companies ("WOCs") who bill their customers for sewerage services provided by the Company. As detailed information about the debt, including the ageing, is unavailable the level of provision is calculated with reference to the level of historical, current and forecast write-offs.

Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

Trade and other payables include amounts owed to Bazalgette Tunnel Limited. Amounts owed to Bazalgette Tunnel Limited represent cash collected on behalf of Bazalgette Tunnel Limited for the construction of the Thames Tideway Tunnel.

Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. Such investments are normally those with less than three months maturity from the date of acquisition and include cash and bank balances and investments in liquid funds.

Bank overdrafts that are repayable on demand form an integral part of the Company's cash management and are also included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Interest bearing loans issued to other group companies

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Interest bearing borrowings

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

Derivative financial instruments and hedging

Derivative financial instruments not designated as hedging instruments

Derivative financial instruments are initially recognised at fair value with transaction costs being taken to the income statement. The gain or loss on re-measurement to fair value is recognised immediately in profit or loss.

Derivative financial instruments designated as hedging instruments

The Company uses derivative financial instruments, such as forward currency contracts and interest rate swaps to hedge its foreign currency risks and interest rate risks, respectively. At the inception of each hedge relationship the Company documents

- the relationship between the hedging instrument and the hedged item,
- its risk management objectives and strategy for undertaking the hedge transaction, and
- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item

The Company continues to test and document the effectiveness of the hedge on an ongoing basis. Hedge accounting discontinues when the hedging instrument expires, is sold, terminated or exercised, or no longer qualifies for hedge accounting.

Cash flow hedges

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognised asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognised directly in the cash flow hedge reserve. Any ineffective portion of the hedge is recognised immediately in the income statement.

When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from the cash flow hedge reserve and reclassified to the income statement in the same period or periods during which the asset acquired or liability assumed affects profit or loss, i.e. when interest income or expense is recognised.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship but the hedged forecast transaction is still expected to occur, the cumulative gain or loss at that point remains in equity and is recognised in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, the cumulative unrealised gain or loss recognised in equity is recognised in the income statement immediately.

Embedded derivatives

Where a contract includes terms that cause some of its cash flows to vary in a similar way to a derivative financial instrument, that part of the contract is considered to be an embedded derivative. Embedded derivatives are separated from the contract and measured at fair value with gains and losses taken to the income statement if:

- the risks and characteristics of the embedded derivative are not closely related to those of the contract, and
- the contract is not carried at fair value with gains and losses reported in the income statement.

In all other cases embedded derivatives are accounted for in line with the accounting policy for the contract as a whole.

Fair value measurement

The company measures financial instruments such as derivatives at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk.

De-recognition of financial instruments

A financial asset is de-recognised when the rights to receive cash flows from the asset have expired.

A financial liability is de-recognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the de-recognition of the original liability and the recognition of a new liability. The difference between the carrying amount of the financial liability extinguished or transferred and the consideration paid is recognised in the income statement.

Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial guarantees

The Company is part of a whole business securitisation group. Companies in the whole business securitisation group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Holdings

Limited and Thames Water Utilities Cayman Finance Limited have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee.

Foreign currency

Transactions in foreign currencies are translated to sterling (the Company's functional and presentational currency) at the foreign exchange rate ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies at the financial reporting date are retranslated to the functional currency at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement except for differences arising on the retranslation of qualifying cash flow hedges, which are recognised directly in other comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are retranslated to the functional currency at foreign exchange rates ruling at the dates the fair value was determined.

Dividends

Dividends unpaid at the financial reporting date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the Company. This occurs when the shareholders' right to receive payment has been established.

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

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

A financial asset not carried at fair value through profit or loss is assessed at each financial reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset and can be measured reliably.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment is reversed through the income statement.

Trade receivables that are assessed not to be impaired individually are assessed collectively for impairment by reference to the Company's historical collection experience for receivables of a similar age.

Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories and deferred tax assets, are reviewed at each financial reporting date to determine whether there is any indication of impairment. If any such indication exists then the assets recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed

if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Taxation

Tax on the profit or loss for the period comprises current and deferred tax. Tax is recognised in the income statement except to the extent that it relates to items recognised directly within equity, in which case it is recognised within the statement of other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustments to tax payable in respect of previous periods.

Taxable profit differs from the profit on ordinary activities before tax as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods. This includes the effect of tax allowances and further excludes items that are never taxable or deductible.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax is measured on a non-discounted basis using tax rates enacted or substantively enacted at the balance sheet date and that are expected to apply in the period when the deferred tax asset is realised or the deferred tax liability is settled.

Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised only to the extent that it is probable that sufficient future taxable profits will be available against which deductible temporary differences can be utilised.

Deferred tax assets and deferred tax liabilities are offset when there is a legally enforceable right to set off tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

New accounting policies and future requirements

At the date of approval of these financial statements the following standards and interpretations were in issue but not yet effective:

- IFRS 9 *Financial Instruments* is likely to affect the measurement and disclosure of financial statements. This standard has not yet been endorsed by the EU.
- IFRS 15 *Revenue from Contracts with Customers* will affect the measurement and recognition of revenue with effect from 1 April 2018. The impact on the results or net assets of the Company due to the changes to the standard has not yet been quantified. This standard has not yet been endorsed by the EU.
- IFRS 16 *Leases* will affect the measurement and recognition of leases, in particular operating leases, with effect from 1 April 2019. The effect on the results or net assets of the Company due to the changes to the standard has not yet been quantified. This standard has not yet been endorsed by the EU.

Significant accounting judgements and key sources of estimation uncertainty

In the process of applying the Company's accounting policies, the Company is required to make certain judgements, estimates and assumptions that it believes are reasonable based on available information. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from these estimates.

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting date used in preparing these financial statements are as follows:

Property, plant and equipment

The Company capitalises expenditure relating to water and wastewater infrastructure where such expenditure enhances or increases the capacity of the network. Maintenance expenditure is taken to the income statement in the period in which it is incurred. Differentiating enhancement from maintenance expenditure is subjective, particularly where a single project may include a mix of both types of activities. Additionally, management capitalises employee time and other expenses incurred by central functions on capital programmes and consequently judgement is applied concerning the capitalisation rate used.

Calculation of the depreciation charge requires estimates to be made regarding the useful economic lives of the assets. These estimates are based on engineering data and the Company's experience of similar assets. If management identifies that actual useful economic lives differ materially from the estimates used to calculate the depreciation charge, that charge will be adjusted prospectively.

The Company is required to evaluate the carrying values of PP&E for impairment whenever the circumstances indicate that the carrying value of those assets may not be recoverable. An impairment review requires management to make subjective judgements regarding the recoverable value and value in use of the assets under review.

Unbilled revenue

Revenue reflects the fair value of the consideration received, or receivable, in the ordinary course of business, excluding value added tax and trade discounts, for goods and services provided. Revenue is recognised at the time of delivery of the service and consequently payments received in advance of revenue recognition are recorded as deferred income.

The Company raises bills in accordance with its entitlement to receive revenue in line with the limits established by the periodic regulatory price review processes. For water and wastewater customers with water meters, the amount recognised depends on the volume supplied including an estimate of the sales value of units supplied between the date of the last meter reading and the financial reporting date. Amounts recognised within revenue but unbilled at the financial reporting date are included within accrued income. Meters are read on a cyclical basis and the Company recognises revenue for unbilled amounts based on estimated usage from the last billing to the financial reporting date. The estimated usage is based on historical data, judgement and assumptions.

Where actual results differ from estimates used, revenue is adjusted in the period for which the revision to the estimate is determined.

Provision for doubtful debt

Provisions are made against trade receivables based on an assessment of the recovery of debts including those 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. This assessment is made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The actual level of receivables collected may differ from the estimated level of recovery which could affect operating results positively or negatively.

Retirement benefit obligations

The Company operates defined benefit pension schemes for which full actuarial valuations are carried out as determined by the trustees at intervals of not more than three years. Determining the amount of the Company's retirement benefit obligations and the net costs of providing such benefits requires assumptions to be made including, but not restricted to, long term interest rates, inflation and rate of increases to pensions in payment. These are assessed using the advice of an independent qualified actuary, market observations and assumptions from the latest actuarial valuation.

Changes in these assumptions could significantly affect the amount of obligations recognised and the cost of providing such benefits.

Provisions for other liabilities and charges

Assessing the financial outcome of uncertain commercial and legal cases requires judgement to be made regarding the extent to which any claim against the Company is likely to be successful after considering available information including notifications, settlements, estimates performed by independent parties and legal counsel, available facts, identification of other potentially responsible entities and their ability to contribute, and prior experience

The required provision may change in the future due to new developments and as additional information becomes available and in such instances the provision will be adjusted prospectively

Fair value of derivatives

The fair value of financial assets and liabilities represents the price that would be received to sell an asset, or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The fair value of the derivatives is determined by discounting estimated future cash flows based on the terms and maturity of each contract and using market interest rates at the measurement date. The valuations are tested for reasonableness by comparing these to bank quotes. The fair value calculations have been adjusted to incorporate the Company's own and counterparty's credit risk where appropriate.

Notes to the financial statements

1. Segmental analysis

IFRS 8 *Operating Segments* requires segmental information to be presented on the same basis as that used for internal management reporting. Segmental information is reported internally on a monthly basis by the "Operating Companies" (representing individual business units rather than separate legal entities) to the Executive Committee. The Executive Committee, responsible for the day-to-day running of the business, is headed by the Chief Executive Officer and is also comprised of the Chief Financial Officer and the Company's functional directors. Consequently for the purposes of IFRS 8 the Executive Committee is considered to be the Chief Operating Decision Maker ("CODM") of the Company.

Management considers that the Company's reportable segments are those used by the Executive Committee for the purposes of resource allocation and to assess the Company's performance. These segments are also aligned with the internal business structure and the regulatory environment in which the Company operates, and therefore may differ from Ofwat definitions, which are as follows:

Retail	comprising both the household and non-household Operating Companies and provides certain customer-facing activities including billing and revenue collection,
Water	responsible for all aspects of raw water abstraction and treatment as well as the distribution of high quality drinking water to household and non-household customers, and
Wastewater	responsible for all aspects of wastewater collection, treatment and safe disposal. Wastewater will be responsible for the construction of interface works to the Thames Tideway Tunnel.

The CODM reviews the non-household retail and household retail Operating Companies as a whole for the purposes of financial performance, monitoring and assessment and this is consistent with internal management reporting. The retail non-household and household Operating Companies have similar economic characteristics and are managed as one single business under a common MD, CFO and management team. Consequently these have been aggregated into a single reportable segment for the purposes of this financial statements disclosure. No other segments have been presented on an aggregated basis.

Other activities conducted by the Company primarily relate to certain non-regulated activities and shared corporate services that have not been included within the above segments. Management does not consider these activities to represent a separate reportable segment and consequently for the below disclosures they have been aggregated into a single caption designated "Unallocated".

The Company has a large and diverse customer base and consequently there is no significant reliance on any single customer such that no one customer exceeds 10% of total revenues in any reportable segment.

The Company is subject to economic regulation by Ofwat and operates under a licence to provide water and wastewater services within a defined geographical region, being London, the Thames Valley and the surrounding area. Therefore management considers there to be only one single geographical location of business.

On 1 April 2015 the Company completed the internal reorganisation of its business to the current structure, representing four individual Operating Companies (not separate legal entities) supported by a shared central corporate services unit. Prior to that date the Company was functionally structured. Consequently the comparative information included within these disclosures has been re-presented from that originally provided to the CODM to reflect the Company's new operating structure. This has required the allocation of external and intersegment revenues in line with the allocation basis adopted for the current reporting period.

Segmental performance

Transactions between reportable segments are included within segmental results in accordance with the Company's accounting policies. These are eliminated on production of the Company's financial statements, as shown within the reconciliation presented. Information regarding the performance results of each reportable segment are provided in line with that evaluated by the CODM and is based on Earnings before Interest and Tax ("EBIT").

Financial income and expenses are not allocated to the reportable segments as this activity is managed centrally by the Company's treasury function, which manages the overall cash and net debt position of the Company. Similarly the corporation tax credit or charge is not allocated to the individual reportable segments as this is considered to be borne by the Company as a whole.

1 Segmental analysis (continued)

A segmental analysis of revenue and EBIT is presented below

Year ended 31 March 2016	Retail £m	Water £m	Wastewater £m	Unallocated £m	Total) £m)
External revenue	2,033.3	19.4	9.0	15.5	2,077.2
Inter-segment revenue	(1,826.6)	816.0	1,010.6	-	-
Statutory reclassification of bad debt expenses	-	-	-	(37.7)	(37.7)
Net revenue	206.7	835.4	1,019.6	(22.2)	2,039.5
Operating expenses	(182.5)	(365.4)	(384.8)	(48.0)	(980.7)
Depreciation	(1.3)	(165.8)	(189.7)	(18.4)	(375.2)
Amortisation	-	-	-	(17.9)	(17.9)
<i>Reconciliation to statutory operating expenditure</i>					
Statutory depreciation adjustments	-	-	(0.9)	(81.8)	(82.7)
Statutory amortisation adjustments	-	-	-	(0.6)	(0.6)
Statutory reclassification of bad debt expenses	-	-	-	37.7	37.7)
Statutory reclassification of other operating income	-	-	-	(12.8)	(12.8)
Statutory reclassification of pension costs	-	-	-	14.0	14.0)
Other	-	-	-	(1.2)	(1.2)
Total statutory operating expenditure	(183.8)	(531.2)	(575.4)	(129.0)	(1,419.4)
Profit on sale of property, plant and equipment	-	-	-	48.5	48.5)
Other operating income	-	-	-	73.6	73.6)
Earnings before interest and tax	22.9	304.2	444.2	(29.1)	742.2)
Net finance expense	-	-	-	(231.0)	(231.0)
Profit before tax for the period	22.9	304.2	444.2	(260.1)	511.2)
Year ended 31 March 2015	Retail £m	Water £m	Wastewater £m	Unallocated £m	Total) £m)
External revenue	1,975.9	17.4	8.4	25.1	2,026.8)
Inter-segment revenue	(1,798.3)	803.0	995.3	-	-
Statutory reclassification of bad debt costs	-	-	-	(36.6)	(36.6)
Net revenue	177.6	820.4	1,003.7	(11.5)	1,990.2)
Operating expenses	(177.8)	(344.9)	(361.4)	(82.0)	(966.1)
Depreciation	(0.7)	(154.8)	(174.7)	(45.6)	(375.8)
Amortisation	-	-	-	(22.4)	(22.4)
<i>Reconciliation to statutory operating expenditure</i>					
Statutory depreciation adjustments	-	-	-	(79.1)	(79.1)
Statutory reclassification of bad debt expenses	-	-	-	36.6	36.6)
Statutory reclassification of other operating income	-	-	-	(11.6)	(11.6)
Statutory reclassification of pension costs	-	-	-	20.4	20.4)
Total statutory operating expenditure	(178.5)	(499.7)	(536.1)	(183.7)	(1,398.0)
Profit on sale of property, plant and equipment	-	-	-	16.4	16.4)
Other operating income	-	-	-	67.0	67.0)
Earnings before interest and tax	(0.9)	320.7	467.6	(111.8)	675.6)
Net finance expense	-	-	-	(310.9)	(310.9)
Profit before tax for the period	(0.9)	320.7	467.6	(422.7)	364.7)

1 Segmental analysis (continued)

Segmental net assets

Separate segmental analysis of total assets and total liabilities are not reviewed by the CODM. Instead the information provided to the CODM comprises a measure of capital expenditure and segmental net assets. Certain centrally held provisions (including deferred tax liabilities), capitalised borrowing costs, external financing obligations and retirement benefit obligations are not allocated to the individual segments as they are considered to be borne by the Company as a whole.

A segmental analysis of the net asset position of each segment and level of capital expenditure is presented below.

As at 31 March 2016	Retail £m	Water £m	Wastewater £m	Unallocated £m	Total) £m)
Total assets	470.9	4,909.1	6,480.6	1,388.6	13,249.2
Total liabilities	(205.6)	(230.1)	(443.0)	(10,273.5)	(11,152.2)
Net assets/(liabilities)	265.3	4,679.0	6,037.6	(8,884.9)	2,097.0
<i>Reconciliation to statutory net assets</i>					
Fair value asset	-	-	-	1,384.0	1,384.0
Depreciation of fair value asset	-	-	-	(162.4)	(162.4)
Capitalised borrowing costs	-	-	-	200.8	200.8
Fair value of self-lay sewers	-	-	-	9.9	9.9
Fair value of derivatives	-	-	-	(392.6)	(392.6)
Statutory pension adjustment	-	-	-	(16.7)	(16.7)
Other	-	-	-	(6.3)	(6.3)
Statutory net assets	265.3	4,679.0	6,037.6	(7,868.2)	3,113.7
Capital expenditure on property, plant & equipment	26.1	387.0	644.9	140.7	1,198.7
As at 31 March 2015	Retail £m	Water £m	Wastewater £m	Unallocated £m	Total) £m)
Total assets	422.3	4,777.9	6,105.2	1,408.4	12,713.8
Total liabilities	(195.0)	(331.1)	(565.2)	(10,016.0)	(11,107.3)
Net assets/(liabilities)	227.3	4,446.8	5,540.0	(8,607.6)	1,606.5
<i>Reconciliation to statutory net assets</i>					
Fair value asset	-	-	-	1,384.0	1,384.0
Depreciation of fair value asset	-	-	-	(79.0)	(79.0)
Capitalised borrowing costs	-	-	-	86.4	86.4
Fair value of self-lay sewers	-	-	-	6.4	6.4
Fair value of derivatives	-	-	-	(400.7)	(400.7)
Other	-	-	-	(0.2)	(0.2)
Statutory net assets	227.3	4,446.8	5,540.0	(7,610.7)	2,603.4
Capital expenditure on property, plant & equipment	63.2	452.2	760.4	93.4	1,369.2

2. Revenue

	2016) £m)	2015 £m)
Gross revenue	2,077.2	2,026.8
Charge for bad and doubtful debts	(37.7)	(36.6)
Total	2,039.5	1,990.2

All revenue is derived from activities based in the UK. In future periods, revenue will include amounts billed to wastewater customers on behalf of Bazalgette Tunnel Limited in respect of construction costs for the Thames Tideway Tunnel.

3 Operating expenses

	2016) £m)	2015 £m
Wages and salaries	198.1)	180.5
Social security costs	18.0)	17.4
Pension costs – defined benefit schemes (excluding curtailment gain)	23.5)	24.5
Pension costs – curtailment gain on defined benefit schemes	-)	(10.0)
Pension costs – defined contribution schemes	5.2)	4.1
Severance costs	1.6)	12.2
Release of restructuring provision in relation to severance costs	(5.4)	-
Total employee costs	241.0)	228.7
Power	110.0)	105.1
Carbon reduction commitment	6.2)	8.0
Raw materials and consumables	44.8)	41.8
Charge for bad and doubtful debts	27.3)	37.9
Rates	93.6)	90.6
Depreciation of property, plant and equipment	457.9)	454.9
Amortisation of intangible assets	18.5)	22.4
Operating lease rental – hire of plant and machinery	1.8)	3.8
Operating lease rental – other	9.1)	8.6
Property development costs	-)	0.4
Research and development expenditure	3.1)	4.0
Other operating costs	541.0)	536.5
Gross operating costs	1,554.3)	1,542.7
Own work capitalised	(134.9)	(144.7)
Net operating expenses	1,419.4)	1,398.0

The one-off non-cash curtailment gain of £10.0m in the financial year ended 31 March 2015 arose as a result of the calculation of members' benefits in Mirror Image Pension Scheme changing from final salary to Career Average Revalued Earnings ("CARE")

Amounts payable to the Company's auditor are shown below in respect of the following services to the Company

	2016) £'000)	2015 £'000
<i>Fees payable to the Company's auditor</i>		
Fees payable for the audit of the Company's financial statements	374)	297
<i>Fees payable to the Company's auditor for other services</i>		
Audit related assurance services	155)	93
Other assurance services	755)	688
Taxation compliance services	-)	11
Other tax advisory services	16)	60
Corporate finance services	570)	2,376
Other services	224)	161
Total aggregate remuneration	2,094)	3,686

Fees payable for the audit of the Company's financial statements include £40,000 (2015 £40,000) for out of pocket expenses incurred for delivery of the audit

Fees for corporate finance services include £0.6m (2015 £2.4m) in respect of advice on the Thames Tideway Tunnel. These costs have been capitalised as part of the design phase of the project. The contract was awarded to KPMG LLP in a prior year following a competitive tendering process in line with the Company's procurement procedures.

Other services include certain agreed upon procedures performed by KPMG LLP in connection with the Company's regulatory reporting requirements for Ofwat.

No fees, other than those disclosed, were payable to KPMG LLP in respect of this Company in the current or preceding financial year.

4. Employees and Directors

Employees

All Company employees are based in the United Kingdom. The average number of persons employed by the Company (including Executive Directors) during the year, analysed by category, was as follows

	2016) Number)	2015 Number
Retail	937)	880
Water	1,887)	1,652
Wastewater	1,746)	1,771
Group services	487)	506
Total persons employed	5,057)	4,809

Directors

The Directors' emoluments were as follows

	2016) £'000)	2015 £'000
Salary and fees	1,314)	954
Pension and pension allowances	142)	135
Bonus	426)	449
Long-term incentive plan	418)	418
Other benefits	47)	48
Total aggregate emoluments	2,347)	2,004

Included in the table above, is £1,602,000 (2015 £1,594,000) for the Executive Directors for their services to the Company. In addition, the Executive Directors received total remuneration of £687,000 (2015 £683,000) for their services to other companies within the Group.

At 31 March 2016 no benefits were accruing to any Directors (2015 £nil) under the Group's defined benefit scheme in respect of services to the Company. The Company contributed cash of £142,000 (2015 £135,000) as a pension supplement for two Directors (2015 two Directors). The Company made £nil contributions (2015 £nil) into the Company's defined contribution pension scheme.

Amounts disclosed in respect of the long-term incentive plan ("LTIP") are those where all performance and service conditions have been met. Detailed disclosures of items of remuneration, including those accruing under LTIPs can be found within the Remuneration Policy report on pages 60 to 75.

Highest paid Director

Total emoluments, including payments and accruals under long term incentive schemes of the highest paid Director in respect of work done for the Company during the year were £955,000 (2015 £950,000). The highest paid Director is a member of the Company's defined contribution pensions scheme and the Company made contributions of £nil to the scheme in the year (2015 £nil) in relation to Director's services to the Company. Cash was received in lieu and these amounts are included within total remuneration disclosed above. In addition, emoluments of £410,000 (2015 £407,000) were paid to the highest paid Director for services to other companies within the Group.

5 Other operating income

	2016) £m)	2015 £m)
Power income	8.0)	6.8
Requisitions and diversions charges	22.6)	22.8
Service connection charges	21.6)	19.6
Release from deferred income – infrastructure charges	14.1)	13.0
Rental income	7.3)	4.8
Total	73.6)	67.0

Power income comprises income from the sale of internally generated electricity

6. Finance income and expense

Finance income

	2016) £m)	2015 £m)
Interest income on bank deposits	2.6)	7.6
Interest income on intercompany loans receivable	27.4)	25.5
Interest income on swaps	56.1)	55.5
Total finance income	86.1)	88.6

Finance expense

	2016) £m)	2015 £m)
<i>Interest in relation to bank and other loans</i>		
Interest expense	23.9)	24.9
RPI accretion on loans	12.7)	4.9
<i>Interest in relation to intercompany borrowings</i>		
Interest expense	351.6)	333.9
RPI accretion on loans	33.7)	49.2
Interest expense on swaps	25.4)	24.8
Net interest expense on defined benefit obligation	10.4)	8.2
Gross finance expense	457.7)	445.9
Capitalised borrowing costs	(114.4)	(86.4)
Total finance expense	343.3)	359.5

7. Net gains/ (losses) on financial instruments

	2016) £m)	2015 £m)
Exchange (losses)/gains on other loans	(11.2)	4.5
Gain/(loss) arising on swaps where hedge accounting is not applied	37.4)	(44.5)
Total	26.2)	(40.0)

8. Taxation

Tax charged in the income statement

	2016) £m)	2015 £m
<i>Current tax</i>		
Current year amounts due in respect of group relief	8 9)	-
Adjustment in respect of prior periods – group relief	15.1)	61 6
<i>Deferred tax</i>		
Origination and reversal of temporary differences	76 8)	72 4
Adjustment in respect of prior periods	(35 1)	(132 9)
Adjustment in respect of corporation tax rate changes	(120 9)	-
Tax (credit)/charge on profit on ordinary activities	(55 2)	1 1

The tax charge for the year ended 31 March 2016 is lower (2015 lower) than the standard rate of corporation tax in the UK. The differences are explained below

	2016) £m)	2015 £m
Profit on ordinary activities before taxation	511 2)	364 7
Current tax at 20% (2015 21%)	102 2)	76 6
<i>Effects of</i>		
Disallowable expenditure	6 7)	5 2
Non-taxable income including property disposals	(8.0)	(5 6)
Effect of tax rate change on temporary timing differences	(120 9)	(3 8)
Group relief not paid at standard rate	(15.2)	-
Adjustments to tax charge in respect of prior periods – group relief	15 1)	61 6
Adjustments to tax charge in respect of prior periods – deferred tax	(35 1)	(132 9)
Total tax (credit)/charge	(55 2)	1 1

Disallowable costs primarily include depreciation on assets which do not qualify for tax relief

Non-taxable income relates to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles, however, such income is ultimately taxed through capital allowances. Tax chargeable on gains arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.

The Company has decided to utilise tax losses available in its parent company for the years ended 31 March 2014, 2015 and 2016. As a result, the Company has reduced its claims for tax relief on its capital expenditure in these periods. This tax relief is deferred to later periods and as a result, a deferred tax release of £21.7m is included in the current year charge, and £36.7m is included in the prior year release of £35.1m.

The Company will pay £24.0m to its parent company for the tax losses, which is shown in the income statement as a current tax charge of £8.9m in respect of the current year and £15.1m in respect of prior years. The Company is paying for the tax losses at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to the Company. This results in a reduction of the current tax charge of £15.2m. Utilising tax losses in this way should ultimately benefit customers through lower tax funding in future regulatory settlements.

A reduction in the UK corporation tax rate from 20% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015. The deferred tax liability at 31 March 2016 was calculated based on the rate of 18% substantively enacted at the balance sheet date. This has resulted in an overall deferred tax credit in the income statement of £120.9m, which comprises a deferred tax release/ (charge) in respect of fixed assets, cash flow hedges and retirement benefit obligations of £122.1m, (£4.1m) and £2.9m respectively. A further reduction to the UK corporation tax rate was announced in the 2016 Budget to further reduce the tax rate to 17% (to be effective from 1 April 2020). This will reduce the Company's future current tax charge accordingly.

8. Taxation (continued)

The income tax (charged)/ credited directly to equity during the year is as follows

	2016 £m	2015 £m
<i>Deferred tax</i>		
Tax on actuarial (gain)/ loss	(22 7)	25 4
Tax on cash flow hedges	(13 0)	30 8
Effect of change in tax rate	(12 4)	-
Total	(22 1)	56 2

9 Dividends

	2016 £m	2015 £m
June	25 0)	-
September	-)	20 0
January	57 4)	-
March	-)	149 9
Total	82 4)	169 9

The application of the above dividends paid to the Kemble Water Holdings Group in the year are analysed as follows

	2016 £m	2015 £m
<i>Distribution to ultimate shareholders</i>		
External dividend distributions	-)	63 1
Interest on Kemble Water Eurobond Plc debt	-)	36 9
	-)	100 0
<i>Distributions not distributed to ultimate shareholders</i>		
Interest on Kemble Water Finance Limited debt	55 0)	40 0
Distribution to Thames Water Limited	2 5)	-
Distribution to Kemble Water Eurobond Plc	-)	5 0
Distribution to Thames Water Utilities Holdings Limited	24 9)	24 9
	82 4)	69 9
Total	82 4)	169 9

The aggregate amount of dividends proposed but not paid nor recognised as liabilities at the period end is £nil (2015 £25 0 million). These dividends were not recognised as they remain at the discretion of the Company, in line with the Company policy.

Dividends paid to Kemble Water Finance Limited were used to enable it to continue to service its external debt. Dividends paid to Thames Water Utilities Holdings Limited were used to fund interest obligations of the Company. Dividends paid to Kemble Water Eurobond plc were used to fund activities of Thames Water Commercial Services Limited, a company in the Group. Dividends paid to Thames Water Limited were used to fund activities of the company.

Further information on dividend payments can be found in Our CFO's Report on page 32.

10. Intangible assets

	Software £m	Assets in development £m	Total) £m)
<i>Cost</i>			
At 1 April 2014	126 8	-	126 8)
Additions	14 8	-	14 8)
At 31 March 2015	141 6	-	141 6)
Additions	10 4	16 9	27 3)
At 31 March 2016	152 0	16 9	168 9)
<i>Amortisation</i>			
At 1 April 2014	(62 1)	-	(62 1)
Amortisation charge	(22 4)	-	(22 4)
At 31 March 2015	(84 5)	-	(84 5)
Amortisation charge	(18 5)	-	(18 5)
At 31 March 2016	(103)	-	(103 0)
<i>Net book value</i>			
At 31 March 2016	49 0	16 9	65 9)
At 31 March 2015	57 1	-	57 1)
At 1 April 2014	64 7	-	64 7)

11. Property, plant and equipment

	Land & buildings £m	Plant & equipment £m	Network assets £m	Assets under construction £m	Total) £m)
<i>Cost</i>					
At 1 April 2014	3,091 2	5,411 8	5,154 7	1,802 1	15,459.8)
Additions	106 6	-	6 4	1,256 2	1,369.2)
Transfers between categories	103 2	436 2	206 9	(746 3)	-)
Disposals	(0 4)	(18 0)	-	-	(18.4)
At 31 March 2015	3,300 6	5,830 0	5,368 0	2,312 0	16,810.6)
Additions	-	-	5 1	1,193 6	1,198.7)
Transfers between categories	47 8	364 1	1,102 2	(1,514 1)	-)
Disposals	(27 2)	(2 2)	(0 1)	-	(29.5)
At 31 March 2016	3,321 2	6,191 9	6,475 2	1,991 5	17,979.8)
<i>Depreciation</i>					
At 1 April 2014	(762 8)	(2,876 7)	-	-	(3,639.5)
Depreciation charge	(49 2)	(284 9)	(120 8)	-	(454.9)
Disposals	0 2	17 4	-	-	17.6)
At 31 March 2015	(811 8)	(3,144 2)	(120 8)	-	(4,076.8)
Depreciation charge	(49 0)	(285 3)	(123 6)	-	(457.9)
Disposals	26 0	1 8	0 1	-	27.9)
At 31 March 2016	(834 8)	(3,427 7)	(244 3)	-	(4,506.8)
<i>Net book value</i>					
At 31 March 2016	2,486 4	2,764 2	6,230 9	1,991 5	13,473 0)
At 31 March 2015	2,488 8	2,685 8	5,247 2	2,312 0	12,733.8)
At 1 April 2014	2,328 4	2,535 1	5,154 7	1,802 1	11,820 3)

£114.4 million borrowing costs were capitalised during the period (2015 £86.4 million). The effective rate of borrowing costs for the year was 4.22% (2015 4.29%).

12. Subsidiaries

	2016) £m)	2015 £m	As at 1 April 2014 £m
Cost of shares in subsidiary undertakings	0.1)	0.1	0.1

The Company has no interest in joint ventures or associates. The Company had the following direct investments in subsidiary undertakings as at 31 March 2016:

	Principal undertaking	Country of incorporation	Class of shares held
Thames Water Utilities Finance Limited	Finance company	United Kingdom	£1 Ordinary
Thames Water Utilities Cayman Finance Holdings Limited	Holding company	Cayman Islands	\$1 Ordinary
Thames Water Utilities Cayman Finance Limited	Finance company	Cayman Islands	\$1 Ordinary

All subsidiary undertakings are wholly owned by the Company.

Both Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited were incorporated and registered in the Cayman Islands. Both are resident in the United Kingdom for tax purposes.

13. Intercompany loans receivable

	2016) £m)	2015 £m	As at 1 April 2014 £m
<i>Amounts owed by group undertakings</i>			
Thames Water Utilities Holdings Limited	2,015.0)	2,015.0	2,015.0
Thames Water Utilities Finance Limited	200.0)	-	-
Thames Water Utilities Cayman Finance Limited	100.0)	100.0	-
	2,315.0)	2,115.0	2,015.0
<i>Interest receivable on amounts owed by group undertakings</i>			
Thames Water Utilities Holdings Limited	-)	25.3	24.9
Thames Water Utilities Finance Limited	4.2)	-	-
Thames Water Utilities Cayman Finance Limited	0.2)	0.2	-
	4.4)	25.5	24.9
Total	2,319.4)	2,140.5	2,039.9
Disclosed within non-current assets	2,315.0)	2,115.0	2,015.0
Disclosed within current assets	4.4)	25.5	24.9

The above intercompany loans are unsecured and the Directors do not anticipate any repayment of the principal within 12 months. These balances have not been included within the Company's net debt and covenant calculations.

Interest on all of the above loans is charged at a floating rate (2015 floating rate).

14. Inventories and current intangible assets

	2016) £m)	2015 £m	As at 1 April 2014 £m
Raw materials and consumables	11.3)	7.5	6.7
Current intangible assets – emissions allowances	9.4)	2.1	-
Total	20.7)	9.6	6.7

Emission allowances represent purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK). A provision (see note 21) is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement.

15. Trade and other receivables

	2016) £m)	2015 £m	As at 1 April 2014 £m
<i>Non-current</i>			
Other receivables	2 5)	-	-
Prepayment in respect of the Thames Tideway Tunnel	1 3)	-	-
	3 8)	-	-
<i>Current</i>			
Gross trade receivables	409 3)	403 3	402 5
Less doubtful debt provision	(189 7)	(178 9)	(178 2)
Net trade receivables	219 6)	224 4	224 3
Amounts owed by group undertakings	1 1)	5 5	1 2
Amounts receivable in respect of group relief and corporation tax	-)	12 9	3 9
Insurance claims receivable	20 3)	27 6	42 0
Prepayments and accrued income	276 2)	210 2	204 1
Other receivables	42 6)	52 8	48 3
	559 8)	533 4	523 8
Total	563.6)	533 4	523 8

The Directors consider that the carrying amount of trade and other receivables is approximately equal to their fair value

Prepayments and accrued income at 31 March 2016 includes water and wastewater income not yet billed of £245 0 million (2015 £188 2 million)

Doubtful debts provision

Movements in the doubtful debts provision were as follows

	2016) £m)	2015 £m
At 1 April	(178 9)	(178 2)
Charge for bad and doubtful debts – charged against revenue	(37 7)	(36 6)
Charge for bad and doubtful debts – included within operating expenses	(27 3)	(37 9)
Amounts written off	54.2)	73 8
Total at 31 March	(189.7)	(178 9)

The ageing of receivables which are past due but not impaired cannot be performed Ageing of gross receivables is as follows

	2016) £m)	2015 £m	As at 1 April 2014 £m
Up to 90 days	41 8)	34 6	44 7
91 – 365 days	188 4)	202 6	193 6
1 – 2 years	79 5)	69 7	69 4
2 – 3 years	37.3)	37 1	40 8
More than 3 years	62 3)	59 3	54 0
Total	409 3)	403 3	402 5

15 Trade and other receivables (continued)

A collective provision is recorded against assets which are past due but for which no individual provision is made. This is calculated based on historical experience of levels of recovery. Ageing of impaired receivables is as follows:

	2016) £m)	2015 £m	As at 1 April 2014 £m
91 – 365 days	79 4)	74 7	75 9
1 – 2 years	37 0)	30 5	30 8
2 – 3 years	20 9)	19 7	22 0
More than 3 years	52 4)	54 0	49 5
Total	189 7)	178 9	178 2

Trade and other receivables are part of the Company's financial exposure to credit risk as explained on pages 34 to 35.

16 Cash and cash equivalents

	2016) £m)	2015 £m	As at 1 April 2014 £m
Cash at bank and in hand	2 2)	9 8	6 5
Short-term deposits	520 3)	511 1	368 2
Total	522 5)	520 9	374 7

Included within cash at bank and in hand are restricted amounts of £nil (2015: £7.4 million) relating to collateral posted by derivative counterparties that have failed to meet minimum credit rating criteria assigned by Moody's. The net effect of this transaction has a neutral effect on the Company's net debt.

17 Trade and other payables

	2016) £m)	2015 £m	As at 1 April 2014 £m
<i>Non-current</i>			
Accruals and deferred income	362 3)	326 2	301 7
<i>Current</i>			
Trade payables – operating	302 0)	391 9	315 1
Trade payables – capital	206 9)	207 3	146 4
Amounts owed to group undertakings	51 7)	76 7	0 2
Other taxation and social security	5 7)	5 5	6 6
Amounts payable in respect of group relief	11 3)	-	-
Accruals and deferred income	284 2)	270 7	267 0
Amounts owed to Bazalgette Tunnel Limited	1 5)	-	-
Other payables	7 6)	8 9	10 0
Total	1,233.2)	1,287 2	1,047 0

Accruals and deferred income include £85.7 million (2015: £82.1 million) of receipts in advance from customers for water and wastewater charges.

Amounts owed to group undertakings includes £51.7 million (2015: £71.5 million) relating to settlement of group relief. This non-cash settlement with Thames Water Utilities Holdings Limited arose due to an election by the Company to disclaim capital allowances relating to previous years. This balance includes interest payable at a rate of 4.29% which is the market rate of interest at the time of the transaction.

The Directors consider that the carrying amount of trade and other payables is approximately equal to their fair value.

18 Borrowings

	2016) £m)	2015 £m	As at 1 April 2014 £m
Secured bank loans	2,220.2)	1,942.6	1,937.3
Amounts owed to group undertakings	8,547.4)	8,176.3	7,659.7
Derivative collateral liability	-)	7.4	-
	10,767.6)	10,126.3	9,597.0
Interest payable on secured bank loans	3.8)	3.7	4.0
Interest payable on amounts owed to group undertakings	193.5)	184.5	160.1
	197.3)	188.2	164.1
Total	10,964.9)	10,314.5	9,761.1
Disclosed within current liabilities	1,036.9)	654.3	574.2
Disclosed within non-current liabilities	9,928.0)	9,660.2	9,186.9
Total	10,964.9)	10,314.5	9,761.1

The secured bank loans refers to an arrangement whereby each Obligor (representing each of the companies within the securitisation group, see note 27) has entered into a Security Trust and Inter-creditor Deed ("STID") with the Security Trustee. Pursuant to this arrangement, Thames Water Utilities Holdings Limited has guaranteed the obligations of each other Obligor under the finance agreement. Additionally, Thames Water Utilities Limited, and its wholly owned subsidiaries, has guaranteed the obligations of each other under the finance agreement, in each case to the Security Trustee.

As at 31 March 2016, amounts owed to group undertakings, including interest, are unsecured and include the following

- £2,856.3 million (2015 £2,898.2 million) owed to Thames Water Utilities Finance Limited, a subsidiary undertaking. Financing costs arising in Thames Water Utilities Finance Limited are directly recharged under mirrored interest terms for all loans except for one loan, a £225.0m 6.59% secured bond due in 2021, which was loaned on with a margin of one basis point.
- £5,884.6 million (2015 £5,462.6 million) owed to Thames Water Utilities Cayman Finance Limited, a subsidiary undertaking. All costs are directly recharged under mirrored interest terms, and an additional margin of ten basis points.

Maturity analysis with respect to borrowings is presented in note 19.

Breakdown of secured bank loans

	2016) £m)	2015 £m	As at 1 April 2014 £m
£100.0m Class B floating rate loan due 2015 (a)	-)	-	99.7
£200.0m floating rate loan due 2016 (a), (g)	200.0)	199.9	199.7
£150.0m floating rate loan due 2017	150.0)	150.0	150.0
£200.0m 0% index linked loan due 2017	200.5)	201.3	202.1
£100.0m floating rate loan due 2018 (a)	99.8)	99.8	99.7
£60.0m 1.23% index linked loan due 2019	72.0)	71.1	71.0
£60.0m 1.415% index linked loan due 2020	71.8)	70.8	70.7
£60.0m 1.513% index linked loan due 2020	71.4)	70.5	70.3
£60.0m 1.38% index linked loan due 2020	71.2)	70.3	70.0
£60.0m 1.356% index linked loan due 2020	71.3)	70.3	69.9
£100.0m floating rate loan due 2020 (a), (c)	99.7)	99.7	99.6
£75.0m 1.35% index linked loan due 2021 (e)	81.6)	80.5	80.3
£100.0m floating rate loan due 2021 (a), (c)	99.6)	99.5	99.9
£215.0m 0.46% index linked loan due 2023 (a)	226.8)	223.7	222.9
£215.0m 0.38% index linked loan due 2032 (a), (b)	221.3)	218.4	215.2
£100.0m 3.28% index linked loan due 2043 (a), (d)	118.4)	116.8	116.3
£100.0m 0.790% index linked loan due 2025 (a), (e)	100.5)	100.0	-
£125.0m 0.598% index linked loan due 2026 (a), (e)	125.0)	-	-
£70.0m Class B 3.867% fixed rate loan due 2026 (a)	69.4)	-	-
£50.0m Class B 3.875% fixed rate loan due 2026 (a)	50.0)	-	-
£20.0m Class B floating rate loan due 2026 (a)	19.9)	-	-
Total secured bank loans	2,220.2)	1,942.6	1,937.3

18 Borrowings (continued)

- (a) These loans are shown net of issue costs
(b) This debt amortises in equal tranches from 2017 onwards
(c) The interest margins of these two loans are based on a ratings grid and will increase should the securitisation group senior debt credit rating be downgraded by both Standard and Poor's and Moody's
(d) This debt amortises from 2023 to 2033 in tranches of £3.0 million, followed by tranches of £750,000 until maturity where there will be a bullet payment of £25.0 million
(e) These loans contain a collar mechanism that limits total accretion repayment within a predetermined range
(f) All loans are Class A except where highlighted
(g) This loan facility was originally due in 2015 but has subsequently been extended in to 2016

Breakdown of amounts owed to group undertakings

These amounts are intercompany loans from Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited

	2016) £m)	2015 £m	As at 1 April 2014 £m
£438.0m 3.64% fixed rate due 2016 (b)	438.1)	438.1	438.0
£96.6m 5.20% class B fixed rate due 2019 (b), (d)	95.7)	95.4	95.1
£100.0m 5.05% fixed rate due 2020 (c)	100.0)	100.0	100.0
£225.0m 6.59% fixed rate due 2021 (c), (e)	225.0)	225.0	225.0
£175.0m 3.38% index linked due 2021 (c), (d)	259.0)	256.3	250.8
£100.0m 1.99% index linked due 2022 (b), (h)	110.0)	108.6	108.3
£96.6m 4.15% fixed rate due 2022 (b)	96.6)	96.6	96.6
£128.7m 4.30% fixed rate due 2024 (b)	128.8)	128.8	128.7
£550.0m 5.37% class B Fixed rate due 2025 (b), (d), (i)	547.8)	547.1	547.5
£161.1m 4.53% fixed rate due 2027 (b)	161.0)	161.0	161.1
£330.0m 6.75% fixed rate due 2028 (c), (d)	327.2)	327.0	328.1
£100.0m 1.79% index linked due 2029 (h), (c)	100.5)	119.6	117.7
£300.0m 5.75% class B Fixed rate due 2030 (b), (j), (d)	297.2)	296.9	297.2
£200.0m 6.50% fixed rate due 2032 (c), (d)	197.5)	197.4	198.2
£300.0m 4.37% fixed rate due 2034 (b), (d)	295.1)	294.9	295.0
£600.0m 5.13% fixed rate due 2037 (c), (d)	596.2)	596.1	596.7
¥20.0bn 3.28% fixed rate due 2038 (b)	123.5)	112.3	116.9
£200.0m 0.21% index linked due 2039 (c), (h)	203.3)	239.2	235.4
£50.0m 3.85% index linked due 2040 (b), (f)	58.3)	58.6	58.3
£500.0m 5.50% fixed rate due 2041 (b), (d)	489.6)	488.9	489.6
£50.0m 1.98% index linked due 2042 (b)	62.9)	62.1	61.0
£55.0m 2.09% index linked due 2042 (b), (d)	66.5)	65.7	65.0
£40.0m 1.97% index linked due 2045 (b), (d)	45.5)	45.6	45.1
£300.0m 4.63% fixed rate due 2046 (b), (d)	292.9)	292.8	293.0
£100.0m 1.85% index linked due 2047 (b)	125.8)	124.3	122.1
£200.0m 1.82% index linked due 2049 (b), (d)	251.0)	248.0	243.6
£300.0m 1.68% index linked due 2053 (c), (d)	399.4)	395.4	387.2
£300.0m 1.68% index linked due 2055 (c), (d)	399.4)	395.4	387.2
£200.0m 1.77% index linked due 2057 (b), (d)	251.0)	248.0	243.6
£400.0m 7.24% fixed rate due 2058 (a), (b), (d)	399.3)	398.9	399.0
£100.0m index linked due 2060 (b)	100.6)	99.0	116.8
£350.0m 1.76% index linked due 2062 (b), (d)	439.2)	434.0	426.2
£500.0m 4.00% fixed rate due 2025 (b), (d)	494.3)	493.8	-
£40.0m 0.75% index linked loan due 2034 (b), (d)	39.8)	-	-
£45.0m 0.721% index linked loan due 2028 (b), (d)	44.6)	-	-
£300.0m 3.5% fixed rate loan due 2028 (b), (d)	295.9)	-	-
Revolving credit facility fees (l)	-)	(2.1)	(3.2)
Fees (k)	(12.1)	(12.4)	(11.1)
Total amounts owed to group undertakings	8,547.4)	8,176.3	7,659.7

18. Borrowings (continued)

- (a) £400m Class A bond issued with a final maturity date of 9 April 2058 with a fixed coupon of 7.241% until 9 April 2018. If at this date interest rates have risen, the bond will be "put" at par by investors and redeemed by the Company. Should interest rates have fallen, the bond will be called by the Company and either re-marketed for the remaining 40-year period at the underlying Puttable, Callable, Resetable ("PCR") rate of 4.572% plus the prevailing credit spread or the Company will settle related derivative contracts with bank counterparties and redeem the bond at par.
- (b) These loans are back-to-back inter-group loans from Thames Water Utilities Cayman Finance Limited to the Company. Thames Water Utilities Cayman Finance Limited charges the Company a margin of ten basis points in respect of the loans.
- (c) These loans are back-to-back inter-group loans from Thames Water Utilities Finance Limited to the Company.
- (d) These loans are shown net of issue costs.
- (e) Thames Water Utilities Finance Limited charges the Company a margin of one basis point in respect of this loan.
- (f) This is a Limited Price Index ("LPI") loan. Accretion charged is calculated using an adjusted UK Retail Price Index.
- (g) All debt is class A except where highlighted.
- (h) These amounts have been swapped into index linked debt within the financing subsidiary and the net proceeds lent to TWUL.
- (i) In July 2017 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.96% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
- (j) In September 2022 this Bond has a 'Step Up and Call' meaning the interest rate changes to 3 months LIBOR plus 7.97% at which point the issuer can exercise a call option to redeem the nominal value of the debt at par value.
- (k) These fees have been shown within amounts owed to group undertakings to reflect that they relate to index linked debt that was raised in Thames Water Utilities Cayman Finance Limited and passed on to TWUL.
- (l) As at 31 March 2016 amounts relating to revolving credit facility fees have been reclassified to other receivables.
- (m) This loan facility was originally due in 2015 but has subsequently been extended in to 2039.

19. Financial instruments

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the bases for recognition of income and expenses) for each class of financial asset, financial liability and equity instrument are disclosed in the Accounting Policies on pages 98 to 108.

Categories of financial instruments

The carrying values of the financial assets and liabilities of the Company are as follows:

Financial assets

	31 March 2016 £m)	2015 £m	1 April 2014 £m
<i>Fair value through profit and loss</i>			
Options	336.4)	255.1	76.1
<i>Loans and receivables (including cash and cash equivalents)</i>			
Amounts owed by group undertakings	2,319.4)	2,140.5	2,039.9
Trade and other receivables	563.6)	533.4	523.8
Short term investments	289.5)	277.1	489.0
Cash and cash equivalents	522.5)	520.9	374.7
Total	4,031.4)	3,727.0	3,503.5

19 Financial instruments (continued)

Categories of financial instruments (continued)

Financial liabilities

	2016) £m)	2015 £m	1 April 2014 £m
<i>Fair value through profit and loss</i>			
Options	336.4)	255.1	76.1
Cross currency swaps – not hedge accounted	86.4)	107.5	60.2
<i>Interest rate swaps – not hedge accounted</i>			
Interest rate swaps – not hedge accounted	2.2)	3.2	3.8
Index-linked swaps – not hedge accounted	296.5)	311.9	313.4
<i>Derivatives designated as hedging instruments</i>			
Forward starting interest rate swaps – cash flow hedges	219.4)	154.4	-
	940.9)	832.1	453.5
<i>Other financial liabilities</i>			
Trade and other payables	1,233.2)	1,287.2	1,047.0
Borrowings	10,964.9)	10,314.5	9,761.1
Total	13,139.0)	12,433.8	11,261.6

Fair value measurements

The fair value of financial assets and liabilities represents the price that would be received to sell an asset or paid to transfer a liability between informed and willing parties, other than in a forced or liquidation sale at the measurement date. The techniques for determining the fair value of financial instruments are classified under the hierarchy defined in IFRS 13 *Fair Value Measurement* which categorises inputs to valuation techniques into Levels 1-3 based on the degree to which the fair value is observable. All of the Company's inputs to valuation techniques are Level 2 - the fair value is determined from inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly. The table below sets out the valuation basis of financial instruments held at fair value as at 31 March.

	2016) £m)	2015 £m	1 April 2014 £m
<i>Financial assets - derivative financial instruments</i>			
Options	336.4)	255.1	76.1
<i>Financial liabilities - derivative financial instruments</i>			
Cross currency swaps	86.4)	107.5	60.2
Interest rate swaps	2.2)	3.2	3.8
Index-linked swaps	296.5)	311.9	313.4
Forward starting interest rate swaps	219.4)	154.4	-
Options	336.4)	255.1	76.1
Net total liability	604.5)	577.0	377.4

The fair value of derivative financial instruments, including interest rate swaps, cross currency swaps, index-linked swaps and options, are measured using discounted cash flows. The future cash flows are estimated based on forward interest rates from observable yield curves at the period end and discounted at a rate that reflects the credit risk of the Company and the counterparties. Currency cash flows are translated at spot rate.

As at 31 March 2016, the Company holds two offsetting options with equal and opposite values of £336.4 million (2015: £255.1 million) in relation to the £400.0 million Puttable Callable Resetttable ("PCR") Bond held in Thames Water Cayman Utilities Finance Limited. This value of the liability would be the cost to Thames Water of settling the option in cash and the value of the asset is the reciprocal value to Thames Water of, instead, choosing to remarket the original bond for a 40 year period. See note 25 for further details.

19. Financial instruments (continued)

Comparison of fair value of financial instruments with their carrying amounts

The carrying amounts of the Company's trade receivables and trade payables are considered to be approximate to their fair values. The fair values and carrying values of the Company's other financial assets and financial liabilities are set out in the table below.

	2016		2015		1 April 2014	
	Book value) £m)	Fair value) £m)	Book value £m	Fair value £m	Book value £m	Fair value £m
<i>Financial assets</i>						
<i>Non-current</i>						
Amounts owed by group undertakings	2,315 0)	2,315 0)	2,115 0	2,115 0	2,015 0	2,015 0
Derivative financial instruments						
Options	336.4)	336 4)	255 1	255 1	76 1	76 1
<i>Current</i>						
Short term investments	289 5)	289 5)	277 1	277 1	489 0	489 0
Cash at bank and in hand	522 5)	522 5)	520 9	520 9	374 7	374 7
Amounts owed by group undertakings	4.4)	4 4)	25 6	25 6	24 9	24 9
	3,467 8)	3,467 8)	3,193 7	3,193 7	2,979 7	2,979 7
<i>Financial liabilities</i>						
<i>Non-Current</i>						
Bank loans						
Floating rate	469.0)	469 0)	448 9	448 9	449 2	449 2
Index-linked	1,231.2)	1,231 2)	1,293 8	1,293 8	1,188 6	1,188 6
Fixed rate	119.4)	119 4)	-	-	-	-
Amounts owed to group undertaking	8,108.4)	10,335 7)	7,917 5	9,897 6	7,549 1	8,062 3
Derivative financial instruments						
Cross currency swaps	86.4)	86 4)	107 5	107 5	60 2	60 2
Interest rate swaps	2.2)	2 2)	3 2	3 2	3 8	3 8
Index-linked swaps	296.5)	296 5)	311 9	311 9	313 4	313 4
Forward starting interest rate swaps	219.4)	219 4)	154 4	154 4	-	-
Options	336.4)	336 4)	255 1	255 1	76 1	76 1
<i>Current</i>						
Bank loans						
Floating rate	200.0)	200 0)	199 9	199 9	299 5	299 5
Index-linked	200.5)	200 5)	-	-	-	-
Amounts owed to group undertaking	439.0)	444 4)	258 8	442 2	110 6	182 6
Interest payable	197 4)	197 4)	188 2	188 2	164 1	164 1
Derivative collateral liability	-)	-)	7 4	7 4	-	-
	11,905 8)	14,138 5)	11,146 6	13,310 1	10,214 6	10,799 8

Amounts owed to group entities include bonds and private placements issued by subsidiary entities, which are publically traded and the proceeds from these transactions are loaned to the Company through intercompany agreements. The Company does not issue any bonds directly to the public markets.

The fair value of amounts owed to group entities represents the market value of the publically traded underlying bonds and associated derivatives. For private placements the fair value is determined by discounting expected future cash flows using a risk-free rate plus the Company's credit spread.

The fair value of floating rate debt instruments is assumed to be the nominal value of the primary loan and adjusted for credit risk if this is significant. The fair value of index-linked debt instruments is based on the nominal value of the debt plus accretion already accrued and accretion expected to accrue to maturity.

19. Financial instruments (continued)

Capital risk management

Details of the Company's capital risk management strategy can be found on page 34

The capital structure of the Company consists of net debt and equity as follows

	2016) £m)	2015 £m	1 April 2014 £m
Cash and cash equivalents	522 5)	520 9	374 7
Short-term investments	289 5)	277 1	489 0
Secured bank loans	(2,220 2)	(1,942 6)	(1,937 3)
Amounts owed to group undertakings	(8,547 4)	(8,176 3)	(7,659 7)
Other financing	-)	(7 4)	-
Derivative financial liabilities	(198 6)	(195 3)	(178 5)
Net debt	(10,154 2)	(9,523 6)	(8,911 8)
Equity attributable to owners of the Company	3,113 7)	2,603 4	2,634 8

Amounts owed to group undertakings include loans from intermediate subsidiaries, Thames Water Utilities Cayman Finance Limited of £100.6 million, and Thames Water Utilities Finance Limited of £203.3 million for which there is no related external debt issuance. Derivative financial liabilities in the above table of £198.6 million relate solely to accretion on index-linked swaps and the effect of movement in foreign exchange rate on one cross currency swap held in TWUL. Net derivative financial liabilities in TWUL (including the additional effect on fair value of movements in market rates) are £604.5 million.

Net debt in the table above excludes accrued interest on debt but includes accretion on index-linked debt. Net debt for covenant purposes at TWUL level is £9,923.3 million (2015: £9,494.6 million). This excludes £230.9 million (2015: £29.0 million) relating to intercompany borrowings and unamortised debt issuance costs not applicable for covenant purposes.

Financial risk management

The Company's activities expose it to a number of financial risks: market risk (including interest rate risk and exchange rate risk), credit risk, liquidity risk and inflation risk. Details of the nature of each of these risks along with the steps the Company has taken to manage them is described on pages 34 to 35.

(a) Market risk

Below is the effective interest rate and foreign currency risk profile of the debt held by the company after taking into account the derivative financial instruments used to manage market risk.

As at 31 March 2016	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total) £m)
Interest bearing loans and borrowings)
Net of corresponding swap assets				
- £ Sterling	4,859 7	634 3	5,472 2	10,966 2)
As at 31 March 2015	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total) £m)
Interest bearing loans and borrowings)
Net of corresponding swap assets				
- £ Sterling	4,444 7	633 9	5,241 5	10,320 1)

19. Financial instruments (continued)

As at 1 April 2014	Total at fixed rates £m	Total at floating rates £m	Total at RPI linked rates £m	Total) £m)
Interest bearing loans and borrowings)
Net of corresponding swap assets				
- £ Sterling	3,947 0	734 1	5,092 8	9,773 9)

The weighted average interest rates of the debt held by the Company and the period until maturity for which the rate is fixed are given below

	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 linked debt		
	2016) %)	2015 %	1 April 2014 %	2016) Years)	2015 Years	1 April 2014 Years
Interest bearing loans and borrowings))		
Net of corresponding swap assets						
- £ Sterling	3 1)	3 2	3 5	17 9)	24 0	23 6

(i) Interest rate risk sensitivity analysis

The table below summarises the impact, on pre-tax profits, of 1% increase or decrease in interest rate at 31 March 2016. This analysis considers effect of variable interest rate instruments and assumes that all other variables, in particular exchange rates, remain constant

	2016	
	+1%) £m)	-1%) £m)
Profit	63 3)	(80 6)
Equity	197 2)	(225 6)

(ii) Exchange rate risk sensitivity analysis

The table below summarises the impact of changes in the year end valuations of financial assets and liabilities denominated in foreign currency on pre-tax profits of a 10% strengthening or weakening of GBP (£) against the respective currencies in which the financial assets and liabilities are denominated at 31 March 2016. This analysis assumes that all other variables in the valuation remain constant

	2016	
	+10%) £m)	-10%) £m)
Profit	(7 2)	11 3)
Equity	(7 2)	11 3)

(iii) Inflation risk sensitivity analysis

The table below summarises the impact on pre-tax profits of a 1% increase or decrease in inflation rates at 31 March 2016. This analysis assumes that all other variables, in particular exchange rates, remain constant

	2016	
	+1%) £m)	-1%) £m)
Profit	(439 9)	393 3)
Equity	(439 9)	393 3)

19 Financial instruments (continued)

(b) Credit risk

The Company's maximum exposure to credit risk is the carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, less collateral cash held under the terms of the whole business securitisation agreement explained on pages 34 to 35

At 31 March 2016 the Company held £nil million (2015 £7.4 million) of collateral cash, representing amounts due from counterparties to the Company's derivative contracts that have failed to meet minimum short term credit rating criteria assigned by Moody's

The following table summarises amounts held on short term investments by credit rating of counterparties

	2016) £m)	2015 £m	1 April 2014 £m
AA-	17.0)	76.0	60.0
A+	60.0)	161.7	199.0
A	212.5)	39.4	230.0
Total	289.5)	277.1	489.0

The following table summarises fair value of derivatives assets by credit rating of counterparties

	2016) £m)	2015 £m	1 April 2014 £m
A	166.9)	126.5	-
A-	-)	128.6	76.1
BBB+	169.5)	-	-
Total	336.4)	255.1	76.1

(c) Liquidity risk

Details of the nature and management of the Company's liquidity risk is provided on page 35

The maturity profile of interest bearing loans and borrowings disclosed in the statement of financial position are given below

	2016) £m)
Within one year	839.6)
Between one and two years	150.0)
Between two and three years	195.5)
Between three and four years	457.4)
Between four and five years	199.6)
After more than five years	8,925.5)
Total	10,767.6)

19 Financial instruments (continued)

(i) Cash flows from non-derivative financial liabilities

The maturity profile of the anticipated future cash flows including interest in relation to the Company's non-derivative financial liabilities on an undiscounted basis (excluding non-current trade payables), which, therefore, differs from both the carrying value disclosed in the statement of financial position and fair values, is as follows

Undiscounted amounts payable	2016) £m)
Within one year	(2,098 7)
Between one and two years	(503 8)
Between two and three years	(569 9)
Between three and four years	(932 8)
Between four and five years	(682 9)
After more than five years	(21,174.1)
Total	(25,961 8)

(ii) Cash flows from derivative financial instruments

The maturity profile of the Company's financial derivatives (which include options, interest rate swaps, cross currency swaps and index linked swaps), based on undiscounted cash flows, is as follows

Undiscounted amounts payable	2016) £m)
Within one year	29 5
Between one and two years	(40 1)
Between two and three years	(1.2)
Between three and four years	29.4)
Between four and five years	28 9)
After more than five years	(745 7)
Total	(699 2)

Cash flow hedges

The Company has designated a number of contracts which qualify, in accordance with IAS 39 *Financial Instruments recognition and Measurement*, as cash flow hedges. The accounting policy on cash flow hedges is explained on page 104

In mid-2014 the Company executed £2.25 billion of forward-starting pay fixed to 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 new debt issued in March 2016. This protects the Company against adverse movements in underlying interest rates by matching debt issuance against a derivative instrument with fixed cash flow. The expected cash flows of the Company's cash flow hedging instruments are as follows

Undiscounted amounts payable	2016 £m)
<i>Interest rate swaps</i>	
Within one year	(2 2)
Between one and two years	(12 8)
Between two and three years	(20.2)
Between three and four years	(25 4)
Between four and five years	(27 1)
After more than five years	(66 9)
Total	(154 6)

In respect of the above cash flow hedges, £219.4 million was recognised in other comprehensive income in the year (2015 £154.4 million). The amount reclassified from equity to profit or loss for the year was £nil (2015 £nil)

20. Deferred tax

An analysis of movements in the major deferred tax liabilities and assets recognised by the Company is set out below

	Accelerated tax depreciation £m	Retirement benefit obligations £m	Cash flow hedge £m	Other £m	Total £m)
At 1 April 2014	(1,262.6)	49.4	43.7	13.9	(1,155.6)
Credit/(charge) to income	57.8	(4.0)	5.5	1.2	60.5
Credit to equity	-	25.4	30.9	-	56.3
At 31 March 2015	(1,204.8)	70.8	80.1	15.1	(1,038.8)
Credit/(charge) to income	99.4	6.8	(12.2)	(14.9)	79.1
Credit/(charge) to equity	-	(30.8)	8.7	-	(22.1)
At 31 March 2016	(1,105.4)	46.8	76.6	0.2	(981.8)

Deferred tax assets and liabilities have been offset. The offset amounts, which are to be recovered/ settled after more than 12 months are as follows

	2016) £m)	2015 £m	1 April 2014 £m
Deferred tax asset	123.6)	166.0	107.0
Deferred tax liability	(1,105.3)	(1,204.8)	(1,262.6)
Total)(981.7)	(1,038.8)	(1,155.6)

21 Provisions for liabilities and charges

	Emissions provision £m	Insured liabilities £m	Restructuring provision £m	AMP4 provision £m	Other provisions £m	Total £m)
At 1 April 2014	-	57.3	0.6	8.5	30.0	96.4)
Utilised during the year	(8.0)	(19.3)	(0.6)	(0.8)	(8.9)	(37.6)
Charge to income statement	8.0	7.7	12.3	-	11.1	39.1)
At 31 March 2015	-	45.7	12.3	7.7	32.2	97.9)
Utilised during the period	-	-	(6.3)	(1.4)	(1.8)	(9.5)
Charge/(credit) to income statement	7.0	(0.3)	(5.4)	-	10.3	11.6)
Transfer to current liabilities	-	-	-	(2.4)	-	(2.4)
At 31 March 2016	7.0	45.4	0.6	3.9	40.7	97.6)

Emissions provisions relate to the obligation to purchase carbon emission allowances, see note 14

The insured liability provision is in respect of insurance claims notified. A receivable in respect of these obligations has been included in note 15 representing the reimbursement value from captive and third party insurance companies net of retentions. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

The restructuring provision principally relates to severance costs and onerous lease provisions recognised as a result of the Company's restructuring and reorganisation. The outflows associated with the restructuring provision are expected to arise within the next 12 months.

The AMP4 provision represents agreed settlement in respect of an information request received from Ofwat issued under section 203 of the Water Industry Act 1991 concerning the properties claimed as safeguarded from internal sewer flooding by capital schemes completed in 2009/10. The provision is utilised against contributions made to various charity schemes. The associated outflows are expected to arise over AMP6.

21. Provisions for liabilities and charges (continued)

Other provisions principally relate to a number of legal claims against the Company and represents management's best estimate of the value of settlement and costs. Timing of settlement for these claims is uncertain and therefore amounts provided have been classified as non-current.

22. Share capital and other reserves

Share capital

	2016) £m)	2015 £m	1 April 2014 £m
<i>Allotted, called up and fully paid</i>			
29,050,000 ordinary shares of £1 each	29 29 00	29 0	29 0

The Company has one class of ordinary share which carries no right to fixed income. The holders of ordinary shares are entitled to receive dividends as declared and are entitled to one vote per share at meetings of the Company.

Other reserves

	2016) £m)	2015 £m	1 April 2014 £m
Share premium	100 0)	100 0	100 0
Cash flow hedge reserve	(179 9)	(123 6)	-
Revaluation reserve	1,071 9)	1,076 5	1,107 2
Retained earnings	2,092 7)	1,521 5	1,398 6
Total	3,084 7)	2,574 4	2,605 8

The revaluation reserve reflects the revaluation of infrastructure assets to fair value on transition to IFRS, net of deferred tax.

The cash flow hedge reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not yet occurred.

23 Retirement benefit obligations

Background

The Company operates three pension schemes, one of which is a defined contribution scheme and the other two are defined benefit schemes.

In addition to the cost of the UK Pension arrangements, the Company operates arrangements under which it augments benefits on retirement in certain cases of redundancy. These augmentations are funded by way of additional employer contributions to the schemes. In the year to 31 March 2016 these related payments amounted to £2.2 million (2015: £0.3 million).

The defined contribution scheme was set up in April 2011, managed through Standard Life, and is open to all new employees of the Company. The pension charge for the period represents contributions payable by the Company to the scheme and amounted to £5.2 million (2015: £4.1 million). There were £0.7 million (2015: £0.5 million) of outstanding contributions at the end of the financial reporting period. These were paid in following financial year in line with the scheme rules.

Defined benefit arrangements for the Company's eligible employees are provided through two defined benefit Group pension schemes:

- Thames Water Pension Scheme ("TWPS"), and
- Thames Water Mirror Image Pension Scheme ("TWMIPS")

23 Retirement benefit obligations (continued)

Both represent career average pension schemes. Their assets are held separately from the rest of the Kemble Water Holdings Limited Group in funds in the United Kingdom which are independently administered by the Pension Trustees. On 1 April 2011 the defined benefit arrangements were closed to new entrants and replaced with a defined contribution scheme.

The most recent full actuarial valuation was at 31 March 2013 on behalf of the Trustees by AON Hewitt Limited, the independent and professionally qualified consulting actuary to the schemes. The 2013 valuation has been updated to 31 March 2016 by PricewaterhouseCoopers LLP, an independent and professionally qualified consulting actuary, using revised assumptions that are consistent with the requirements of IAS 19R *Employee Benefits* and shown in this note to the financial statements.

The Company made a pension deficit repair payment of £23.8 million on 1 April 2016.

The Company expects to contribute approximately £35.2 million in aggregate to the defined benefit pension schemes in the next financial year.

Amounts included in the statement of financial position in respect of defined benefit pension schemes

The net pension liability recognised within the statement of financial position is as follows

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Equities	430.1	146.4	435.0	160.1	419.0	151.0
Corporate bonds	74.5	68.7	73.5	70.8	68.2	65.8
LDI portfolio	571.8	488.0	-	-	-	-
Fixed interest government bonds	-	-	99.9	204.1	38.7	35.2
Index linked government bonds	-	-	452.5	287.7	380.0	398.7
Property	62.5	46.6	62.1	46.3	61.2	45.6
Cash	3.9	3.5	23.2	4.9	9.7	13.1
Fair value of scheme assets	1,142.8	753.2	1,146.2	773.9	976.8	709.4
Present value of defined benefit obligations	(1,385.1)	(694.8)	(1,478.8)	(748.8)	(1,202.0)	(657.7)
(Deficit)/surplus	(242.3)	58.4	(332.6)	25.1	(225.2)	51.7
Effect of asset limit	-	(76.1)	-	(46.4)	-	(73.7)
Retirement benefit obligations	(242.3)	(17.7)	(332.6)	(21.3)	(225.2)	(22.0)

The Directors have reviewed the scheme rules of the defined benefit pension schemes and have concluded that, for the TWMIPS scheme, as the Company does not have an unconditional right to a refund of any surplus, including as a deduction to future contributions payable, the provisions of IFRIC 14 apply. Consequently the surplus for this scheme has been restricted with an obligation recognised for the present value of deficit funding contributions payable to the scheme.

The movements in the fair value of scheme assets were as follows

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,146.2	773.9	976.8	709.4	955.1	738.2
Interest income on scheme assets	37.9	24.2	44.3	30.1	40.9	31.2
Contributions by sponsoring employers	12.1	2.3	35.2	7.7	32.2	10.8
Contributions from scheme members	0.1	-	0.1	-	0.1	-
Administration costs paid from scheme assets	(2.5)	(1.4)	(4.2)	(1.5)	(3.5)	(1.2)
Benefits paid	(40.4)	(37.7)	(37.2)	(38.7)	(30.4)	(34.3)
Contributions for termination benefits	1.4	0.9	0.3	-	(0.3)	-
(Losses)/gains on assets above interest	(12.0)	(9.0)	130.9	66.9	(17.3)	(35.3)
At 31 March	1,142.8	753.2	1,146.2	773.9	976.8	709.4

23. Retirement benefit obligations (continued)

The movement in the present value of the defined benefit obligations were as follows

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
At 1 April	1,478 8)	748 8)	1,202 0	657 7	1,235 0	681 2
Current service cost	14 9)	3 2)	12 6	3 1	15 7	5 6
Past service cost	-)	-)	-	-	0 7	0 6
Interest cost	49 1)	23 4)	54 7	27 8	52 5	28 6
Contributions from scheme members	0.1)	-)	0 1	-	0 1	-
Benefits paid	(40 4)	(37 7)	(37 2)	(38 7)	(30 4)	(34 3)
Termination benefits	1 4)	0 9)	0 3	-	(0 3)	-
Curtailment	-)	-)	-	(10 0)	-	-
Actuarial (gains)/losses	(118 8)	(43.8)	246 3	108 9	(71 3)	(24 0)
At 31 March	1,385 1)	694 8)	1,478 8	748 8	1,202 0	657 7

The one-off non-cash curtailment gain of £10.0 million in the year ended 31 March 2015 arose as a result of the calculation of members' benefits in Mirror Image Pension Scheme changing from final salary to Career Average Revalued Earnings ("CARE")

Amounts recognised in the income statement in respect of defined benefit pension schemes

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Curtailment gain	-)	-)	-	(10 0)	-	-
Current service cost	14 9)	3 2)	12 6	3 1	15 7	5 6
Scheme administration expenses	2 5)	1 4)	4 2	1 5	3 5	1 2
Effect of restriction of surplus	-)	1 5)	-	3 1	-	-
Net interest cost	11 2)	(0 8)	10 4	(2 2)	11 6	1 0
Total	28 6)	5 3)	27 2	(4 5)	30 8	7 8

The net expense is recognised in the following captions within the income statement

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Operating expenses	17 4)	6 1)	16 8	(2 3)	19 2	6 8
Finance expenses	11 2)	(0 8)	10 4	(2 2)	11 6	1 0
Total	28 6)	5 3)	27 2	(4 5)	30 8	7 8

Actuarial gains and losses have been recognised within other comprehensive income. An analysis of the amount presented is set out below

	2016) £m)	2015 £m	1 April 2014 £m
Actual return less expected return on pension scheme assets	(21.0)	197 8	52 6
Experience gain/(loss) arising on scheme liabilities	39.7)	(57 6)	-
Gain/(loss) arising due to change in assumptions	122 9)	(297 5)	(95 3)
Change in asset ceiling	(28 2)	30 4	(13 7)
Total actuarial gain/(loss)	113 4)	(126 9)	(56 4)
Cumulative actuarial (losses) recognised	407 5)	520 9	394 0

23 Retirement benefit obligations (continued)

Actuarial risk factors

The schemes are exposed to actuarial risks including investment risk, inflation risk and longevity risk

Investment risk arises because the Company's contributions to the schemes are based on expected returns from scheme assets based on actuarial assumptions. If these assets underperform a deficit will be created against the scheme liabilities.

The benefits payable to the members of the schemes are linked to inflation and as such higher inflation will lead to higher liabilities. The Company's contributions to the schemes are based on assumptions about the future levels of inflation. Therefore an increase in inflation above that assumed in the actuarial calculations will create a deficit.

The schemes' obligations are dependent on the assumptions about the life expectancy of the members after retirement. If scheme members live longer than assumed in the actuarial calculations, a deficit will be created.

Actuarial assumptions

The main financial assumptions used in the valuation of these schemes are as follows

	2016		2015		1 April 2014	
	TWPS)	TWMIPS)	TWPS	TWMIPS	TWPS	TWMIPS
Price inflation – RPI	3.05%)	2.95%)	3.05%	2.95%	3.45%	3.35%
Price inflation – CPI	2.05%)	1.95%)	2.05%	1.95%	2.50%	2.40%
Rate of increases in salaries	-)	-)	-	-	-	3.85%
Rate of increase to pensions in payment – RPI	3.05%)	2.95%)	3.05%	2.95%	3.45%	3.35%
Rate of increase to pensions in payment – CPI	2.05%)	1.95%)	2.05%	1.95%	2.50%	2.40%
Discount rate	3.65%)	3.50%)	3.35%	3.20%	4.60%	4.35%

Both schemes provide benefits on a Career Average ("CARE") benefit structure whereby past entitlements are linked to movements in CPI therefore an assumption for increase in salary is not required. In valuing the liabilities of the pension schemes at 31 March 2016, mortality assumptions have been made as indicated below. These mortality assumptions are based on standard mortality tables and the recent actual mortality experience of members within the schemes. The assumptions also allow for future improvements to mortality rates.

	2016		2015		1 April 2014	
	TWPS) Years)	TWMIPS) Years)	TWPS Years	TWMIPS Years	TWPS Years	TWMIPS Years
<i>Life expectancy from age 60</i>						
Male	28.3)	27.3)	28.3	27.3	28.2	27.2
Female	29.7)	29.7)	29.7	29.7	29.6	29.6
<i>Life expectancy from age 60 currently age 40</i>						
Male	30.4)	30.4)	30.4	29.3	30.3	29.2
Female	31.8)	31.8)	31.8	31.8	31.7	31.7

The sensitivity of the present value of scheme liabilities to changes in the principle assumptions used is set out below

	2016		2015		1 April 2014	
	TWPS) £m)	TWMIPS) £m)	TWPS £m	TWMIPS £m	TWPS £m	TWMIPS £m
Change in discount rate (+ 1% p a)	260.0)	100.0)	285.0	95.0	254.0	90.0
Change in rate of inflation (-1% p a)	220.0)	60.0)	250.0	95.0	183.0	87.0
Change in life expectancy (-1 year)	40.0)	20.0)	45.0	22.0	25.7	15.3

24. Capital commitments

	2016) £m)	2015 £m	1 April 2014 £m
Contracted for but not provided	489.9)	325.7	547.6

In addition to these commitments, the Company has long-term capital investment plans, under its business plan submitted to Ofwat, to provide for future growth and maintenance of the infrastructure network

25. Contingent liabilities

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

In April 2018, if interest rates are below a certain level, a bond with par value of £400.0 million (see note 18) will either be remarketed for the remaining 40 year period or the Company will settle the related derivative contract (low strike call option) and the bond will be redeemed at par. If the Company decided to settle the derivative at this date, it would result in a cash outflow which reflects the fair value of the derivative at that date. As at 31 March 2016 the fair value of the derivative is £336.4 million (2015: £255.1m). The Company expects that should it wish to take the opportunity it will be able to successfully remarket the bonds at fair value and a cash settlement will not be required.

26. Operating leases

Lease payments under operating leases of £10.8 million (2015: £7.6 million) were recognised as an expense in the year.

At the balance sheet date, the group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	2016) £m)	2015 £m
Within one year	6.8)	7.0
Between two and five years	27.2)	26.8
After more than five years	66.7)	73.2
Total	100.7)	107.0

Operating lease payments represent rentals payable by the Company for certain office properties, plant and equipment, and vehicle fleet.

27. Off-balance sheet arrangements

The Company is party to a number of contractual arrangements for the purposes of its principal activities that are not required to be included within the statement of financial position. These are:

- operating leases,
- outsourcing contracts, and
- guarantees

In respect of outsourcing contracts, the Company has entered into various arrangements to outsource the provision of certain back-office and operational functions with third party providers. These outsourced arrangements include aspects of IT support, legal services, supply chain, metering and capital delivery. These arrangements are on commercial terms and no associated penalty or termination clauses will have a material effect on the financial position of the Company.

The Company is part of a Whole Business Securitisation group. 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 2016 was £10.7 billion (2015: £10.2 billion).

28 Statement of cash flows

Reconciliation of operating profit to operating cash flows

	2016) £m)	2015 £m
Profit for the financial year	566 4)	363 6
Less finance income	(86 1)	(88 6)
Add finance expense	343 3)	359 5
(Less gain)/add loss on fair value of financial instruments	(26 2)	40 0
Add taxation on profit on ordinary activities	(55 2)	1 1
Operating profit	742 2)	675 6
Depreciation on property, plant and equipment	457 9)	454 9
Amortisation of intangible assets	18 5)	22 4
Profit on sale of property, plant and equipment	(48 5)	(16 4)
Difference between pension charge and cash contribution	9 1)	(28 4)
Increase in inventory	(9 5)	(2 9)
Increase in trade and other receivables	(3 9)	(2 2)
Increase in trade and other payables	14 4)	108 5
Decrease in group relief payable	(22 0)	-
(Decrease)/increase in provisions	(0 3)	1 4
Cash generated from operations	1,157 9)	1,212 9

No additions to property, plant and equipment during the year, or the immediately preceding year, were financed through new finance leases. Assets transferred from developers and customers for nil consideration were recognised at their fair value.

Movement in cash and cash equivalents

	2016) £m)	2015 £m
Unrestricted cash movement	-)	(4 1)
Restricted cash movement	(7 6)	7 4
Movement in short-term deposits	9 2)	142 9
Total	1 6)	146 2

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

29. Related party transactions

Thames Water Utilities Holdings Limited, a company incorporated in the United Kingdom, is the immediate parent company. Kemble Water Finance Limited, a company incorporated in the United Kingdom, is an intermediate parent company and is the smallest group to consolidate these financial statements. The Directors consider that Kemble Water Holdings Limited, a company incorporated in the United Kingdom, is the ultimate and controlling party and the largest group to consolidate these financial statements. Copies of the accounts of the above companies may be obtained from The Company Secretary's Office, Thames Water, Clearwater Court, Vastern Road, Reading, Berkshire, RG1 8DB.

Trading transactions

The following services were provided by/ to the Company during the year with entities which are related to the Company

	2016		2015	
	Services) provided by) £m)	Services) provided to) £m)	Services provided by £m	Services provided to £m
Parent	21 5)	51 0)	25 4	96 4
Subsidiaries	5 9)	383 1)	0 2	383 2
Associates	3 5)	0 6)	4 7	0 7
Other related parties	-)	16 6)	-	5 4
Total	30 9)	451 3)	30 3	485 7

29. Related party transactions (continued)

Outstanding balances

The following amounts were owed to/ from the Company at the balance sheet date

	2016		2015	
	Amounts) owed to) £m)	Amounts) owed from) £m)	Amounts owed to £m	Amounts owed from £m
Parent	-)	63 8)	37 3	71 5
Subsidiaries	5.1)	8,714 7)	0 9	8,351 4
Associates	0 8)	0.3)	5 4	5 2
Other related parties	-)	5 0)	-	-
Total) 5 9)	8,783 8)	43 6	8,428 1

The related parties are the parent and subsidiaries of the Company along with key management personnel

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

Key management personnel

Key management personnel comprise the members of the Board and of the Executive Committee during the year.

The remuneration of the Directors is included within the amounts disclosed below. Further information about the remuneration of individual Directors is provided in the audited part of the Directors' Remuneration Report on pages 60 to 75.

	2016) £'000)	2015 £'000
Fees	1,038)	1,030
Salary	1,951)	1,959
Pension and pension allowance	415)	419
Bonus	1,178)	1,818
Long-term incentive plan	978)	895
Redundancy	321)	-
Other benefits	115)	118
Total	5,996)	6,239

Information regarding transactions with post-employment benefits plans is included in note 23.

30. Adoption of International Financial Reporting Standards

This is the first time that the Company has presented its annual financial statements under IFRS. The policies applied in these financial statements are based on the IFRS, IAS and IFRIC interpretations issued and effective and ratified by the European Union as of 9 June 2016, the date that the Board of Directors approved the statements. The Company's previously reported results for the year ended 31 March 2015 have been restated, the date of transition to IFRS being 1 April 2014.

In accordance with IFRS 1 *First Time Adoption of International Financial Reporting Standards* the Company's accounting policies under IFRS have been applied retrospectively at the date of transition, with the exception of a number of permitted exemptions. The key areas affected by the implementation of IFRS, including permitted exemptions taken, have been summarised below.

Infrastructure accounting

Under UK GAAP the Company's water and wastewater infrastructure assets were accounted for in accordance with the renewals accounting provisions of FRS15 *Tangible Fixed Assets*. Under this the water and wastewater infrastructure networks were assumed to be single assets and the depreciation charged was the estimated level of annual expenditure required to maintain the operating capacity of the networks. Actual expenditure was capitalised as incurred.

Additionally capital contributions received in respect of the infrastructure assets were deducted from the cost as under UK GAAP these assets did not have a determinable finite life.

Under IAS16 *Property, Plant and Equipment* this treatment may not be applied. Therefore, the significant parts within the infrastructure networks have been identified, useful lives and residual values have been determined so that each component may be depreciated individually.

As the UK GAAP net book value of the infrastructure networks was determined using an accounting policy not in compliance with IFRS, as permitted by IFRS 1, a deemed cost for these assets has been established for the opening statement of financial position by reference to the fair value as at 1 April 2014, being the date of transition. This fair value uplift has been recognised directly within equity as a revaluation reserve.

The election to record the carrying value of the water and wastewater infrastructure networks at fair value, and to use that fair value as the deemed cost in the opening statement of financial position, has increased net assets by £1,345.6 million as at 31 March 2015 compared to UK GAAP. This fair value uplift has been componentised in the same proportions as the network assets on the transition date, and depreciation on this uplift has resulted in a charge to the income statement of £38.4 million in the year to 31 March 2015.

The segments recognised within the water and wastewater networks have been based on asset class since no single pipe or section of sewer is significant compared with the total value of the networks. This has led to the identification of ten segments which have been assigned no residual value at the end of their useful economic lives. The lives allocated to these segments range from 7 to 250 years. Depreciation on these assets has resulted in a charge to the income statement of £81.9 million in the year to 31 March 2015. Due to the disapplication of renewals accounting, amounts previously charged through the income statement as the Infrastructure Renewals Charge have been reversed and the net effect as a result of these adjustments is a credit to the income statement in the year to 31 March 2015 of £165.2 million.

In accordance with IAS 16, on transition to IFRS the classification between operating expenditure and capital expenditure for amounts incurred in maintaining the networks has been reassessed. As a result, in the year to 31 March 2015, assets with a book value of £93.6m, which were capitalised under UK GAAP in accordance with renewals accounting, were considered to represent repairs and maintenance expenditure under IFRS. Consequently these assets have been de-recognised, resulting in a charge to the income statement.

Under IFRIC 18 *Transfers of Assets from Customers*, all customer and developer contributions previously deducted from the cost of associated network assets under UK GAAP have been reclassified to deferred income. The total amount reclassified from property, plant and equipment as at 31 March 2015 was £783.5 million. These will be released as other operating income in the income statement as the associated performance obligations are fulfilled. Service connection charges made in accordance with sections 45 and 107 of the Water Industry Act 1991 are immediately recognised in the income statement as no continuing obligation exists once a connection to the network has been made. The net effect of these adjustments is a credit to the income statement of £47.7 million in the year to 31 March 2015, which has been recognised within other operating income.

Borrowing Costs

Under UK GAAP the Company did not capitalise borrowing costs directly attributable in the acquisition, construction or production of qualifying assets. Under IFRS, IAS 23 *Borrowing Costs* requires such costs to be capitalised. As permitted by IFRS 1 the Company has elected to apply this requirement prospectively from the transition date of 1 April 2014, which has resulted in an increase to the net assets at 31 March 2015 of £86.4 million.

Defined benefit pension schemes

IFRIC 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* introduces additional considerations to the measurement of a defined benefit obligation whereby a surplus may be restricted to the present value of any economic benefits available to the Company in the form of either a refund or a reduction in future contributions payable. This has resulted in a restriction of the surplus recognised under UK GAAP to the Thames Water Mirror Image Pension Scheme and an additional liability of £42.1 million at 31 March 2015. This additional liability, alongside the associated deferred tax effect, has been recognised within equity as part of other comprehensive income.

Additionally the scheme administration expenses are recognised within operating expenses under IAS 19 *Employee Benefits*, rather than through net finance costs. This has resulted in a reduction to operating profit of £8.8 million for the year ended 31 March 2015.

Transfer of assets from customers

The Company receives transfers of assets from customers and developers, mainly in the form of adopted and self-lay sewers and water assets. The Company assesses whether each transferred item meets the definition of an asset, and if so, recognises the transferred asset as property, plant and equipment.

Under UK GAAP these assets were recognised by the Company at nil value. Under IFRS, IFRIC 18 *Transfers of Assets from Customers*, requires the cost to be measured at fair value with the associated credit being recognised within deferred income in recognition that the adopted asset results in a continued obligation to maintain the adopted assets. This has resulted in the recognition of £6.4 million within deferred income as at 31 March 2015, which will be released over the useful economic life of the adopted asset.

Financial instruments

Under UK GAAP debt is initially recorded at the net proceeds of issue. In subsequent periods this is adjusted for accrued finance costs and payments made. The fair values of derivatives are not recognised in the balance sheet and consequently the charges to the income statement are relatively stable.

Under IAS 39 *Financial Instruments: Recognition and Measurement*, the default treatment is for debt to be carried at amortised cost whilst derivatives are recognised separately in the statement of financial position at fair value, with the movements on that fair value being recognised through the income statement.

This has the potential to introduce volatility to both the income statement and statement of financial position. Therefore, in the case of cash flow hedges, movements in the fair value of derivatives are deferred within reserves until they can be recycled through the income statement to offset the future income statement effect of changes in hedged risk.

However in order to apply this treatment, it must be demonstrated that the derivative has been and will continue to be an effective hedge of the hedged risk within the debt item. Any hedge ineffectiveness, provided it is within the range deemed acceptable by IAS 39, is recognised immediately within the income statement. Changes in fair value for derivatives that are designated and effective in terms of cash flow hedging relationships are deferred in equity as part of other comprehensive income.

As a result of applying IAS 39 the net assets of the Company have decreased by a net of £577.0 million as at 31 March 2015.

Taxation

All accounting adjustments on transition to IFRS have been tax effected where required. In addition, a tax only adjustment arose on transition in relation to fixed assets resulting in an increase in the deferred tax liability of £94.8m at 1 April 2014. This liability will reduce over time as the relevant assets are depreciated and had reduced to £92.5m by 31 March 2015.

A one-off current tax deduction of approximately £300m arose in the year ended 31 March 2016 following the transition to IFRS, primarily as a result of the write off on transition of certain expenditure (including studies and the infrastructure renewals prepayment), and the reclassification of customer and developer contributions to deferred income. The revaluation of fixed assets and the capitalisation of borrowing costs do not affect current tax, but deferred tax has been provided for.

As a result of the transition to IFRS the deferred tax liability of the Company has increased by £287.2 million as at 31 March 2015.

30. Adoption of International Financial Reporting Standards (continued)

Property, plant and equipment

As a result of the above adjustments to property, plant and equipment the net assets of the group have increased by £2,071.4 million as at 31 March 2015. This is represented by the revaluation of the network assets to fair value (£1,345.6 million), a reclassification of developer contributions to deferred income (£783.5 million), the capitalisation of borrowing costs (£86.4 million) with the remainder attributable to the disapplication of infrastructure renewals accounting (£144.1 million).

As a result of these adjustments, operating expenditure of the Company for the year ended 31 March 2015 has increased by £58.9 million. The remaining increase of £14.5 million is attributable to the recognition of pension scheme administration expenses (£8.8 million) and other transitional adjustments.

Explanation of material adjustments to the statement of cash flows

Cash flows under IFRS include those in respect of cash and cash equivalents. An adjustment was made to include cash flows in respect of short term deposits that meet the definition of cash equivalents. Cash flows arising from corporation taxes were reclassified as cash flows from operating activities as it is not possible to identify elements associated with financing and investing activities.

Reconciliation of equity as at 1 April 2014

	UK GAAP £m	Reclassification £m	Transition £m	IFRS) £m)
Non-current assets				
Intangible assets	-	64.7	-	64.7
Property, plant and equipment	9,914.9	(65.0)	1,970.4	11,820.3
Investment in subsidiaries	0.1	-	-	0.1
Derivative financial assets	-	-	76.1	76.1
Intercompany loans receivable	-	2,015.0	-	2,015.0
	9,915.0	2,014.7	2,046.5	13,976.2
Current assets				
Inventories	8.9	-	(2.2)	6.7
Assets held for sale	-	0.3	-	0.3
Intercompany loans receivable	-	24.9	-	24.9
Trade and other receivables	2,600.7	(2,039.9)	(37.0)	523.8
Short-term investments	857.2	(368.2)	-	489.0
Cash and cash equivalents	6.6	368.2	(0.1)	374.7
	3,473.4	(2,014.7)	(39.3)	1,419.4
Current liabilities				
Trade and other payables	(1,335.5)	574.4	15.8	(745.3)
Borrowings	-	(583.9)	9.7	(574.2)
	(1,335.5)	(9.5)	25.5	(1,319.5)
Net current assets	2,137.9	(2,024.2)	(13.8)	99.9
Non-current liabilities				
Trade and other payables	(9,527.7)	9,373.8	(147.8)	(301.7)
Borrowings	-	(9,364.3)	177.4	(9,186.9)
Derivative financial liabilities	-	-	(453.5)	(453.5)
Deferred tax liability	-	(832.6)	(323.0)	(1,155.6)
Provisions for liabilities and charges	(978.3)	882.0	(0.1)	(96.4)
Retirement benefit obligations	(154.9)	(49.4)	(42.9)	(247.2)
	(10,660.9)	9.5	(789.9)	(11,441.3)
Net assets	1,392.0	-	1,242.8	2,634.8
Equity				
Share capital	29.0	-	-	29.0
Share premium	100.0	-	-	100.0
Other reserves	-	-	1,107.2	1,107.2
Retained earnings	1,263.0	-	135.6	1,398.6
Total equity	1,392.0	-	1,242.8	2,634.8

30. Adoption of International Financial Reporting Standards (continued)

Reconciliation of equity as at 31 March 2015

	UK GAAP £m	Reclassification £m	Transition £m	IFRS) £m)
Non-current assets				
Intangible assets	-	57 1	-	57 1)
Property, plant and equipment	10,719 7	(57 3)	2,071 4	12,733 8)
Investment in subsidiaries	0 1	-	-	0 1)
Derivative financial assets	-	-	255 1	255 1)
Intercompany loans receivable	-	2,115 0	-	2,115 0)
	10,719 8	2,114 8	2,326 5	15,161 1)
Current assets				
Inventories	8 6	2 1	(1 1)	9 6)
Assets held for sale	-	0 2	-	0 2)
Intercompany loans receivable	-	25 5	-	25 5)
Trade and other receivables	2,699 7	(2,142 6)	(23 7)	533 4)
Short-term investments	788 2	(511 1)	-	277 1)
Cash and cash equivalents	9 9	511 1	(0 1)	520 9)
	3,506 4	(2,114 8)	(24 9)	1,366 7)
Current liabilities				
Trade and other payables	(1,606 7)	650 0	(4 3)	(961 0)
Borrowings	-	(662 0)	7 7	(654 3)
	(1,606 7)	(12 0)	3 4	(1,615 3)
Net current assets	1,899 7	(2,126 8)	(21 5)	(248 6)
Non-current liabilities				
Trade and other payables	(10,019 6)	9,866 0	(172 6)	(326 2)
Borrowings	-	(9,854 0)	193 8	(9,660 2)
Derivative financial liabilities	-	-	(832 1)	(832 1)
Deferred tax liability	-	(751 6)	(287 2)	(1,038 8)
Provisions for liabilities and charges	(911 8)	813 9	-	(97 9)
Retirement benefit obligations	(249 5)	(62 3)	(42 1)	(353 9)
	(11,180 9)	12 0	(1,140 2)	(12,309 1)
Net assets	1,438 6	-	1,164 8	2,603 4)
Equity				
Share capital	29 0	-	-	29 0)
Share premium	100 0	-	-	100 0)
Other reserves	-	(30 8)	983 7	952 9)
Retained earnings	1,309 6	30 8	181 1	1,521 5)
Total equity	1,438 6	-	1,164 8	2,603 4)

30. Adoption of International Financial Reporting Standards (continued)

Reconciliation of total comprehensive income for the year ended 31 March 2015

	UK GAAP £m	Reclassification £m	Transition £m	IFRS) £m)
Revenue	2,026.8	(36.6)	-	1,990.2
Operating expenses	(1,348.8)	24.2	(73.4)	(1,398.0)
Profit on the sale of property, plant and equipment	16.4	-	-	16.4
Other operating income	6.9	12.4	47.7	67.0
Operating profit	701.3	-	(25.7)	675.6
Finance income	90.2	-	(1.6)	88.6
Finance expense	(455.7)	12.2	84.0	(359.5)
Net losses on financial instruments	-	(12.2)	(27.8)	(40.0)
Profit on ordinary activities before taxation	335.8	-	28.9	364.7
Taxation on profit on ordinary activities	0.3	-	(1.4)	(1.1)
Profit for the financial period	336.1	-	27.5	363.6
Other comprehensive income/(expense)				
<i>Items that will not be reclassified to the income statement</i>				
Net actuarial loss on defined benefit pension schemes	(149.3)	-	22.4	(126.9)
Deferred tax on net actuarial loss	29.7	-	(4.3)	25.4
<i>Items that may be reclassified to the income statement</i>				
Loss on cash flow hedges	-	-	(154.4)	(154.4)
Deferred tax on loss on cash flow hedges	-	-	30.8	30.8
Other comprehensive expense for the period/year	(119.6)	-	(105.5)	(225.1)
Total comprehensive income for the period/year	216.5	-	(78.0)	138.5

Glossary of terms

AMP adjustment – The revision in the real value of fixed assets arising periodically from improved information in the five-year Asset Management Plan process

Appointed business – The appointed business comprises the regulated activities of the Company which are activities necessary in order for the Company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991

Arm's-length trading – Trading in which the Company treats the other party, usually an associate company on the same basis as an external party

Asset Management Plan ("AMP") – An AMP is the five-year period covered by a water company's business plan. These are numbered, with AMP1 referring to the first such planning period after the water industry was privatised – i.e. the period from 1990 to 1995. The current period (2015 – 2020) is known as AMP6, and the period for which we are now starting to plan (2020 – 2025) will be AMP7.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

C17/ Competition 17 - The Water Act 2014 will allow 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater retail services from April 2017. Retail services include things like billing and customer services. At the moment only a limited number of non-household customers across England and Wales can choose their retailer. The new market will be the largest retail water market in the world. Customers will be able to shop around and switch to the best deal. Investors and retailers will have new opportunities for growth. And the environment will benefit from customers using new water efficient services. The UK Government is committed to delivering the new market. It set up 'Open Water', a single programme of work that brings together all of the key organisations to design and deliver the new market. These include the Department for Environment Food and Rural Affairs, Ofwat and Market Operator Services Limited – a private company owned by market participants. Thames Water has a programme of business readiness for Competition 2017, to ensure we are ready for market opening from April 2017.

Cost - The actual cost to the supplier, of the goods, works or services, including a reasonable rate of return on capital employed. Unless the circumstances of the transaction provide a convincing case for the use of an alternative measure, the return on capital should be consistent with the cost of capital/ net retail margin as set out in Ofwat's final determination of 12 December 2014 (or any other determination applicable in the 2015-20 period).

Cost allocation - Cost allocation is the means by which all costs are allocated to appointed and non-appointed businesses, price control units, or specific supplies, works and services, ensuring a fair share of overheads, even where costs cannot be directly attributed to specific activities and associated services.

Cost driver - A cost driver is the factor or factors which cause cost to occur. This can be further divided between the driver that causes an activity to occur, and a driver that determines how often it occurs. Costs may vary in relation to the cost driver over the short or longer term, depending on the nature of cost concerned.

CPI - The Consumer Prices Index ("CPI") is a measure of economic inflation based on a set series of goods and services set by the Office for National Statistics. This is the headline measure of inflation used in the Government's target for inflation.

Cross-subsidy - Cross-subsidy in this context is monetary aid or contributions from the appointee to the associate, or between price control units, which does not reflect the value of the services received. It also relates to services provided by the appointee to associate companies where there has been an under-recovery of costs incurred by the appointee.

CSAT - Short for "customer satisfaction", this refers to the qualitative component of the SIM measure.

Customer numbers - To ensure consistency with the way in which price controls have been set for 2015/20, customer numbers when used as a cost allocation metric is equal to 1.0 for single-service (water or wastewater only) customers and 1.3 for dual-service (water and wastewater) customers.

Customer side leakage ("CSL") – leakage from customer side pipes that form part of our treated water distribution network.

Final determination – The conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year AMP period. It is accompanied by a determination of the allowable K factor for the forthcoming AMP.

Financing adjustment – The impact of RPI on the real value of net finance for the business.

FTEs - For the purposes of cost allocation, full-time equivalents ("FTEs") should include all full-time staff, and contractors/ temporary staff directly employed. Where there is an existing contractual arrangement in place with an associate or third party (for example a third party billing arrangement), FTEs will include all full-time staff, and contractors/ temporary staff directly employed by the associate or third party involved in providing that service to the appointee.

Households - These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances, the standing charge may be zero.) The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Mixed/ commercial properties and multiple household properties – for example, blocks of flats having only one standing charge – should be excluded.

Infrastructure and non-infrastructure assets - Infrastructure assets are mainly our below-ground assets, such as pipes, water mains, sewers, dams and reservoirs. Non-infrastructure assets are those mainly found above ground, such as water and sewage treatment works, pumping stations, laboratories and workshops.

Instrument of Appointment - Water companies operating the public water networks hold appointments as water undertakers, and those operating the public wastewater networks hold appointments as sewerage undertakers, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to household and non-household customers who are connected to their networks.

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Thames Water Utilities Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Measured - These are properties where some or all of the charges for supplies are based on measured quantities of volumes.

Modern Equivalent Asset ("MEA") – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

Non-appointed business – The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

Non-households - These are properties receiving water for domestic purposes but which are not occupied as domestic premises, or where domestic dwellings are combined with other properties, or where properties are in multiple occupation but only have one standing charge. In this case, it is the number of bills that should be counted.

Outcome Delivery Incentive ("ODI") – ODIs is a collective term for the financial incentives – positive and negative – that Ofwat has applied to the delivery of our five-year plan. 'Rewards' allow us to charge more over the next five years (in this case, 2020-2025), while 'penalties' allows us to charge less. Some of these ODIs measure performance in each of the five years of our current plan, while others apply only to the whole five years.

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

Operating Company ("Opco") – The Company has three distinct opcos (not separate legal entities) consisting of Retail, Water and Waste. Each opco is responsible for its own planning, operational and investment decisions. To facilitate decision making there are separate management structures and executive teams in place in each operating company.

Opex - Pay for the day-to-day operations of our business, such as operating and maintaining our network and treatment works, paying our staff and our energy bills. This is known as operational expenditure or opex.

Performance Commitment ("PC") - Outcome performance commitments that reflects customers' views and priorities of service.

Periodic Review ("PR") – The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits an Asset Management Plan covering the five-year period for which Ofwat will determine prices (the K factor – see above).

Price control units - At the 2014 price review Ofwat introduced separate binding price controls. These include wholesale water, wholesale wastewater, retail household and retail non household.

Rant & Rave - Ofwat measures customer satisfaction on a quarterly basis, but we have worked with customer experience company Rant & Rave to measure this around the clock so that we can better assess our performance. When we have resolved

a customer's issue, we send them a text message asking them to score our response on a scale of one to five. The data from this is known as "Rant & Rave"

Regulatory Accounting Guidelines ("RAG") – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat

Regulatory Capital Value ("RCV") – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual)

Retail - This term refers to any water company activities that take place once water has passed to the customer's side of a property boundary. These include billing, payment handling, debt management, meter reading and handling billing related calls

Retail Price Index ("RPI") – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom

Service Incentive Mechanism ("SIM") – The Service Incentive Mechanism was introduced by Ofwat to replace the OPA as a measure of the service customers experience from their water company. It is now in its second year. There are two elements to the SIM: • A quantitative measure awards penalty points for issues ranging from callers to our customer centre receiving an engaged tone, through to complaints • A qualitative measure is calculated via telephone interviews to assess the satisfaction of customers who have contacted us to resolve queries

Third-party contributions since 1989/90 – Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets

Totex - Total expenditure ("totex") is the mechanism, introduced in PR14 (price review 2014) for planning and reporting capital (for example, buying a new car) and operational (repairing your old car) spend. The object is to achieve the optimum combination to deliver the required business plan outcomes. It applies to both water and waste (i.e. our wholesale business) but not to retail

Thames Tideway Tunnel ("TTT") - The Thames Tideway Tunnel is a landmark construction project which will protect the River Thames from pollution. London's sewer system is regularly overwhelmed and spills millions of tonnes of sewage into the tidal section of the river every year. The tunnel will tackle the problem of overflows from the capital's Victorian sewers for at least the next 100 years, and enable the UK to meet European environmental standards

Transfer pricing - A transfer price is the price paid by one group company to another for transactions between the two companies or for transactions within the appointee between price control units or between appointed and non-appointed business

Unmeasured - These are properties where none of the charges for supplies are based on measured quantities of volumes. These include properties which receive an assessed charge because metering is not possible or economic

Water 2020 - An Ofwat work programme, which aims to establish what will be required of water and sewerage companies in the 2019 Price Review

Wholesale - This term covers all water company activities that take place before water passes the customer's property boundary – resources management, abstraction, treatment, distribution (water and sewer networks), sewage collection, transportation, sewage treatment, sludge disposal and energy from waste

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material

Working capital adjustment – The impact of RPI on the real value of working capital to the business

Water Resource Management Plan ("WRMP") - Our 25-year Water Resources Management Plan is updated every five years and sets out how we aim to meet the predicted demand for water in our region over that period