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Thames Water Utilities Ltd
**Corporate Responsibility
Report 2005**

TWUL Corporate Responsibility Report 2005



Thames Water Utilities Ltd (from now on referred to as Thames Water) is the UK regulated water and wastewater services company of RWE Thames Water, the water division of the RWE Group. The RWE Group is an international corporation providing electricity, gas and water services.

Thames Water is the UK's largest water and wastewater services company. We serve over 13 million customers in London and the Thames Valley region. Each day we supply an average of 2,800 million litres of drinking water and treat around 2,900 million litres of sewage. A schematic diagram showing how we provide water and wastewater services is available on our website.

Thames Water has a successful non-regulated business, Thames Water Services Ltd, which operates a number of contracts and joint ventures with a range of clients, including Scottish Water, Welsh Water, Northern Ireland Water Services, and the Ministry of Defence, as well as operating commercial contracts through the owned subsidiaries Terra Eco Systems and Engenica.

Thames Water Services Ltd has successfully developed a market-leading portfolio of major utility-related, long-term, outsourcing contracts for major clients across the UK. By understanding clients' requirements, it is able to develop practical, innovative and sustainable solutions for large-scale installations, upgrades, and/or ongoing operations and maintenance of utility infrastructures.

We hope you enjoy reading this report and welcome your feedback. If you have any comments or questions, please contact us by email at cr_feedback@thameswater.co.uk or write to us at the address on the back cover of the report.

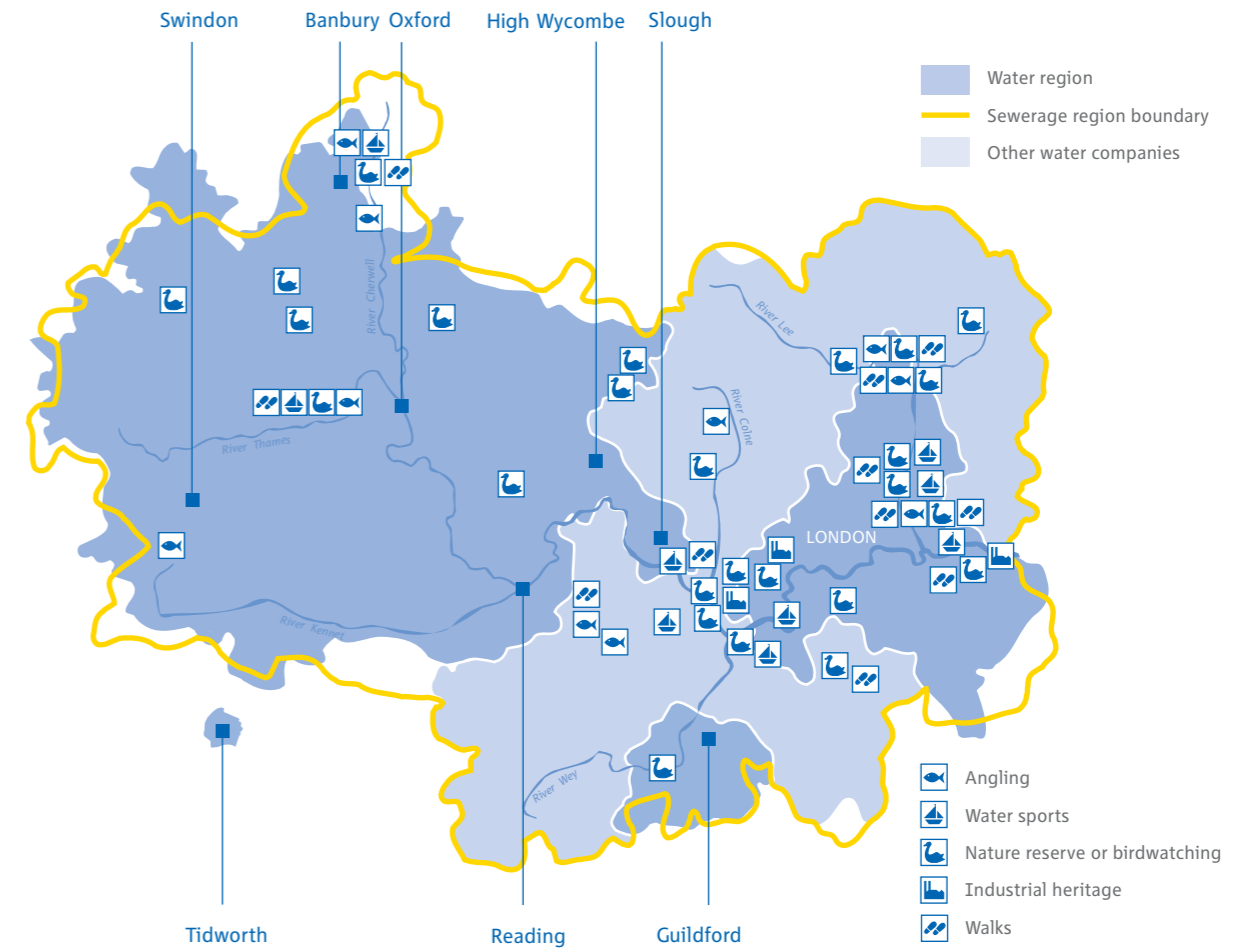
This report covers Thames Water's approach to corporate responsibility, some of the issues that matter most to our business and our stakeholders, and provides a balanced account of our performance.

Last year we developed a formal process to identify the corporate responsibility issues that mattered most to our stakeholders and to our future success as a business. We have built on this process and this report focuses on those issues judged to be most significant. In developing this report we have responded to the recommendations from our verifiers in 2004. We have referred to the Sustainability Reporting Guidelines, published by Global Reporting Initiative (a collaborating centre of the United Nations Environment Programme) and to AccountAbility's AA1000 Assurance Guidance Note on Materiality.

We have tailored the content to meet the needs of stakeholders with particular interest or professional involvement in corporate responsibility. We also hope that this report is of interest to our wider stakeholders.

The reporting period covered is from 1 January 2005 to 31 December 2005, unless otherwise stated. This report will not be consistent with the 2005/06 Annual Regulatory Accounts and the 2006 June Return to Ofwat, which report a year end of 31 March 2006.

Our operational area



The diagram above shows our operational area and some of our sites that are open for access and recreation. Access to some of these sites requires membership with one of our conservation partners and/or requires an entrance fee.

Further information for all our sites open for access and recreation is available on our website.

Key facts - year end 2005

- £323million profit before tax
- £590million total operating expenditure
- £5.3million expenditure on research and development
- 8.2 million drinking water customers
- 101 water treatment works
- Over 31,000 km of water mains
- Over 13 million wastewater customers
- 348 sewage treatment works
- Over 67,000 km of sewers



Birdwatchers at Kempton Nature Reserve



James Harper of Reading Football Club - saving water



Matt Prior of Thames Water - testing for pollution



The last two winters have been among the driest on record

2005 Highlights

- Undertook a Sustainability Challenge project with Forum for the Future.
- 100% of sewage sludge put to beneficial use with no sludge disposed to landfill.
- 100% compliance with the Sludge (Use in Agriculture) Regulations.
- Achieved 48% recycling rate for operational waste and 57% recycling rate for major capital investment works' waste.
- Conducted over 1,000 pollution prevention visits concentrating on known hotspots, eliminating the risks of pollution, and increasing stakeholder awareness.

- Official opening of Kempton Nature Reserve. The site is Britain's first inland breeding site for avocets.
- Our work to improve the conservation, access and recreation at our sites was recognised again, with several awards being received.
- Commended in the Environment Agency's Water Efficiency Awards for our work with Reading Football Club to promote water efficiency.
- Achieved 'Good' performance against the majority of Ofwat's customer service standards.

2005 Lowlights

- Mayor of London refused our planning application to build a desalination plant at Beckton, East London, arguing that it would use too much energy, and would be unnecessary if leakage was further reduced and water was used more efficiently.
- Annual average total leakage in 2004/05 was 915 megalitres per day but for the first time in five years a reduction was achieved.
- Achieved 99.27% compliance with sewage treatment works' consents according to the Water Resources Act 'look up' table limits - down on the higher achievements of the last six years.

- 31 serious water pollution incidents.
- Received four convictions for pollution offences.
- Received three Improvement Notices and prosecuted on three occasions for failures with respect to the New Roads and Street Works Act.
- 22% of managers are female and 2% are from ethnic minorities, both a lower proportion than in our workforce as a whole.

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Further information

You can read this report online at www.thameswater.co.uk. Our website also provides more details on many of the issues discussed in this report and other relevant topics. Throughout the report we have suggested links to further information using the following icons:



This refers to our website. Please see the footnote at the bottom of the particular page for the corresponding web address.



This refers to an existing publication. Please see the footnote at the bottom of the particular page.

This is our fourteenth annual publication and our third consecutive annual Corporate Responsibility Report. Previous reports are available on our website.

The following publications are also available:

- Thames Water Utilities Ltd Annual Report and Accounts.
- Thames Water Utilities Ltd Drinking Water Quality Report.
- RWE Thames Water Corporate Responsibility Report.

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Chief Executive Officer's statement



Jeremy Pelczer
Chief Executive Officer, Thames Water.

This has been a busy start for me personally in my new role as Chief Executive Officer. As I write this foreword (end of June 2006) the Company is going through a particularly challenging time. We have a lot to do to rebuild and retain the confidence and trust of our stakeholders. This report is not written to satisfy a current fashion; it reflects my genuine and passionate belief in Corporate Responsibility. I acknowledge that there is much to be done, but no-one should be in any doubt of my commitment, or that of my management team.

The decision by RWE to divest Thames Water and concentrate on its core utility markets of gas and electricity brings new challenges for us in 2006. Throughout all the changes that will take place, I am determined to keep our focus on serving our customers with high-quality drinking water and essential wastewater services. At the same time we must deliver our regulatory commitments and plan effectively for our role in a more sustainable future.

Thames Water faces many challenges. Since November 2004 we have had a drought in the Thames Valley region and across The South East. Two successive winters with low rainfall meant that in 2006 we have had to introduce our first hosepipe ban in over 15 years. This is not a step we took lightly, but it is important to help manage the available water resources and protect the environment. Leakage remains our biggest long-term priority and tackling it is my foremost issue to address. Patching up the system by finding and fixing leaks is not enough – a fundamental overhaul of the oldest parts of the network, replacing and relining old pipes, is already under way. We also face other challenges such as ensuring our services remain affordable to customers, removing homes from the threat of sewer flooding, and coping with a shortage of skilled engineers.

These short-term priorities are very important, but they must not prevent us from taking a long-term view and planning for the future. Climate change, population growth and development pressures in The South East are all placing greater demands on our operations. To make sure we have enough water to supply our customers in future, we need to find effective ways to reduce demand, and also build new infrastructure. We have proposed a desalination plant in East London to boost supplies in times of drought. Ken Livingstone, the Mayor of London, has rejected our plans but a public inquiry is, at the time of writing, reviewing his decision. In the longer term, we are exploring the option of a major new reservoir in the upper Thames area to boost local and London supplies.

The Victorian sewer network is in pretty good shape, but we need to expand it to cope with the extra demands of 21st century London and the more extreme weather conditions expected in the future. We worked with bodies including the Environment Agency to produce the Thames Tideway Strategic Study, which details how best to address the issue of storm sewage discharges to the tidal stretches of the River Thames. We recognise the case for the proposed solution, a sewage storage and transfer tunnel under the river, but it remains for the Government to decide whether the project should proceed and how it will be funded.

It is clear that the pressures we are under will only intensify in the future. Water will no longer be the hidden utility, out of sight and out of mind. Everyone, including the general public, is becoming more aware of the need for the sustainable water services we are seeking to develop. To put the business on a truly sustainable footing, we need to engage with stakeholders openly and honestly on key issues such as the value and affordability of water, ensuring that water efficiency and managing demand are taken more seriously, and balancing environmental aims with economic returns. To achieve this, we are working closely with Forum for the Future, a leading sustainable development charity. Outside the UK, Thames Water will continue to play a role in efforts to find new ways of contributing to the Millennium Development Goals to improve the access of the world's poor to safe drinking water and effective sanitation. We have considerable expertise and our customers expect us to play our part in efforts to meet these important targets.

As you can see, there are a great many challenges, both now and in the long term. We must engage with these in a way that addresses the needs of all our stakeholders, including the wider public, and that demonstrates our actions as a responsible corporate citizen. In short, we must show that we put corporate responsibility at the heart of everything we do. We are making progress – but the journey is far from complete.

I hope you enjoy the 2005 Corporate Responsibility Report and welcome feedback both on the report itself and any other issues that may concern you.

Jeremy Pelczer
Chief Executive Officer

Corporate responsibility at Thames Water

We provide an essential service that is vital to the health of society and the environment. By managing our business responsibly, we contribute to sustainable development.

Each day we abstract millions of litres of water and return treated effluent to the aquatic environment. We must, therefore, work carefully and within environmental limits. Socially, we are continually interacting with people by dealing with customers and communities impacted by our operations. We contribute directly to society through sponsorships, donations and the voluntary activities of staff, and make a wider contribution through creative use of our land and facilities to provide recreational, amenity and educational opportunities. We also provide jobs, build skills, contribute to the physical infrastructure, create economic activity, and generate a reasonable return for our investors. By managing our business responsibly we contribute to sustainable development. Our corporate responsibility programme is directed towards maximising this contribution.

Corporate responsibility in practice

Corporate responsibility means integrating social and environmental practice into the way we do business every day – how we bid for work, improve our operations’ performance, deal with our customers and suppliers, and treat our staff. Our corporate responsibility programme has evolved over many years, building on our dealings with stakeholders and reflecting changes in the business environment, internally and externally. It will continue to evolve.

This year we began a Sustainability Challenge project with Forum for the Future, a leading sustainable development charity. This will review our approach to sustainability issues and benchmark our performance against other leading companies. Its recommendations will be used to form an action plan.



In 2006, we will become a Foundation Corporate Partner of Forum for the Future. We will deepen our engagement and work closely to move our business onto a more sustainable footing. One of the first projects we are planning with Forum for the Future is developing both a clearly articulated business case for corporate responsibility and a Sustainability Vision for the Company. These will provide a clear route map to translate sustainable development into objectives that are understandable to everyone in the business.

Governance

Our Board comprises five executive members and three non-executive members and is chaired by Jeremy Pelczer, our Chief Executive Officer. The Board determines the strategic direction of the Company and promotes good corporate governance. We are committed to conducting business with integrity, openness and transparency. Our business ethics policy emphasises the need for all employees to avoid conflicts of interest and all forms of unethical behaviour.



Richard Aylard, External Affairs and Environment Director, has day-to-day responsibility for the delivery of the Corporate Responsibility Strategy. There are also specialist teams covering corporate responsibility, the environment, human resources, and health and safety, who provide advice and information to the business. However, corporate responsibility cannot be owned by just a few people in the organisation – our aim is for all employees to take responsibility and to integrate corporate responsibility into what they do and how they act every day.

To help achieve this, our Corporate Responsibility Policy sets out our key objectives and is supported by more detailed policies covering environment, employees, customer service, and health and safety. Our management systems cover many aspects of our corporate responsibility programme such as environment, and health and safety. These systems are certificated where appropriate, for example, our engineering division and six of our operational sites are registered to the International Environmental Management Systems Standard, ISO14001.



Governance of corporate responsibility

Corporate responsibility is an integral part of the way we run our business. Accountability therefore ultimately rests with the Board, chaired by Jeremy Pelczer. A Board-level Environmental and Corporate Responsibility Committee meets at least twice a year under the chairmanship of Sue Slipman, a non-executive director. The Committee, which has been established for four years, reviews and approves strategy and policy, evaluates performance on environmental and social matters, and reports back to the Board. The issues discussed this year included pollution incidents, skills gap, and access and recreation.

Corporate responsibility is embedded into our key business processes, including our Corporate Policies and Procedures, risk management, and balanced scorecard performance management system. This scorecard system is applied to health and safety incidents, pollution incidents, prosecutions, and staff satisfaction levels. It is used to measure the performance of senior managers and helps determine an element of their annual bonus payments. Performance on key objectives is presented in tables on pages 41 to 44. We have also integrated some corporate responsibility objectives, including carbon accounting when screening all engineering projects, and this will be developed further.



Lena Hanson, Senior Sustainability Adviser for Forum for the Future, has been leading the Sustainability Challenge project.

Through the Sustainability Challenge, Forum for the Future has recommended actions, including:

- Develop a compelling vision of what Thames Water would look like in a sustainable society.
- Embed sustainability throughout the organisation, with all staff understanding the contribution that they can make.
- Drive the industry forward on key strategic issues such as water efficiency and climate change.
- Develop methodologies to carry out full sustainability appraisals of key programmes, such as the leakage programmes.

01 www.thameswater.co.uk/corporateresponsibility

02 www.thameswater.co.uk/corporateresponsibility see Corporate governance
 03 www.thameswater.co.uk/corporateresponsibility see Policy
 04 www.thameswater.co.uk/yourenvironment see Environmental management

Key issues and challenges



In 2004, we carried out an assessment of what stakeholders thought were our most **significant corporate responsibility issues**. We built upon this in 2005 by testing the methodology more widely, integrating more fully the views and priorities of the business and those of our stakeholders. Knowing the most significant corporate responsibility issues from the different perspectives of the business and our stakeholders helps to guide and inform our actions.

In the following pages we describe some of the key issues we face, including; climate change, sustainable water resource provision, and affordability.

Engaging with our stakeholders



Our relationships with **stakeholders** are crucial to our future. The more positive and mutually beneficial they are, the more successful our business will be. It is vital we understand the views and expectations of all our stakeholders and respond to their concerns. It is unrealistic to expect that we can satisfy all their expectations, but we aim to be open and honest in working with them.

We engage with our stakeholders in many ways, ranging from one-to-one meetings with regulators, to open days for the public and surveys to measure customer and employee satisfaction. What we learn is used to assess risks to the Company, to shape policies and processes, to operate more sustainably, and to inspire new ways of doing business. Two examples of this are:

- **Stakeholder review meetings.** These have been held for a number of years with the last being held in November 2005. It was attended by over 80 representatives from a wide range of organisations including companies, local authorities, and non-governmental organisations. Face-to-face discussions covered issues including; water resources, leakage, pollution, and recreational facilities.
- **Water resource planning workshops.** Given the criticality of the water resource situation, we held two participatory water resources workshops to discuss our approach and engage stakeholders in the difficulties and issues we face.

Throughout this report we provide examples of the partnerships we have built to address key challenges and further research, innovation, and policy development. We are also active members of organisations including International Business Leaders Forum, Business in the Community, and the Basic Services Human Rights Network with whom we are working on ethical procurement.



Our 2005 stakeholder review meeting in London

Political influencing

As a regulated business, we are impacted by the decisions and choices of policy-makers. Seeking to inform and influence them on relevant public policy issues is therefore both legitimate and essential to our business.

We are in regular dialogue with the UK Government, European Commission, Greater London Authority, national, regional and local elected representatives, advisers, and the wider opinion-forming community. We do so in an open and honest way, either directly or through Water UK, our trade association, and business organisations such as the Confederation of British Industry, London First, and the London Chamber of Commerce. We also work with policy development groups such as the Green Alliance and the Institute for Public Policy Research.

Issues we engaged with stakeholders on in 2005 include the following:

- Water resources; giving evidence to the House of Lords Science and Technology Committee on water management.
- Water efficiency; including support for Green Alliance and the Institute for Public Policy Research projects.
- Skills shortages and training and development.
- EU Green Paper on Public Private Partnerships.

We attend all the main UK political party conferences (Conservative, Labour and Liberal Democrats) but make no donations to political parties, candidates or affiliated organisations.



Training and development - first year engineering apprentices at Kingston College



Members of Reading University Boat Club with waterwise Sam - promoting water efficiency

Key issues

In this section we report on the environmental and social issues that matter most to our stakeholders, our reputation and our business.



Climate change

Water resources

Wastewater

Affordability

Workforce diversity and skills shortage

Climate change

Climate change is one of the most important environmental issues facing the world today.



Although climate change is a natural process, scientists have concluded that man-made greenhouse gas emissions are accelerating it. International momentum is building to tackle the issue and the UK Government has taken a leading position, committing itself to go beyond its obligations under the Kyoto Protocol.

The water industry is a significant producer of greenhouse gases and will also feel the impact of climate change earlier than many other industries. Thames Water takes the issue extremely seriously, particularly as we operate in one of the driest areas of the UK. Our strategy involves both managing our contribution to climate change and adapting to its impacts.

Managing our contribution to climate change

Since 1997, we have measured and publicly reported our greenhouse gas emissions. More recently, we have undertaken studies to better understand our emissions profile and how we can effect change. In 2005, we emitted 1.49 million tonnes of greenhouse gases (CO₂ equivalent). 60% of these are termed long-term emissions and come from the production of electricity used to pump and treat water and wastewater.

In future, we will face a difficult challenge; how to control our emissions whilst meeting higher environmental standards which generally require more complex processes and use more energy. For example, if recycling sewage sludge to agricultural land is restricted further, we may have to switch to alternatives - for example drying sewage sludge - increasing our energy use and emissions.

To reduce our greenhouse gas emissions most effectively, we will focus on those generated by our consumption of electricity and fossil fuels.

Our aims are to:

- Improve energy efficiency throughout our operations.
- Find ways to use renewable energy sources such as hydro and wind.
- Expand our current use of renewables such as using sewage sludge and biogas (by-products of wastewater treatment) as fuels.
- Investigate the greater use of biodiesel in fuels.

Six of our sites are regulated under the European Union's Emissions Trading Scheme. Emissions from these sites are capped and we must invest in emission reduction or trade in the carbon market to meet our targets.

Adapting to climate change

We are likely to see hotter and drier summers with more seasonal droughts, wetter winters, and more frequent extreme weather events such as flooding. These may impact on all parts of our business as explained in the diagram overleaf.

We have made progress in understanding the impacts on our business and build climate change forecasts into our operational and strategic planning.

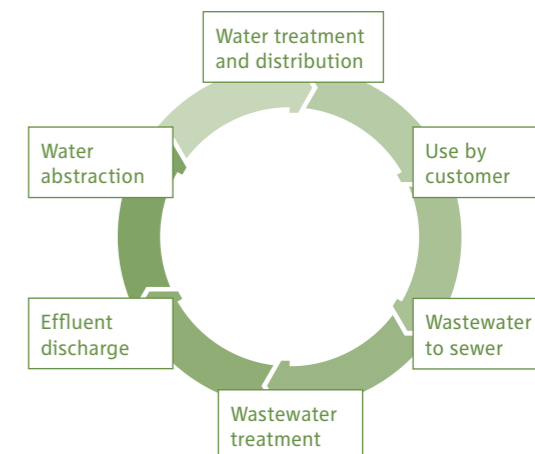


In 2005 we also carried out the following actions:

- Developing and publishing a Climate Change Policy.
- Improving awareness within the Company and embedding climate change issues in our business decision-making.
- Committing to managing existing water resources as effectively as possible and investigating and developing new sustainable resource solutions.
- Continuing to promote water efficiency.
- Being actively involved in water industry research projects.
- Working with stakeholders, such as the Environment Agency, Greater London Authority, Department for Environment, Food and Rural Affairs (Defra), and London and South East Climate Change Partnerships, to improve understanding of the issues.

We need to do more. We need to develop a climate change strategy that spells out clearly what is expected of the business and its employees. It is important that climate change is not thought of in isolation, but is integrated into all aspects of the business. We must prevent other pressures, such as rising demand and housing development, working against us in developing our climate change response. It is also vital we continue to engage with stakeholders, researchers and regulators to share understanding and increase our knowledge of specific impacts on the water industry.

How climate change may impact on our business



- **Water abstraction** – reductions in river flows and the recharging of aquifers will reduce the amount of water available to customers.
- **Water treatment and distribution** – the ability to supply water during prolonged periods of drought.
- **Use by customer** – demand patterns will change, notably increasing in summer.
- **Wastewater to sewer** – overloading of the sewers with rainwater or flooding of treatment plants could increase pollution incidents.
- **Wastewater treatment** – greater variation in sewage volumes and strength could affect the efficiency of treatment plants.
- **Effluent discharge** – reduced river flows will lessen their ability to receive and dilute treated wastewater discharges and may lead to requirements for higher standards of treatment and thus more energy use.

01 www.thameswater.co.uk/key issues see Climate change
 02 www.thameswater.co.uk/yourenvironment see Climate change/Managing our contribution
 03 www.thameswater.co.uk/yourenvironment see Climate change/Responding to climate change

Water resources

The current drought has highlighted the pressure on water resources in The South East and the increasing need to conserve water.

2005/06 drought

The Thames Water region is one of the driest in the country. We currently face a challenging drought; the last two winters have been among the driest on record (see diagram below). Faced with this problem, we (along with a number of other water companies in The South East) have introduced a hosepipe and sprinkler ban. Careful management of our resources meant we avoided this in 2005.

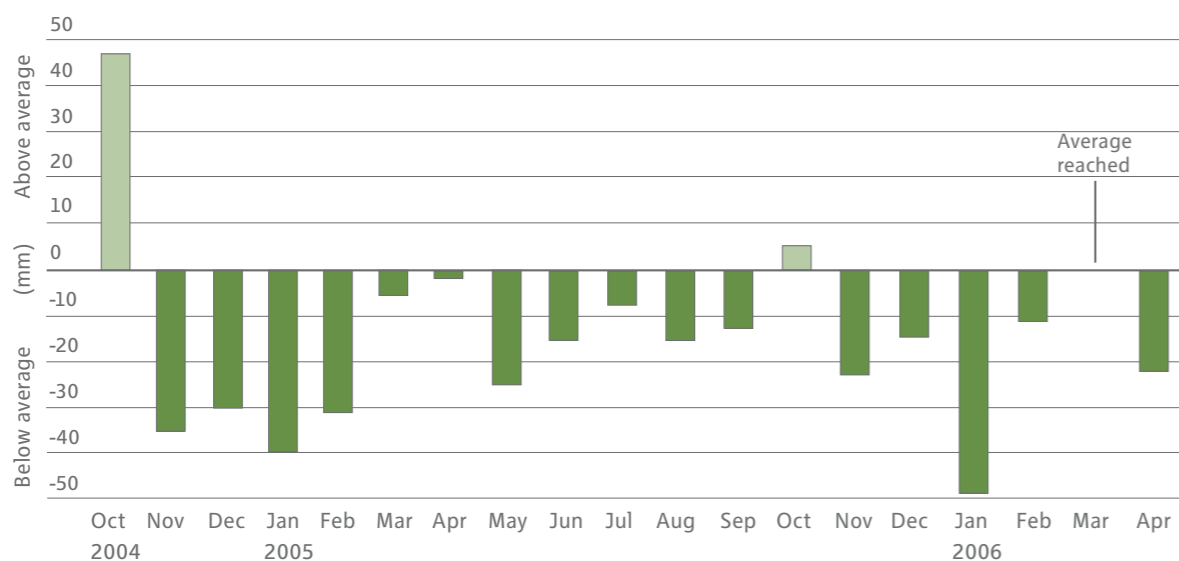
However, the dry winter of 2005/06 has left us in a difficult position. There has been little recharge of natural storage in aquifers, and groundwater levels are low. In addition, the low rainfall during spring and the predicted low river flows this summer led to the decision to introduce a hosepipe ban. This will restrict the amount of water being used for non-essential purposes, and hopefully avoid more serious measures being introduced later on in 2006.

Demand for water

Current use in our region is an average of 159 litres of water per person per day, and demand is rising, placing more pressure on our water resources. The increasing demand for water is caused by:

- **Population growth** – The Greater London Authority has set a target for 30,000 homes a year to be built in London up to 2016. Overall, we currently supply 8.2 million customers with water and we have predicted an increase of approximately one million across our region by 2030.
- **Smaller households** – an ageing population, changing lifestyles and more divorces mean more people are living alone. Smaller households use more water per head – approximately 201 litres per person per day compared to 134 litres per person per day for a family of four.

Total monthly rainfall (mm) October 2004 to April 2006



01 www.thameswater.co.uk/yourenvironment see Drought
 02 www.thameswater.co.uk/keyissues see Water resources

- **Changing water use habits** – more frequent washing and the increased ownership of high water consuming appliances, like power showers, contribute to rising demand.
- **Climate change** – longer, hotter and drier summers will mean increased customer demand, in tandem with a reduction in water available from rivers and aquifers.

The Olympic and Paralympic Games, to be held in London in 2012, will put significant additional demands on water resources over a short period. We will be working with the Olympic's and Paralympic's organising bodies to establish how this additional demand will be satisfied.

Managing both supply and demand

To meet these challenges, we are committed to a twin-track approach addressing both the management of demand for water, and developing new schemes to increase supplies.

Demand management

The main demand management tools are leakage reduction, metering and water efficiency.

Leakage reduction

Leakage is the biggest challenge we face and is our top priority - we are investing £1billion between 2005/06 and 2009/10 to improve the position. The issue is mainly confined to London, where nearly a third of the mains are over 150 years old and about half are over 100 years old, posing substantial problems.

We agreed with our economic regulator, Ofwat, the demanding target of reducing leakage in London by 185 megalitres per day by 2009/10 (see table below for yearly leakage targets). In 2004/05, we achieved a reduction of 31 megalitres per day throughout our region – the first time in five years that a reduction was achieved (see table below for annual average total leakage).

Patching up such an old system through the traditional method of finding and fixing leaks is not, in itself, a sustainable option. The only sustainable, long-term solution is a major mains replacement programme. This began in 2002 and since then we have replaced 388 kilometres of the oldest mains. We are on target to bring this to a total of 1,570 kilometres by 2009/10, enough to run from London to Rome and beyond, at a total cost of more than £600million. To minimise disruption we are using 'no-dig' techniques where possible.

Leakage targets for 2004/05 to 2009/10

	2004/05	2005/06	2006/07	2007/08	2008/09	2009/10
Target	905	860	840	785	745	720

Annual average total leakage

	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04	2004/05
Thames Water pipes*	586	493	499	645	691	684	658
Customer pipes*	184	169	189	220	252	262	257
Total	770	662	688	865	943	946	915

* Responsibility changes at the boundary of the customer's property

03 www.thameswater.co.uk/yourhome see Leakage

This mains renewal programme is supported by the continuation of 'find and fix' activities. In 2005, as well as repairing 22,400 visible leaks, we detected and repaired some 45,600 leaks hidden under ground, and repaired 10,800 customer pipes.

We are also improving our management of water pressure to help reduce pressure fluctuations, leakage, and burst pipes. So far, this programme has ensured leakage savings of about 110 megalitres per day and fewer burst mains and interruptions to supply. However, reducing pressure can affect the supply to tall buildings where inadequate booster pumps have been installed in the past. Where this is the case, we are working with Local Authorities and, where appropriate, are subsidising the cost of installing these pumps and providing technical expertise.

Metering

We prefer customers to pay on a metered tariff since payment is related to the amount of water used. New and newly converted properties are now metered along with commercial properties and properties with swimming pools and sprinkler systems.

For other properties the occupier may request the installation of a meter, which is fitted by us free of charge in most circumstances.

In 2005 we began five-year **metering** pilot trials in areas in London and Swindon. These will collect information about costs and savings, identifying practical issues, assessing public responses, and establishing a best practice process. By 2030 we aim to meter about 60% of domestic properties in the region; currently 22% are metered.

Water efficiency

We have had a comprehensive **water efficiency** strategy in place for ten years, focusing on raising customer awareness of the need to use water wisely. The past year has also seen the issue rise up the political agenda with the establishment of the Environment Minister's Water Saving Group. This Group aims to understand the barriers to achieving savings from demand management, and to investigate regulatory and policy measures to encourage the efficient use of water.

We are actively involved in the debate on water efficiency policy and support relevant research. In 2005 we supported Green Alliance's Green Living Initiative, which examined fiscal incentives for households to take action on energy, water, and waste; and the Institute for Public Policy Research's Water: Encouraging Efficiency project, which aims to develop policies to help achieve water efficiency improvements in existing housing stock.

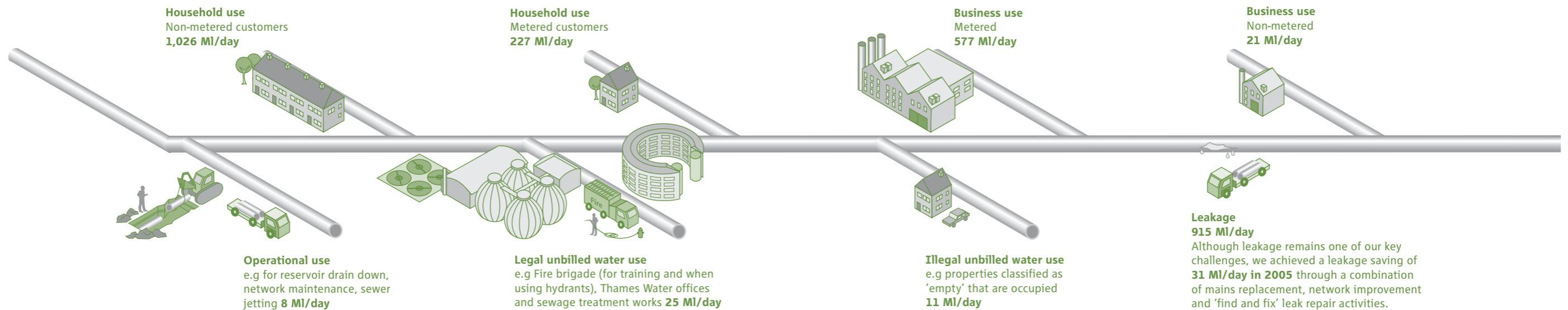
We provide our customers with **water saving advice**, access to water saving products, and practical help. In 2005, we sent out 1.8 million self-audit leaflets to homeowners, 133,000 free cistern devices, and carried out 35 water audits for business customers. In 2005, we reviewed how we promote water efficiency to our customers. Since four out of ten Londoners are from ethnic minority groups, we have chosen to undertake more projects with culturally diverse communities. We supported London Sustainability Exchange (LSx) in promoting environmental messages through religious faiths, and visited the London Muslim Centre to give out cistern devices and literature, and talk to children.

We will continue this innovative approach in 2006 by working with LSx to promote water efficiency to culturally diverse communities.

We continue to work in partnership with community groups and other organisations to promote water efficiency, and received a commendation in the Environment Agency's 2005 Water Efficiency Awards for our ongoing work with Reading Football Club. Similar schemes have since been started with other sporting organisations including Swindon Town and Oxford United football clubs, and Oxford Greyhound stadium.

The London 2012 Olympic and Paralympic Games will provide an opportunity to develop new facilities with sustainable water systems. We are supporting the potential development of sustainable water practices, including rainwater harvesting. These systems could last beyond the Games and be of long-term benefit to people and businesses in the Lower Lea Valley. They could also provide a template for innovative future sustainable development in the Thames Gateway.

2,810 megalitres (MI) of water is put into supply daily - where does the water end up?



04 www.thameswater.co.uk/yourhome see Metering
 05 www.thameswater.co.uk/yourenvironment see Drought/How we are meeting the challenges

06 www.thameswater.co.uk/waterwise

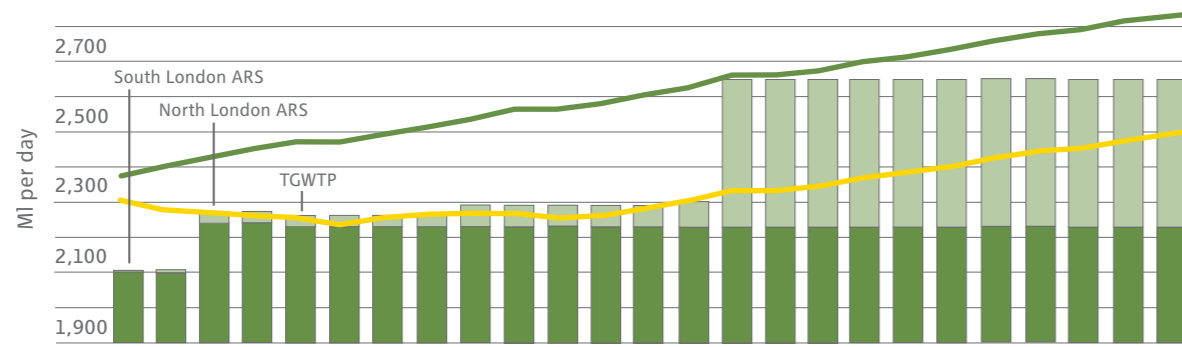
Water resource development

Managing supply

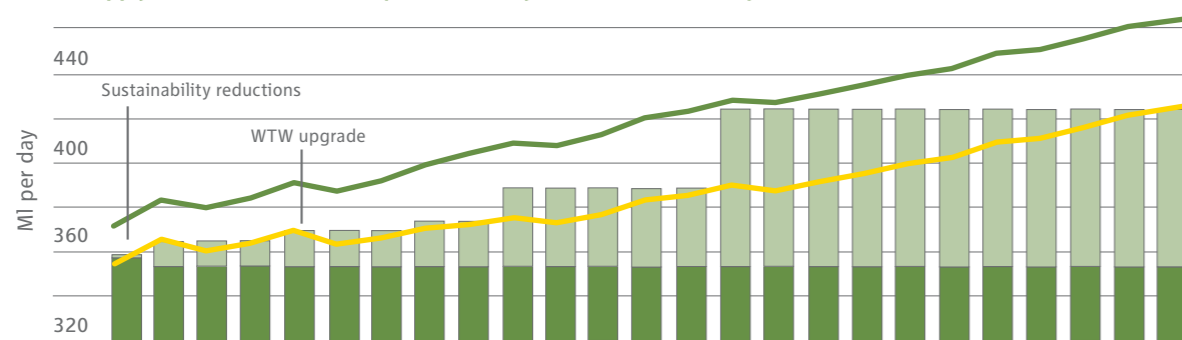
London faces unprecedented demands on its water resources. Even with major progress in reducing leaks and encouraging water conservation, we are still anticipating a significant shortfall between demand for water and the amount we can supply during a drought (see diagrams below). It is therefore vital that we increase our supplies.

In July 2005, we abstracted water from the North London Artificial Recharge Scheme – an underground reservoir that is artificially refilled in winter. This resource can supply 190 megalitres per day, enough to serve nearly one million people in times of need. We are currently working on proposals for two major new schemes to increase supply – the Thames Gateway Water Treatment Plant in East London and the Upper Thames Major Resource Development in Oxfordshire.

Water supply and demand forecast (London 2005/06 - 2029/30)*



Water supply and demand forecast (Thames Valley 2005/06 - 2029/30)*



- Current water available
- Planned water available
- Demand
- Demand reduced through leakage control and water efficiency
- ARS Artificial Recharge Scheme
- TGWTP Thames Gateway Water Treatment Plant
- WTW Water Treatment Works

* Figures are rounded and are taken from our 2004 Water Resource Plan. However, due to the Public Inquiry, the introduction of the Thames Gateway Water Treatment Plant has been delayed beyond the date shown.

07 www.thameswater.co.uk/yourenvironment see Drought/Managing water supply

Thames Gateway Water Treatment Plant

In 2004 we considered several options to make more water available in London, including the use of greywater recycling and bringing in supplies from elsewhere in the UK. However, a desalination water treatment plant using water from the Thames estuary proved to be the only way to provide sufficient additional water quickly enough and at an acceptable cost. We discounted a number of options on the basis of their potential impact on the environment.

The proposal for the desalination plant in East London, was approved by Ofwat and is supported by the Consumer Council for Water. However, the Mayor of London directed the London Borough of Newham to reject our planning application, arguing that the plant would use too much energy, and would be unnecessary if leakage was further reduced and water was used more efficiently.

We remain convinced that the Thames Gateway Water Treatment Plant is needed, even with the savings from our work to reduce leaks and more efficient use of water, and have designed it to keep power consumption to a minimum. Our appeal against the Mayor's decision is being heard at a Public Inquiry in May and June 2006. The final decision lies with the Department for Communities and Local Government and Defra.

Upper Thames Major Resource Development

We are currently re-evaluating the need for a major new water resource development in the Upper Thames area, including our current provisional preference of building a large reservoir in Oxfordshire to serve both the surrounding area and London.

We have begun a series of consultation exercises with stakeholders to update them on progress and hear their views. Locally, we have visited parish councils and, on a regional and national basis, we held a stakeholder event for a wide range of organisations including Ofwat, the Environment Agency, ODPM, water companies, and local authorities.

If the reservoir goes ahead, it would raise important conservation, access and recreation issues. A workshop was held in 2005 with a range of stakeholders to draw on their expertise to help produce options for the best solutions. Once the studies into these specific issues are completed, we will launch a major public consultation exercise, including workshops, panels, and exhibitions.

In the meantime, water supplies in Oxfordshire will be boosted by a £50million scheme to build a 21-mile pipeline between Oxford and Goring improving flexibility.

08 www.thameswater.co.uk see Community and environment/Investing in the future/Desalination
 09 www.thameswater.co.uk see Community and environment/Investing in the future/UTMRD

Wastewater

Thames Water collects and treats wastewater from over 13 million people including a wide range of industries in London and the Thames Valley region.

We operate a large sewerage network with over 67,000 kilometres of pipes, over 2,500 pumping stations, and 348 treatment works. The network is generally in good condition, despite much of it dating back to the Victorian era. However, the size and age of the network does give rise to problems such as pollution incidents, sewer flooding, and odour. Managing these issues is an ongoing challenge, but we are pleased to report that our record in 2005 shows improved performance in dealing with the majority of them.

Pollution incidents

Every year we experience a number of pollution incidents involving our sewers or treatment works. The seriousness of these varies widely from simple discolouration of watercourses without damage to wildlife, through to incidents that cause large-scale deaths among fish and other aquatic life.

The Environment Agency ranks incidents from one to four, with only categories one and two normally thought to be serious enough to consider prosecution.



Environmental convictions in 2005

Incident date	Location	Watercourse affected	Cause	Remedial action	Fines/ Costs	Date of conviction
23-Apr-04	Stevenage Brook/ Broadwater Crescent	Stevenage Brook	Blockage caused manholes to surcharge, pollution entering watercourse via storm drains.	Blockage cleared and foul sewer surrounding location cleaned. Implemented regular monitoring of the sewer at this location.	£8,000/ £1,173	Appeal 20-Apr-05, Conviction 19-Jan-05
17-Jul-04	Hockford sewage treatment works	Stanford Brook	Release of heating oil from tank storage on site. Breach of connecting pipework allowed oil to leach through the ground and enter the Stanford Brook, causing significant effect on water quality.	Faulty pipework replaced. Implemented regular inspections and monitoring of tank oil.	£10,000/ £1,233	27-Jan-05
16-Jun-03	River Ray/ Broome balancing tank discharge	River Ray	Obstruction in one of the pipes and a seized penstock resulted in raw sewage overflowing from the storm balancing tank. A telemetry fault caused alarm to fail.	Obstruction removed and alarm fault repaired. Tank returned to fully operational condition. Implemented regular alarm testing and maintenance.	£50,000/ £8,078	17-Feb-05
8-Sep-03	Cholsey sewage treatment works	Cholsey Brook	Inlet blockage caused storm tanks to fill and subsequently discharge to watercourse.	Blockage cleared and screens refurbished. Site alarm configured.	£60,000/ £3,450	25-Apr-05

01 www.thameswater.co.uk/keyissues see Wastewater
 02 www.thameswater.co.uk/yourenvironment see Wastewater/Pollution incidents

This year we were convicted of four offences for pollution incidents that occurred during 2003 and 2004 (please see the table opposite for further details). This was our lowest number of environmental convictions in five years.

In 2005, we had 31 water pollution incidents that were categorised as category one and two incidents. Of these, nine were caused by management failures, such as repeated sewer blockages or pump failures - a reduction of about half compared to 2004. The remainder were due to consented discharges of storm water to the Thames tideway or third party actions, both of which were double the number in 2004.

The most common cause of failure in our network is blockage of sewers causing sewage to overflow from manholes and storm relief weirs. Many blockages are caused by inappropriate use of the sewer, for instance, the disposal of household items and wastes such as fats, oils and greases (FOGs).

The disposal of FOGs into our sewers is a big problem. FOGs are responsible for more than half of the 100,000 blockages we deal with every year. They solidify and cause blockages which reduce sewer capacity, causing flooding and consequent pollution of watercourses.

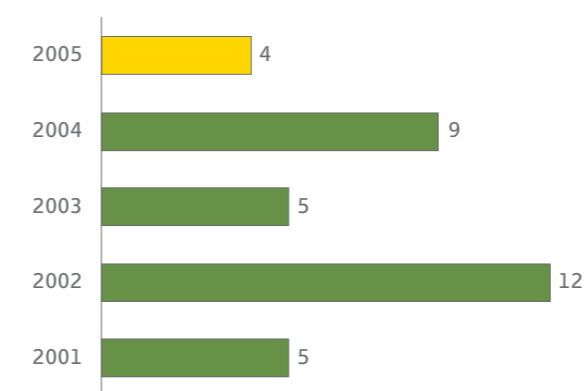
We are continuing our programme to reduce the number of blockages through proactive sewer cleaning, research, and customer education through our best practice 'Fat Pack' and a simple leaflet 'Stop and Think, Not Down the Sink'.

We have also formed a strategic alliance with the Environment Agency (EA) and the Association of London Environmental Health Managers to reduce the discharge of FOGs from food outlets. An educational approach is used with a targeted programme of visits to restaurants, takeaways, cafes, and sandwich shops. Our target is to make 1,500 visits a year from 2006.

Incident avoidance programme

This programme has helped us to improve our understanding and management of pollution incidents. In 2005, we focused on proactive sewer cleaning and hotspot monitoring, a strategic review of how we manage alarms, and educating our contractors on pollution prevention. We will further develop this programme and enhance our learning throughout the business. Because of the increase in incidents caused by third parties, we will also focus on customer education and use the media to promote understanding of how our infrastructure works.

Number of environmental convictions



Contractor removing fat from sewer wall

03 www.thameswater.co.uk/yourenvironment see Wastewater/Is your home polluting the environment

Wastewater treatment compliance

In 2005 we achieved 99.27% compliance (according to the Water Resources Act look up table limits, based on population equivalent). We are very disappointed with our compliance, our worst since 1998, and have planned a number of engineering schemes to address the current problems at some of our sewage treatment works. We anticipate that these schemes will start to deliver results in early 2007. In the meantime, the following actions are planned to mitigate our current position and help to improve compliance:

- Introduce an integrated operational monitoring programme - includes monitoring raw sewage, in process and final effluent, in order to identify potential non-compliance as early as possible.
- Establish a compliance recovery team - where engineering solutions are identified to take more than one year to deliver, a mitigation solution will be implemented, using package plants.
- Recruit additional operational staff.

We have discussed these issues with the EA and Ofwat and are working to meet Ofwat's targets for improvement by March 2008.

For further information on our wastewater compliance performance see page 28.

Sewer flooding

Sewer flooding caused by heavy rainfall is a major social and environmental issue. Much of London is served by a 'combined' sewerage system which carries both sewage and surface water run-off. Although usually highly effective, this system cannot always cope with the very high flows that follow heavy rain. When storm water exceeds the system's capacity, a mixture of surface run-off and sewage overflows into rivers or out from manholes and external drains. It can even overflow from drains into the inside of homes. Unfortunately, in 2004/05 838 homes suffered sewer flooding, a significant proportion of which took place during two severe weather storms.

In 2005, we alleviated the risk of sewer flooding at 779 homes. By 2010, we aim to have alleviated or reduced the risk of flooding at over 9,000 homes. We are committed to investing more to reduce the risks of sewer flooding to our customers. Ofwat has agreed to the investment of £323million to alleviate the problem over the period 2005-2010. Our aspiration remains to reduce the risk of sewer flooding for virtually all properties with a history of internal flooding and those that suffer significant external flooding. We also seek to prevent all flooding caused by repeated sewer blockages, and reduce the number of non-property flooding incidents.



Foul water flooding

	2002/03	2003/04	2004/05
Properties at risk from flooding (% of properties at risk from foul water flooding)	7,928 (0.15)	7,977 (<0.01)	11,066 (0.02)
Properties flooded from foul water incidents	337	186	838
Properties alleviated from the risk of foul water flooding	402	532	779

04 www.thameswater.co.uk/yourenvironment see Wastewater/Sewer flooding

Thames Tideway

The Thames itself can suffer from sewers overflowing during heavy rainfall. Generally, in winter, the higher river flow means that little, if any, environmental damage is caused. However, in summer the river flows can be lower so discharges may reduce the levels of oxygen in the water, resulting in fish and other aquatic life being killed. Discharges can increase health risks for river users and the pollution can be unsightly.



This requires a long-term solution. The **Thames Tideway Strategic Study** assessed a number of possible options and concluded that the best technical and value for money solution was a storage and transfer tunnel running under London. This tunnel, almost 35 kilometres long and over seven metres wide, would intercept storm discharges and take storm sewage to either Beckton or Crossness sewage treatment works.

Projects of this scale – the tunnel would cost up to £1.7billion (based on 2004 prices) to build – need Government approval. The Study group made a supplementary report in November 2005 addressing queries from the first report. Ofwat commissioned an independent review which proposed a smaller scale tunnel delivering fewer benefits but at lower cost. The Government is still considering the position.

Odour

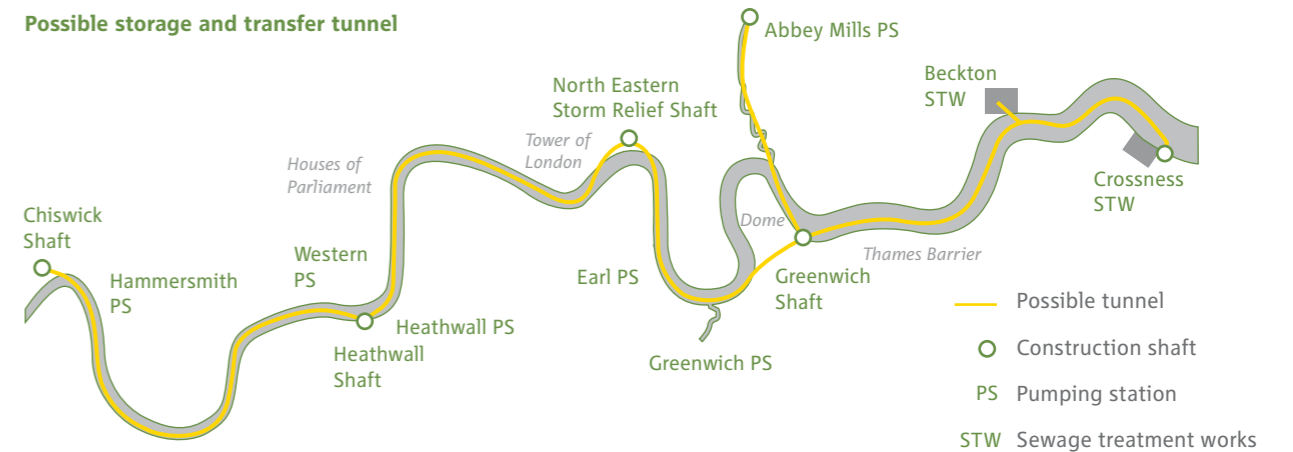
Sewage can smell, and historically, sewage works have been located away from communities. However, the expansion of housing in the region means some people now live near enough to the local sewage works for **odour** to be a real problem. The number of people affected is relatively low – but for those who are, the problem is a very unpleasant one.

A new non-statutory code of practice has been drafted by a Defra steering group which included Thames Water, Ofwat, the Environment Agency, and the Consumer Council for Water. This code sets out a framework for companies to work within and covers site maintenance, good housekeeping, and odour abatement for specific processes. The code points out that abatement can be expensive, and the capital investment required might need to be financed through customers' bills. The code is intended to help companies and environmental health practitioners agree a framework for odour control, and so avoid having to go to court to settle statutory nuisance disputes.

Projects to reduce odours from the Crossness and Mogden sewage treatment works are now well underway and are on schedule to be completed by 2006 and 2008 respectively.



Possible storage and transfer tunnel



05 www.thameswater.co.uk see Community and environment/Investing in the future
06 www.thameswater.co.uk/yourenvironment see Wastewater/Odour

Affordability

Affordability is a major issue for both the business and some of our customers. Providing high quality drinking water and effective wastewater services is vital to a healthy and prosperous society.

However, this is not without cost. Understandably, customers are concerned about rising bills, so there will always be a need to balance investment to maintain and improve services, with the cost to consumers and their expectations. Looking forward, and considering the extra pressures on water supplies expected in the future, striking this balance is likely to become more prominent.

It is, therefore, crucial that we continue to work closely with the Government, regulators and other stakeholders to ensure that water and wastewater services remain affordable and that any vulnerable groups are properly identified and supported.

We must communicate honestly and effectively with our customers, explaining the need to finance the sustainable water and wastewater services we are developing for current and future generations of customers.

Our 2005-2010 asset management plan, agreed with Ofwat, includes; the investment of over £3billion on modernising the ageing water and sewerage networks to maintain a reliable service, improvements in the quality of drinking water and treated wastewater, further work to secure long term water supplies for customers, an accelerated programme to reduce the risk of sewer flooding to customers' properties, and investment to alleviate odour nuisance.

To help finance this investment, household bills rose from an average of £208 for water and wastewater services in 2004/05 to £252 in 2005/06. An increase of 21% including inflation. We believe that at around 70 pence per day, water and wastewater services remain good value for money. For the majority of our customers, the increased water bill is still a relatively small proportion of their income, generally less than 1% by 2010. We recognise this is not true for everyone and that price rises can cause difficulties for some customers. Some 5.7% of customers in the Thames Water region are currently paying 3% or more of their disposable income on water services and this is likely to rise to 6.5% of customers by 2009/10¹.

A pilot trial, sponsored by Defra, looking at water affordability and potential solutions is currently underway in the South West Water region. The results from this trial, available in 2007, will help the industry develop appropriate initiatives to address the issue.

Affordability is a key issue for all in the water industry and we will continue to discuss solutions with the Government, Ofwat, the Consumer Council for Water and other stakeholders. While some of these organisations must take the lead on specific aspects of the affordability debate, such as the effectiveness of the benefits and tax credit system, we will continue to review our own approach and identify how this can be strengthened and improved to ensure we offer help to people on low incomes.



We are well aware that some people do not find it easy to pay their bills. The level of consumer debt outstanding to the UK water utilities is increasing. At present there is £893million in unpaid water bills across the UK, an increase of 33% since 1999². This is a significant issue for all UK water companies. In the absence of the right to disconnect customers who are able to pay but choose not to pay their bills, we have a series of steps to recover outstanding debts. These are regularly reviewed.

In addition we have a range of measures to help customers pay their bills, including:

- Help lines – enabling customers to discuss payment problems and the provision of credit-counselling advice to help customers with financial planning.
- Ensuring customers are making use of different options on metering where available.
- Flexible payment plans – customers can choose how frequently they pay, with weekly plans available if customers need them.
- Help in applying for direct payments from tax credits and other benefits.
- Advice on our Customer Assistance Fund and Vulnerable Tariff Scheme.

Our Customer Assistance Fund, set up in 1997, helps give customers an opportunity to make a fresh start and encourages sensible budgeting. Once customers have demonstrated their commitment by sticking to their payment arrangement for a specified period, the Company will make a donation to reduce their outstanding debt.

More than 4,300 customers have been helped by the Fund since it was set up with over 600 joining last year. We made donations totalling over £115,000 during 2004/05 and over 59% of customers who received donations to clear old debts are now in a position to pay their bills regularly.

Our Vulnerable Tariff Scheme is for customers on meters who receive benefits and have either three children less than 19 years old living with them or one of the household has a medical condition requiring the use of significantly more water. This tariff ensures that these customers are not disadvantaged by having to use a higher proportion of their income to pay their bills. More than 1,323 customers have benefited from this scheme, with over 220 joining last year.

Customer Assistance Fund and Vulnerable Tariff Scheme

	2003/04	2004/05
Cumulative total number of customers helped by the Customer Assistance Fund	3,698	4,319
Customers who received donations to clear old debts who are now able to pay their water service charges regularly (%)	72	59
Cumulative total number of customers who have benefited from the Vulnerable Tariff Scheme	1,097	1,323

 01 www.thameswater.co.uk/keyissues see Affordability

¹ Cross-Government Review of Water Affordability, Defra, 2004, AnnexC.

² UK Debt Management Industry, Market Report 2004-2005, TDx Group, 2006.

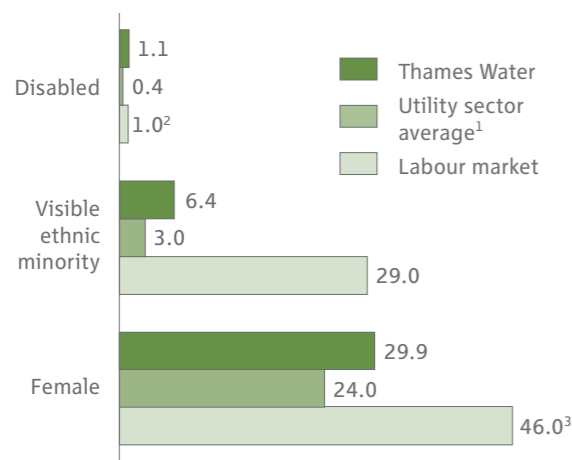
Workforce diversity and skills shortage

Ensuring a diverse and inclusive workforce will help to improve our customer relations and promote a positive working environment with improved employee satisfaction and retention.

Our current workforce is predominantly white, male, and able-bodied, reflecting our history as an engineering business. Of our 291 managers, 22% are female and 2% are from ethnic minorities, both a lower proportion than in our workforce as a whole.

Comparisons with the local labour markets, where our staff are mostly based, shows how much more we have to do. According to the 2001 Census, visible ethnic minority groups make up 9% of the population in England and 5% in The South East. Our figure of 6.4% looks reasonable in this context, but it appears less so compared with the labour market figures for our area London (29%), Slough (36%), Reading (13%) - which are our principal sources for potential employees.

Employee diversity compared to industry average and local labour market (%)



¹ Labour Force Survey 2002/03
² Census 2001, London
³ UK labour Market Trends, November 2002

To improve the diversity and inclusion of our workforce we have:

- Appointed a Diversity and Inclusion Manager to develop and drive our commitment to diversity.
- Established a Diversity Action Group to catalyse diversity initiatives and promote the understanding of diversity at all levels in the Company.
- Conducted a review of the quality of employee data and begun the development of a new confidential monitoring scheme. The data will be used to ensure all employees are treated in a just and fair way.
- Joined Opportunity Now!, a business-led campaign working with employers to realise the economic potential and business benefits of women employees at all levels. We continue active membership of the Employers Forum on Disability. Membership of these networks will help us develop an informed diversity and inclusion strategy.
- Introduced a new Code of Conduct, which provides clear guidance to employees on issues such as equal opportunity in the workplace, and interacting with each other fairly and respectfully. The Code strengthens our commitment to the United Nations Global Compact.

We plan to strengthen our activities in the following ways:

- Review our policies to ensure they properly reflect our approach to diversity.
- Actively support appropriate employee networks on diversity issues such as gender, race, disability, religion, and sexual orientation.
- Ensure all employees receive a common minimum standard of diversity training.
- Work in partnership with trade union colleagues to ensure the broadest possible support for our commitment to diversity.

Skills shortage

Along with the rest of the water industry, we are finding it hard to recruit engineers and water industry technicians and specialists. This is a result of fewer young people choosing careers in construction, engineering and water utility technical subject areas, and increased demand for trained engineers for projects such as the Channel Tunnel Rail link and Terminal Five at Heathrow. This is a serious concern since we have to deliver a £3.1billion investment programme by March 2010, and have a workforce with a higher average age than other utilities.

To address this, we have:

- Established a SkillsGap Partnership to work with our contractor companies to address the issues with shared solutions.
- Continued a series of training programmes for the long-term unemployed as part of the Government's Ambition:Energy programme. The seven programmes run last year focussed on the recruitment and training of network service technicians, water regulation inspectors, and street works engineers.
- Increased the size of the Thames Water Graduate Programme to 50 graduates per year, and developed additional apprenticeship schemes in water and waste process and design.
- Promoted engineering as a career at SkillCity, Europe's largest career fair for young people.
- Developed links with sources of trained workers such as those leaving military service, recruitment companies in Poland and Slovakia, and developed a recruiting programme for young offenders.

Through the Ambition:Energy programme and the SkillsGap Partnership, we will continue to run schemes that benefit both the water and engineering industries. We will continue to support campaigns through our education department, delivering engineering challenges to students, and talking to schools at careers fairs and industry days to encourage youngsters to consider a career in the water industry.



Network Challenge - teaching young people about engineering and the water industry

01 www.thameswater.co.uk/keyissues see Workforce diversity and skills shortage
 02 www.thameswater.co.uk/aboutus see Work for us/Employee diversity

Performance

In this section we report on our performance on corporate responsibility issues in 2005.



Environment

Biodiversity and heritage

Community

Customer

Employees

Financial

Performance data and targets

Environment

We are closely linked to the environment in almost everything we do. The way we run our business inevitably affects the environment. For example, abstracting water can damage biodiversity and our treatment processes generate greenhouse gas emissions.

Abstraction of river and groundwater

About 24% of our water supply comes from groundwater and 76% from rivers. Abstraction of water is regulated by the Environment Agency through the abstraction licensing process. Last year we achieved 99.95% and 99.39% compliance with our daily and annual abstraction licence limits respectively. The amounts of over-abstraction were small and there were no significant environmental impacts.

Low flows in rivers

There are some areas where abstracting water can contribute to low flows in rivers, which can be ecologically damaging. We are working on a programme, agreed with our regulators, to limit abstraction and implement schemes to alleviate low flows on affected stretches of rivers identified. Progress to complete some of these schemes has been delayed due to engineering difficulties. The table below details the rivers where damage has been identified and alleviation schemes are underway.

We are also undertaking investigations at eleven key sites where it is thought that our abstractions may be causing problems under low flow conditions.

Percentage compliance with daily and annual abstraction licences for public water supply

	2002	2003	2004	2005
Daily abstraction	99.99	99.98	100	99.95
Annual abstraction	100	99.31	100	99.39

Progress on low flow schemes

River (length, km)	Progress	Completion date
Ampney Brook (13) Churn (21)	Completion of network infrastructure upgrade delayed due to engineering difficulties.	31/12/2006
Cherwell (3)	Scheme completion date rescheduled due to final solution being revised.	31/12/2006
Bulbourne (12) Wye (8)	Scheme completion deferred due to water quality problems with the new water treatment works.	31/12/2007
Darent (79)	Delivery of the full scheme deferred due to difficulty in developing alternative groundwater sources.	Funding to be arranged

01 www.thameswater.co.uk/yourenvironment see Drought/Managing water supply/Managing low flows



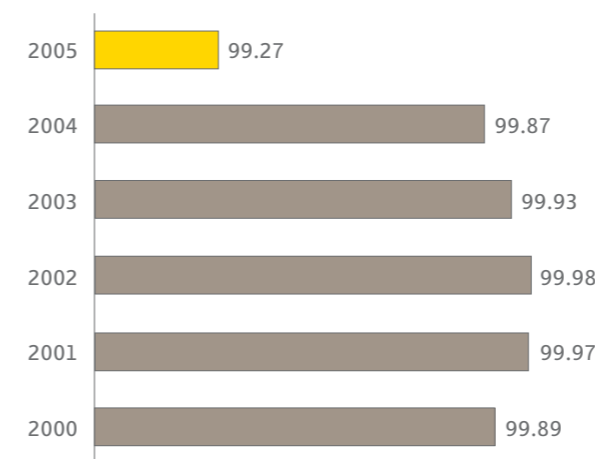
Wastewater treatment

Under the Water Resources Act, sewage treatment works have numeric consent standards for biological oxygen demand, suspended solids and ammoniacal nitrogen. Compliance is assessed using look up table limits.

Unfortunately our compliance with sewage treatment works consents fell in 2005, to 99.27%. During 2005, the Environment Agency issued new consents for a number of works imposing tighter quality limits and placing additional requirements on effluent discharges. We were unable to meet these tighter standards at all our works and, as a result, our compliance has fallen. In response, we will intensify our programme of capital works solutions, provide additional training of front line staff, and implement an improved process for the identification and management of risks. For further information, see page 19.

We have set a target for sewage treatment works compliance of 100% (based on population equivalent) and will continue to work to achieve this target.

Percentage compliance with Water Resources Act look up table limit (based on population equivalent)



02 www.thameswater.co.uk/yourenvironment see Wastewater



Sewage sludge

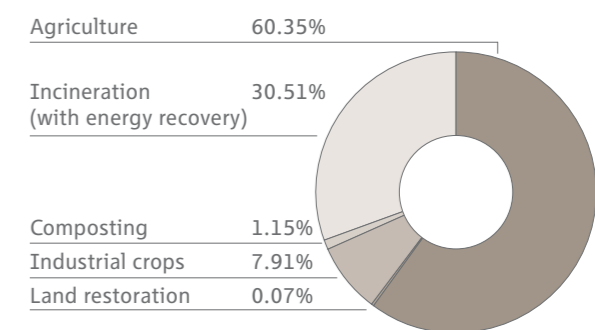
Sewage sludge is the main waste produced in the treatment of wastewater. In 2005, we produced 263,941 tonnes of dry solids of sewage sludge. Our aim is to utilise this material in a beneficial and sustainable way. Last year, 100% of our sludge was put to beneficial use with none disposed of to landfill.

Recycling treated sewage sludge (also known as biosolids) to agricultural land is our main outlet. We continue to maintain 100% compliance with the regulations governing sludge recycling to land. Since January 2002, we have also complied with the more stringent requirements of the proposed revisions to the regulations, in order to give stakeholders more reassurance over the safety of recycling biosolids to agricultural land.

Incineration of sewage sludge at the Crossness and Beckton incinerators provided 42 gigawatt-hour of renewable energy to the London area in 2005. Both sites are authorised to operate under Integrated Pollution Prevention and Control legislation and emissions comply with the Waste Incineration Directive. The sites incorporate a wide range of waste and energy efficiency measures.

Sewage sludge utilisation

Total dry solids 263,941 tonnes



03 www.thameswater.co.uk/yourenvironment see Wastewater/Sewage sludge

Energy management

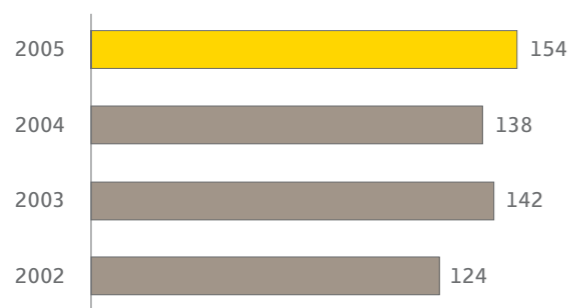


Treating and supplying drinking water, and pumping and treating wastewater is energy intensive. In 2005 our total electricity use was 1,223 gigawatt-hour, of which 87.4% was purchased from outside the Company and 12.6% was self-generated (compared to 11.5% in 2004).

We have a wide-ranging programme to optimise our energy use and this has been accelerated with the significant increases in global energy prices. The programme includes testing pumps and refurbishing or replacing those found to be inefficient, and monitoring pump shaft alignment and aeration control. All these have helped achieve significant energy savings.

We currently operate 19 combined heat and power engines and two incinerators which generate renewable energy from sewage gas and sewage sludge. In 2005, we generated 154 gigawatt-hour of renewable energy. We continue to look for new ways to optimise energy use. These include; improving digester and heating system insulation to improve the production of sewage gas and reduce thermal losses, training staff to maximise efficient use of fuels, treating biogas to remove contaminants such as siloxanes which reduce engine performance, and installing new generation technology.

Renewable energy generation (gigawatt-hour)



Greenhouse gas emissions



We are committed to managing our contribution to climate change and reducing our greenhouse gas emissions. In 2005 we emitted 1.49 million tonnes of carbon dioxide (CO₂) equivalents - a decrease of 10.7% when compared to our 1990 baseline (normalised per megalitre of water supplied and wastewater treated). Our process emissions, classified as the short-term carbon cycle, contributed 0.6 million tonnes of CO₂ equivalents, approximately 40% of our total greenhouse gas emissions. We also achieved all the CO₂ emission targets for our six wastewater sites regulated under the EU Emissions Trading Scheme.

Greenhouse gas emissions for 2005

Business Area	Tonnes CO ₂ equivalent ^a
Water supply	
Per megalitre ^b	0.29
Total	296,020
Wastewater treated	
Per megalitre ^b	0.68
Total	1,172,170
Total (including energy use, processes, transport and offices)	1,486,745

^a Calculated using the water industry agreed methodology

^b One megalitre is equal to 1,000m³

Energy consumption (gigawatt-hour)

	2003	2004	2005
Electricity ¹	1,207	1,240	1,223(163)
Gas	155 ²	72	119

¹ Imported electricity (embedded generation shown in brackets)

² Includes gas used by Kempton GAC

04 www.thameswater.co.uk/yourenvironment see Energy
05 www.thameswater.co.uk/yourenvironment see Climate change

Waste management



This is an important issue and we continue to manage our waste streams following the principles outlined in Defra's waste guidelines. Our waste streams are split into operational waste, capital investment works' waste and general office waste. This year we increased our recycling rates, achieving over 48% for our operational wastes and 57% for our capital investment works' waste.

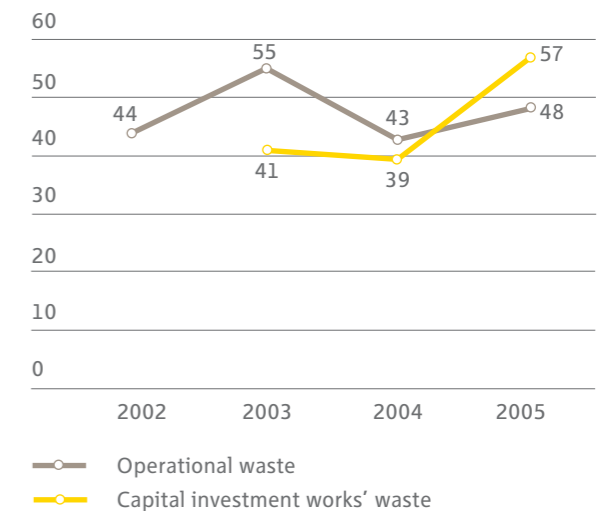
We continue to explore new technologies and innovative solutions to minimise waste and increase recycling. Initiatives undertaken in 2005 include investigations into the use of ash from burning sewage sludge in the manufacture of building blocks, recycled aggregate and concrete. We are also recycling sewage grit into recycled aggregate. These initiatives have so far diverted over 3,000 tonnes of waste from landfill.

We have also launched a waste innovation award, in conjunction with the Government's Waste Resources and Action Programme (WRAP), designed to promote recycling and waste innovation by our contractors.

Cappagh, a construction contracting company, will receive the 2005 award for achieving a 75% recycling rate for street works spoil. As part of the award, Thames Water will donate £10,000 to an environmental charity called Grow Global.

We consider all waste streams to be important and have continued to promote consumable waste recycling at our offices, including plastic cups, toner cartridges and paper. This has resulted in an estimated recycling rate of 80%.

Waste recycling performance (%)



Operational waste - disposal and recycling performance

Waste stream	Waste produced (tonnes)	Recycled (%)	Landfilled (%)
Sewage treatment screenings	13,678	0	100
Sewage grit	8,455	25	75
Water treatment sludge	19,370	100	0
Water treatment weed	5,780	43	57
Incinerator ash	19,736	6	94
Street works spoil	197,931	51	49
Total	264,950	48	52

06 www.thameswater.co.uk/yourenvironment see Waste

Biodiversity and heritage

We work hard to complete many projects that will benefit wildlife and local communities, as well as protect our heritage.

Enhancing our sites for wildlife and access

In 2005, our £417,382 programme saw the completion of 27 projects to enhance the wildlife value of our land and improve public access opportunities. Of these projects, 16 had wildlife benefits, ten improved access and one focused on cultural heritage. Further information on recreation and access can be found on page 33. For an update on our biodiversity action plan see our website.

Opening Kempton Nature Reserve

We celebrated the transformation of a disused reservoir into a flagship nature reserve with an official ceremony at Kempton Nature Reserve in October. The 50-acre site, after a nine-year programme and investment of over £300,000, is a prime location for wetland birds with 156 species recorded.

Managing Crossness Southern Marshes

We have started a major new wildlife and access project at Crossness Southern Marshes, in East London. The £500,000 project began after we secured funding from the ODPM through Groundwork, one of our conservation partners. Wildlife-rich areas of the site will now be open to the public for the first time and the project will improve the habitat for several species. Water voles (the UK's fastest declining mammal) considerably expanded their territory following habitat improvement works. Some 1.5 kilometres of wheelchair-accessible paths are also being laid and information boards installed.

Community events at Crossness

Our community programme at Crossness Nature Reserve and Crossness Southern Marshes included; a National Moth Night event, bat walks, a water vole training day, a plant identification event and practical conservation days. National Moth Night gave the public a unique glimpse into this unusual world. 81 moth species were recorded, including five nationally notable species such as the dotted fan-foot, found only in 15-30 locations in the UK. Pictures from the event are available at www.nationalmothnight.info.

'The Good Tern' breeding raft

Working with specialist contractors, we launched a new 64 square-metre raft on Staines Reservoir, part of the Staines Moor Site of Special Scientific Interest (SSSI). The raft replaced several ageing smaller rafts and now provides a predator-free breeding platform for common terns, a bird species that has been in decline due to a loss of suitable nesting sites. The raft has already attracted around 36 nesting terns with at least 24 young terns reared.



National Moth Night, Crossness Southern Marshes

01 www.thameswater.co.uk/yourenvironment see Biodiversity/Habitat enhancement programme
 02 www.thameswater.co.uk/yourenvironment see Biodiversity/Biodiversity action plan



Awards

In March, our Farmoor reservoir and nature reserves in Oxfordshire were proud winners of the Large Wetlands Bird Award, in the 2004 national BTO-Hanson Bird Challenge for Business Awards, having had 153 bird species recorded in 2004. We also completed a £174,000 project to transform a flood storage lagoon in Bracknell, improving the site for wildlife, anglers and the local community. We were rewarded with two prestigious national awards; the runner-up in the utilities category of the 2005 Green Apple Environment Awards, and winner of the Institute of Fisheries Management Good Fisheries Management Award for 2005.



Environmental assessment of engineering projects

It was a busy year for us owing to the start of our new five-year asset management planning period. We checked the environmental impacts of over 600 new engineering projects. These varied from small scale leak repairs to replacement of water mains and upgrades to sewage treatment works. We use our specialist in-house geographical information system and ecological database to identify protected or important conservation, heritage and landscape sites. We also carry out site visits, specialist surveys for protected species, and archaeological studies.



Nick Clark of Thames Water - launching 'The Good Tern'

03 www.thameswater.co.uk/yourenvironment see Awards
 04 www.thameswater.co.uk/yourenvironment see Environmental assessment/Project screening
 05 www.thameswater.co.uk/yourenvironment see Environmental assessment/Cultural heritage

Archaeology and cultural heritage

Protecting our heritage

We own 116 listed buildings and many more historic properties. Managing these assets is a considerable challenge. We have allocated over £8million for a five-year maintenance programme to renovate listed buildings. The programme includes re-roofing, parapet works and structural and external maintenance. The sites include our Bath Road reservoir in Reading, The Gauge enclosure at the head of the New River and Riverdale, a major landmark building at our Hampton water treatment works.

We also part-funded major work to repair an 800 tonne, 19 metre high steam engine, originally built in 1928 at Kempton water treatment works in Hanworth. Working with Kempton Great Engines Trust and a specialist company, we repaired an overheating bearing. This, and seven years of restoration by the Trust, means that this industrial masterpiece is back in action.

Future protection for the past

We have started to develop a corporate Archaeology and Cultural Heritage Policy. This will be produced in 2006 and will be supported by a Cultural Heritage Action Plan. The plan will include a review of our historic assets, how we communicate our responsibilities, improve links to heritage stakeholders, and protect archaeology and heritage during company operations.

In 2005, we checked 86 potential sales or leases of our land to ensure that conservation, heritage and public access were taken into account during these transactions. Of the 86 proposals screened, six were in Areas of Outstanding Natural Beauty and one was within a SSSI.



Community

Water and wastewater services for most customers are largely invisible. However, for some local communities our activities are more prominent.

Odour nuisance (see page 20) and traffic congestion, due to mains renewal or repair, are issues of concern to some, whilst access and recreation opportunities at operational sites and our community investment programme can bring real benefits to others.

Street work activities

We recognise that our leakage reduction and water mains replacement programme can impact on residents and road users. In 2005, we worked in partnership with National Grid Transco to share trenches and to minimise the impact as much as possible. We will be continuing this partnership in 2006. We also work closely with Transport for London and the local authorities to manage our activities effectively. Unfortunately, we received three Improvement Notices and were prosecuted on three occasions for failures with respect to the New Roads and Street Works Act. We will continue to work with our contractors and local authorities to improve our performance in this area.

Street works prosecutions

	2004	2005
Number of street works prosecutions*	3	3
Total fines (£)	1,550.00	8,450.00
Total costs (£)	1,550.00	8,934.40

*Number of occasions prosecuted on

Recreation and access

We own over 70 sites with public access, many of which are run in partnership with conservation and recreation groups. To strengthen the management and improve the quality of access to our sites, we have appointed a Conservation, Access and Recreation Manager to lead this work and ensure integration with our wildlife and heritage conservation responsibilities.

Otmoor Nature Reserve

Working with the RSPB, we helped fund a new all-weather, accessible, wildlife walkway at Otmoor Nature Reserve in Oxfordshire. This will provide free access to the public and school parties. The walkway, which runs alongside hedgerows inhabited by rare butterflies and passes through wet grassland and restored reedbeds, will link an existing bridleway to wildlife viewing screens on the site.

Walthamstow and Farmoor fisheries

Our King George V reservoir has been reopened to visitors at Walthamstow Fishery. We restocked the Stock Pond with 200 carp, which proved to be popular with a 42-pound carp being caught at the British Carp Championships, the biggest fish in the history of the competition. We will be producing Fishery Development Plans for our Walthamstow and Farmoor Fisheries during 2006.

Community investment strategy

Our strategy has three key strands: Water and Healthy Living, promoting the benefits of water for health and a healthy lifestyle; Water and the Environment, enhancing the quality of life in urban areas, and; Water and Education, enhancing the understanding of water and related topics. The strategy is delivered through educational activities, employee volunteering, charitable giving and community projects.

Education activities

Through education we can enhance the understanding of water and wastewater related issues among students, teachers and parents. Our speaker programme was re-launched in 2005, where talks are given by employee volunteers, such as on water efficiency and on the water and wastewater cycles.

Reservoir To Tap: The Network Challenge, teaches young people about the business of water, through getting them to design, build and test a simulated water distribution network. Schools in London took part in the Challenge last year.

'Project Planet', our Young Environmentalist of the Year Awards, held in November 2005, was run in partnership with the Young People's Trust for the Environment. Over 120 entries were received from young people around the world.



Thames Water's overall 'Project Planet' junior winners

Employee volunteering and charitable giving

We are keen to support employee volunteering and charitable fund raising through our Matched Funding, Give as you Earn and Time to Give schemes. The Time to Give scheme allows employees to take voluntary paid leave to work with one of our partner charities - WaterAid, RSPB, and Age Concern.

We have a strategic partnership with the charity WaterAid, working with them to bring water and sanitation to people in developing countries through the Water and Sanitation for the Urban Poor initiative. During 2005, employees donated over £100,000 to WaterAid and a further £126,000 to other charities.

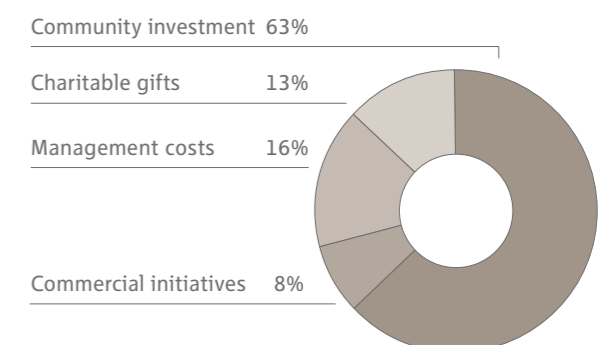
Funds raised through employee volunteering

	2003	2004	2005
Give as you Earn scheme, by employees (£)	44,214	55,594	53,049
Employee volunteering (including matched funding) (£)	162,809	224,469	187,289

Total corporate community investment

We quantify our community investment using the London Benchmarking Group model. In 2005, our total spend was more than £1.7million, an increase of 21% compared to 2004.

Total spend: Community investment £1.7million



01 www.thameswater.co.uk/enjoywater

02 www.thameswater.co.uk/yourcommunity
 03 www.waterinschools.com
 04 www.thameswater.co.uk/yourcommunity see Employee involvement
 05 www.thameswater.co.uk/yourcommunity see Charities and sponsorship

Customer

A safe and reliable supply of drinking water is one of the highest priorities for all of our customers.



Drinking water quality

Our water treatment processes are carefully designed, operated and monitored in order to ensure the quality of drinking water supplied to customers. We also undertake a comprehensive monitoring programme, from treatment works to customers' taps, to check that supplies meet the standards set down in national and European legislation. In 2005, over 440,000 tests were carried out as part of our regulatory monitoring programme.

In 2005, the Drinking Water Inspectorate introduced new ways of reporting compliance with drinking water regulations. In 2005 we achieved 99.95% compliance for samples taken at customers' taps, matching our performance in 2004.

Customer service

Customer service and satisfaction are key priorities for us. Our customer service centre is open 24 hours a day, 365 days a year. Last year, we issued over six million bills and dealt with over 2.9 million inquiries from customers about their bills and payments. We seek to achieve good performance levels against the customer service standards set by Ofwat. In 2004/05, we achieved good performance against these standards. The decrease in percentage of received calls answered within 30 seconds is a result of the introduction of self service technology for our customers, and therefore these calls are not recorded as being answered within 30 seconds.

We work closely with the Consumer Council for Water (CCWater), formerly Watervoice, the principal consultative body acting in the interests of customers. For example, we worked with CCWater to develop a system for prioritising customers' properties that have suffered from sewer flooding.



Further details can be found in our Drinking Water Quality Report.

Ofwat Customer service performance standards

	2002/03	2003/04	2004/05	Ofwat band
Billing contacts answered within five working days (%)	99.8	99.2	98.8	Good
Written complaints answered within ten working days (%)	99.8	99.6	98.9	Good
Meter reading and billing metered accounts billed on actual readings (%)	99.9	99.7	99.54	Good
Telephone contact of telephone calls received, answered in 30 seconds (%) *	88.15	81.6	73.9	No band set for this parameter.

*There is no Ofwat band set for this standard

- 01 www.thameswater.co.uk/learnaboutwater see Water quality
- 02 www.thameswater.co.uk/yourhome see Service guarantees

Drinking Water Quality Report 2005

We continue to improve our services to the elderly, disabled and customers with special needs. These services include help during water supply interruptions, a password scheme and literature in large print or Braille. A number of our services are recognised by CCWater to be best practice, such as bills printed on yellow paper for dyslexic customers, email billing services for blind customers using screen reading software, and a talking bill service. Last year we contacted over 350 disability support groups to raise the profile of our extra care services and password schemes, and over 7,600 customers are now registered to receive such services.

In addition, we have continued to build good relationships with the voluntary sector including Age Concern and the Oxford Deaf Centre. We sponsored the Royal National Institute for the Blind (RNIB) Simply the Best Awards, which encourage and recognise good practice in communicating with customers with disabilities.

We are concerned that our bills remain affordable to customers and we continue to promote our Customer Assistance Fund and Vulnerable Tariff Scheme (see page 22) to help those customers who have difficulty in paying their bills. We produced new information leaflets to publicise the Customer Assistance Fund and we have encouraged promotion of the scheme through organisations such as the Citizens Advice Bureau. In 2004/05, over 600 customers were helped by the Fund, an increase of over 7% compared to 2003/04.

Number of customers registered to receive extra care services

	2002/03	2003/04	2004/05
Number of special needs accounts registered*	7,074	7,498	7,652
Provisional help during supply interruptions	3,666	4,138	4,578
Password scheme	1,361	1,428	1,440
Large print service	1,756	1,655	1,605
Braille service	116	117	116
Bill nominee service	251	262	273
Talking bills	112	113	114
Audio-tape service	89	84	174
Textphone	86	84	81
Dialysis machine awareness scheme	112	96	161

*This number represents individuals, households and communal residential sites (registered as one unit in the number that receive one or more extra care service)

Employees

We are committed to developing a diverse workforce, investing in training and enhancing employee satisfaction.



Employee satisfaction

We regularly undertake a survey called the 'Pulse Survey', to assess employees' opinions, motivation and satisfaction levels. The 2004 survey had a poor response rate and afterwards we promised to review how it was carried out. In 2005, we invited every member of staff, not just a representative sample, to complete the survey. This led to an improved response. We received feedback from over 3,700 people, a response rate of 64%, a significant increase on 2004 when only 802 employees took part, with a response rate of 33%.

A favourability score was calculated for each of the 71 survey questions. This score is the percentage of people who 'somewhat agree' or 'strongly agree' with a statement. All questions were divided into categories to evaluate business topics, such as leadership or company culture. Overall, our favourability score rose from 52% in 2004 to 57%.

The key issues identified by the survey were development, leadership and performance management. We will continue to address these issues through action plans in each area of the business. (See table below for our highest and lowest scoring statements.)

6 Highest scoring statements

	% favourable
My team and I frequently adopt a flexible and creative approach to work	80
I have a clear understanding of the goals and objectives of my team	79
In our team we work together to achieve our goals	76
In our team the work atmosphere is good	76
My work colleagues frequently perform beyond the tasks required of them	75
I am aware of Thames Water's goals and objectives	75

6 Lowest scoring statements

	% favourable
My business unit is successful at building relationships with local communities	27
Senior management do a good job of managing the business through change	28
Senior management deliver on promises	30
Managers consult with people who are members of representative groups when developing Thames Water business plans	32
I am satisfied with my job related benefits	33
Improvements are continually made to the way Thames Water manages and develops its people	33

Another measure of employee satisfaction includes employee turnover. Some turnover is inevitable and new staff can provide a fresh approach, however high turnover rates can be detrimental to business success. In 2005 our employee turnover was 8.2% compared to 8.0% in 2004.

Investment in staff

Our success depends on developing and maintaining strong competencies and capabilities in our people. We are committed to investing in training and developing our staff to enhance their performance, develop their skills for the future and increase job satisfaction. In 2005, £428 was spent on training and development per employee, with, on average, over two days of training per employee.

In 2005, the size and scope of the graduate scheme (a two to four year programme) and the apprenticeship scheme (a four year programme) were both developed with the aim of recruiting 50 trainees for each scheme per year. In 2005, 36 graduate trainees and 26 apprenticeship trainees joined. A new training programme for water and wastewater apprenticeship trainees was piloted and five apprenticeship trainees were recruited, attending technical training at Bolton College, Lancashire.

Employee turnover

	2003	2004	2005
Employee turnover (%)	10.3	8.0	8.2

Employee training and development

	2003	2004	2005
Average number of days spent on training per employee	2.0	2.8	2.8
Spend on training and development per employee (£)	280	420	428

Health and safety

Our performance in 2005 fell below expectations. There were 70 reportable injuries, which equates to a reportable accident incidence rate of 15.04 per 1,000 employees. Last year we set an Injury Frequency Rate (IFR) target of no more than eight accidents per million man hours work. However, IFR will not be used as a future target measure as we do not consider it to be an accurate representation of the whole company. We will therefore report on our overall accident incidence rate (number of accidents per 1,000 employees), which provides a true and accurate measure for year on year comparison. Our IFR for 2005 was approximately 11.8. In 2006 we will aim to reduce our overall accident rate by 20%, to a reportable accident incidence rate of 12.03 per 1,000 employees. There were no fatal accidents, prosecutions or enforcement notices issued during 2005. Cases reported to the Health and Safety Executive under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) are shown below. These incidents were regrettable but all have been investigated and measures implemented to reduce the risk of recurrence.

To improve our record, we introduced a number of initiatives throughout the year, for example a senior executives' training programme, focusing on directors' health and safety responsibilities, and the introduction of a health and safety audit programme to ensure that systems operate effectively.

RIDDOR classification

RIDDOR classification	Number
Reportable accidents	70
Dangerous occurrences	12
Lifting equipment failure	4
Fires	3
Breathing apparatus failure	2
Chemical releases	3
Reportable diseases	3
Upper limb disorders	3

01 www.thameswater.co.uk/aboutus see Work for us/Employee satisfaction

Financial

We add value to the economy in many ways – directly through paying taxes and national insurance, and indirectly through paying wages to employees, paying suppliers, and through our returns to investors.



Sound financial management is essential to maintain not only this contribution to the economy but also to the environment and the community.

Every five years, Ofwat, the economic regulator for the water industry, reviews water company plans for investment, service, and price. Ofwat then determines what level of service must be delivered and how much companies can charge. This process is known as the Periodic Review. It is a complex and lengthy process that must take into account the views of all stakeholders such as Defra, the Environment Agency, the Drinking Water Inspectorate, the Consumer Council for Water, and customers.

Ofwat has a statutory duty to ensure companies can finance their operations. This means that water charges must be sufficient to ensure companies can cover all their costs as a business, from day-to-day operating costs through to the interest payments that support long-term borrowing for the capital programme.

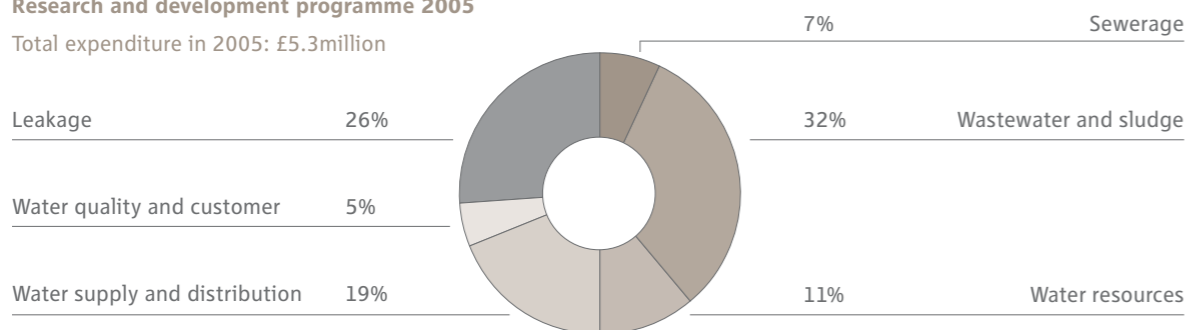
2005 Financial summary

- Income from customers' bills (turnover) last year was £1,333million (2004: £1,174million). This increase was a direct result of Ofwat's decision on prices following their periodic review of our five year Asset Management Plan (AMP4) Business Plan.
- Total operating expenditure, excluding depreciation, was £590million (2004: £560million), an increase of 3% in real terms. This was the net result of operating cost efficiencies versus significant increases in energy and pension costs in the year.
- Profit before tax was £323million (2004: £284million). After interest, tax, and dividend payments, £73million was retained within the business (2004: £65million). We make a profit in order to sustain our business, to provide for good stewardship of our assets through long-term investment, and to provide a return to those that invest in our business.



Research and development programme 2005

Total expenditure in 2005: £5.3million



01 www.thameswater.co.uk/aboutus see Investors/Financial info
 02 www.thameswater.co.uk/aboutus see Investors/Business plan

Future investment

Investment is vital to the future prosperity of our business and to ensure a sustainable and secure service to our customers. 2005 saw us embark upon an enlarged £3.1billion five-year capital programme to meet the needs of our customers through to March 2010. We are obligated to spend this money wisely and, as such, capital investment has been targeted particularly towards security of drinking water supplies, developing new supply sources, and leakage reduction through significant replacement of our Victorian mains network in London. In addition, there are water and wastewater quality programmes, and priorities on the alleviation of sewer flooding.

Gross capital investment of £559million (2004: £555million), including expenditure for the general ongoing repair and renewal of our infrastructure of £42million (2004: £20million), reflects the commencement of the enlarged programme from April 2005. Our investment of over £1.5million each day is reflected in overall depreciation charges of £294million (2004: £221million).

We borrow money over the long term to support this investment. To do this we must be a credible financial risk in the eyes of our lenders. A regulatory measure of financeability is our cash interest cover ratio. This metric is used by Ofwat on a regulatory year basis (April-March) to assess the long-term financial viability of the business, in terms of cash available to cover interest payments. In 2004/05 this was 5.13 (2003/04: 5.27), which shows that we have a sufficient cash flow to cover our interest payments.

Expenditure on research and development in 2005 was £5.3million. The research and development focus was on targeting techniques and modelling for network renewal, upgrading water treatment works, and uprating activated sludge plants (see pie chart on opposite page).

Procurement

During 2005 we spent more than £865million on construction, goods and services. Our purchasing agreements are made following an open, non-discriminatory, competitive bidding process. We recognise that cash flow is crucial to our supply chain. It is our policy to pay all our suppliers, contractors and service providers according to agreed terms.

We work in partnership with our suppliers and review contracts regularly to ensure that they continue to meet operational needs and best procurement principles. Through our Sustainable Engineering Awareness and Knowledge forum we are working with our principal construction partners to identify and promote best practice in sustainable procurement.

We continue to address environmental issues throughout our procurement processes and we have begun to address social issues in the supply chain. We have included two new questions in procurement notices, published under European legislation, relating to the United Nations Global Compact initiative, and actions suppliers are taking to address corporate responsibility issues.

Payments to suppliers

	2003	2004 ²	2005 ³
Payment of invoices to agreed terms (%) ¹	81	80	81

¹ Payments made within a ten day float of the defined period
² Based on top 300 suppliers representing 92% of spend
³ Based on top 300 suppliers representing 87% of spend

Performance data and targets

The performance measures and targets presented below relate to issues identified as high and medium significance in our annual review of corporate responsibility issues. A complete list of performance measures and targets is available on our website.



Key		Time period	
Progress		PM	Performance measure only
✓ Target achieved		N/A	Not applicable
➔ Target on track		-	Not available
✗ Target not achieved			
		^a	Denotes regulatory year
			1 April - 31 March
			(i.e. nine months in arrears).
			Otherwise, data is for calendar year.

Policy objective	Performance measure/target 2005	Target achievement in 2005	2005	2004	2003	Target 2006
Environment						
Use our best endeavours to comply with all relevant environmental laws, regulations and standards.	Prosecutable incidents due to management failure. Target = 0	✗	4 (convictions)	9 (convictions)	5 (convictions)	0
	Category one and two water pollution incidents. Target = 0	✗	31	25	40	0
	Daily abstraction licence limits compliance for public supply. Target = 100%	✗	99.95	100	99.98	100
	Effluent discharge consent compliance. Target = 100%	✗	99.27	99.87	99.93	100
	Sludge pathogen kill level compliance. Target = 100%	✓	100	97	-	100
	Improve 101 overflows from our combined sewer systems and sewage treatment works (STWs) to acceptable standards by 2005. Target = 4 (by March 2005)	✓	4	22	19	Improve 29 overflows from our combined sewer systems and sewage treatment works to acceptable standards between 2005 and 2010. Target 2005/06 = 2
	Contribute to quality improvements by March 2005 in 15 rivers as a result of the achievement of new standards at 168 of our STWs. Target = 40 sites (by March 2005)	✓	40	33	30	Total investigations and asset upgrades planned for STWs discharging to inland waters between 2005 and 2010 = 43. Target 2005/06 = 11
	Contribute to compliance with the EU Fish Directive downstream of 65 STWs by improving effluent quality by March 2005. Target = 19 sites (by March 2005)	✓	19	16	17	Contribute to compliance with the EU Fish Directive downstream of three STWs by improving effluent quality between 2005 and 2010. Delivery of this target will be in 2009/10 as part of AMP4 so discontinue in 2006.
Apply sustainable integrated water resource management practices, balancing demand management activities with responsible water resource development.	Reduce the total annual phosphorus load discharged from 42 STWs by a population equivalent of 2.2million compared with 1999 levels by March 2005. Target = 4 sites (by March 2005)	✓	4	8	5	Reduce the total annual phosphorus load discharged from 29 STWs by a population equivalent of 2.2million compared with 1999 levels between 2005 and 2010. Target 2005/06 = 9 sites
	Leakage. Target = 905 ^a (l/property/day)	✗	915 ^a (261) ^a	946 ^a (271) ^a	943 ^a (272) ^a	860 ^a (Ofwat published target)
Understand and plan for the impacts of climate change and minimise our emissions of greenhouse gases.	Metering (total number of properties - domestic and commercial).	PM	912,123	877,781	1,017,643	Annual PM
	Emissions of greenhouse gases (million tonnes CO ₂ equivalent). (% change from 1990/91 baseline, normalised against MI/d service provided). Target = In 2006 we will report the greenhouse gas emissions reduction attributable to our energy efficiency programme.	PM	1.49 (-10.74)	1.43 (-18.51)	1.46 (-8.45)	There are many variables that affect greenhouse gas emissions, hence, it has not been possible to accurately record emissions attributable to our energy efficiency programme. This will continue to be reported as a performance measure.
	Energy consumption (GWh) (electricity and gas). Target = Ensure efficient use of energy resources and aim to set quantified targets for energy efficiency.	➔	1,342	1,312	1,220	The energy efficiency programme has been progressed and new opportunities identified. Aim to develop a quantified target for energy efficiency in 2006.
Make effective and efficient use of all natural resources, including first and foremost water but also energy and raw materials.	Renewable energy generation (GWh). Target = Seek to maximise our generation and use of renewable energy.	✓	154	138	142	Target = To generate 10% additional renewable energy, from 2005 baseline, by the end of 2010. Milestone 2006 = Renewable generation target for 2006 is 161 GWh.
	Sewage sludge outlets. Target = 100% to beneficial use. (Total tonnes dry solids of sewage sludge produced).	✓	100 (263,941)	100 (245,584)	100 (239,826)	100
Implement sustainable waste management practices.	Quantity of operational waste disposed of to landfill (tonnes). Target = Reduce our 1998 use of landfill for waste disposal by 15% by 2005.	✓	137,774	150,196	130,111	We will increase our recycling rate for operational wastes to 60% by 2008 (from 43% in 2004).
	Operational wastes recycled (%) (total tonnes produced)	PM	48% (264,950)	43% (262,581)	55% (290,945)	Annual PM
	Capital investment wastes recycled (%) (total tonnes produced)	PM	57% (340,256)	39% (460,265)	41% (596,841)	Annual PM
Protect biodiversity both on our land holdings and where our activities may have an impact.	Units on Sites of Special Scientific Interest (SSSI) in favourable condition (%). Target = 95% by 2010 (Defra PSA Target)	✓	96	96	97	95

01 www.thameswater.co.uk/corporateresponsibility see Reporting

Key		Time period	
Progress		PM	Performance measure only
✓ Target achieved		N/A	Not applicable
➡ Target on track		-	Not available
✗ Target not achieved			
		ª	Denotes regulatory year
			1 April - 31 March
			(i.e. nine months in arrears).
			Otherwise, data is for calendar year.

Policy objective	Key performance measure/target 2005	Target achievement in 2005	2005	2004	2003	Target 2006
Community						
Build trust among the communities we serve and act as a good neighbour.	Alleviate, 2000 properties from risk of sewer flooding due to hydraulic inadequacy between 2000 and 2005. Target 2004/05 = 607ª	✓	779ª	587ª	402ª	Alleviate 5,561 properties from internal and external flooding due to hydraulic incapacity between 2005 - 2010. Target 2005/06 = 531 (internal)ª, 351 (external)ª.
	Number of Odour complaints. (Number of actual customers complaining). NB Complaints received are not necessarily proven or related to our assets. Target = Work with Defra to produce a new Code of Practice for odour control at STWs.	✓	983 (495)	990 (392)	-	-
Customers						
Provide our customers with safe, reliable and affordable water supply and sanitation services.	Drinking water quality mean zonal compliance (%). Target = Maintain 99.9% compliance*	✓	99.95*	99.96*	-	99.9
	Properties at risk of low water pressure.	PM	2,455ª	4,836ª***	5,129ª***	Annual PM
Encourage our customers to use our services wisely.	Water efficiency (Ml/d estimated savings). Target = Communicate with our customers on water efficiency.	✓	19.99ª	25.48ª	25.01ª	Annual PM
Provide our services in a way that is accessible and affordable to all of our customers, including the disabled and disadvantaged.	Number of customers utilising the Vulnerable Tariff Scheme.	PM	1,323	1,097	675	Annual PM
	Customer Assistance Fund - amount donated (£).	PM	115,000	122,094	134,560	Annual PM
	Number of extra care accounts registered.	PM	7,652	7,480	7,074	Annual PM
Restore our service quickly and efficiently in the event of an interruption.	Number of unplanned interruptions to supply lasting more than six hours.	PM	19,065ª	35,452ª	14,023ª	Annual PM
Employees						
Ensure that equal opportunities are given to all employees and potential employees regardless of their gender, race, disability, age or religion.	Women in management and non-management roles respectively (%).	PM	22 / 30	23 / 29	20 / 30	Annual PM
	Employees from visible ethnic minority groups (%).	PM	6.4	6.5	-	Annual PM
Invest in the development of our employees' skills, abilities and potential.	Spend on training and development per employee (£) (Average number of days spent on training per employee).	PM	428 (2.8)	420 (2.8)	280 (2.0)	Annual PM
Ensure the health, safety and welfare of our employees.	Number of accidents per 1,000 employees.	PM	15.04	14.27	8.75	Annual PM
	Total lost working days for reportable accidents. (Reportable accidents).	PM	1,508 (70)	1,811 (63)	957 (36)	Annual PM
Shareholder						
Provide a reasonable return on investment to our shareholders.	Final dividend (£million).	PM	180.6	141.2	136.1	Annual PM
	Customer gross debt (£million). Target = £220.7million	✗	239	213.4	214.6	255.4
	Cash interest cover - ratio. (Net cashflow (£million)) (Net interest paid (£million))	PM	5.13ª (£687million) (£-133.8million)ª	5.27ª (£645million) (£-122million)ª	4.73ª (£580million) (£-123million)ª	Annual PM
Meet the corporate governance expectations of the RWE Group.	New measure: Overdue audit action. Target = 0	✗	23	-	-	Annual target

* New DWI methodology - we have recalculated past years' data according to new methodology

** In last years Corporate Responsibility report we reported 2004/05 data, in error

*** In last years report we reported 2003/04 data, in error



Looking ahead

External assurance statement

Looking ahead

Thames Water is committed to operating as a sustainable business. In this section we have drawn out some of the main barriers and challenges we face and have outlined the next steps on our journey to becoming a genuinely sustainable operation.

In the 2004 Thames Water Corporate Responsibility Report, Forum for the Future outlined a vision of what a sustainable water services company might look like in 2040. This stretched the imagination and challenged current thinking way beyond that applied to today's market and policy constraints. The vision helped stimulate discussion within the business and contributed to the wider debate on where the water industry should be heading in the long term.

The past year has seen a lot of discussion on sustainability in the water industry. Ofwat carried out a consultation on its new duty under the Water Act 2003 to contribute to the achievement of sustainable development, the House of Lords Science and Technology Select Committee reviewed water management, and the RSPB and Green Alliance issued a report on regulation of the water sector which proposed a series of recommendations for reform. The future landscape for water and wastewater services is likely to be very different from the one we know today. In the following section we have outlined some of the barriers and challenges we face in terms of the regulatory and policy framework and steps underway to move the business onto a more sustainable footing.

Regulatory framework

The water industry has a large asset base and resources that require long-term management. Major investment decisions need extensive discussion and schemes are often highly complex, requiring numerous planning consents and building and operational licenses before construction can take place. For example, a major new water resource project may take 25-30 years from conception to completion.

Despite the need for long-term planning horizons, the industry is subject to economic regulation over short five-year cycles. This can cause problems. There has been much discussion around the regulatory framework, and within the industry it is generally felt that the regulatory planning and five-year funding structure, with short payback expectations, is holding back the development of longer-term sustainable solutions. Ofwat have recently consulted on the length of the price review period and our response has been that each price review needs to take place within the context of a longer term plan for the industry. We have also suggested that whilst unlikely to affect the next price review, the Water Framework Directive has a six-year cycle and the price setting period needs to match this.

Shift from end of pipe solutions

Since privatisation of the UK water industry, investment programmes have relied heavily upon 'end of pipe' solutions rather than, for example, controls at source, requiring new infrastructure and complex treatment processes which can consume high levels of energy and chemical inputs. However such traditional solutions may not prove economically or environmentally viable in future. More innovative solutions that reduce consumption, energy use and improve control at source are needed. It is important that the regulatory regime recognises this and provides incentives for companies to adopt more sustainable behaviour.

Moving onto a sustainable footing

The Sustainability Challenge undertaken with Forum for the Future in 2005 highlighted strengths and weaknesses within the business. Over the coming year, we will continue to work with Forum for the Future to define sustainability principles for the business, review key sustainability issues and develop tools and decision-making frameworks to integrate sustainability into our planning and operational activities. We will develop a vision of what a genuinely sustainable Thames Water will look like, along with a clear strategy for moving the sustainability agenda forward.

A sustainable water and wastewater service requires holistic thinking and a more integrated approach; water companies cannot achieve this on their own. A wide range of stakeholders are involved; government, regulators, contractors, suppliers, customers and the wider society and we need to forge a partnership approach if we are to tackle some of the future challenges.

With several immediate challenges facing the business, including leakage control and ensuring sufficient water resources for supply, we recognise how important it is that we do not just focus on short-term prioritisation but address these and other issues in a way that takes long-term sustainability into account.

There is a lot of work to be done to ensure sustainability becomes fundamental to the way in which we run our business. However, we have the desire to achieve this and are establishing processes to move forwards. We will continue to report on our progress.



External assurance statement

Enviros Consulting Limited has conducted an independent review of the Thames Water Corporate Responsibility Report 2005 and supporting web-based quantitative data.

The Thames Water Corporate Responsibility Report 2005 has been prepared by Thames Water Utilities Ltd (TWUL). The information and presentation of data within the report and the supporting web-based information is the responsibility of TWUL.

The key objectives of the review were to provide assurance that statements and data were complete and accurate and that the data collection systems used were robust. This statement is the responsibility of Enviro and represents our independent opinion.

Enviros was not involved in the preparation of any part of this report. More detail concerning [our approach](#) to the assignment is included on the web site version of this assurance statement at www.thameswater.co.uk.

Our Opinion

Based on the approach above we have provided comments against each of the three principles of assurance (as represented in the AA1000 Assurance Standard).

Materiality - Does the report cover the issues of most importance to stakeholders?

We believe that TWUL has not omitted any issues or information that could affect stakeholder opinions of either its intentions or operations.

The process that TWUL introduced last year for assessing materiality has been further developed and strengthened through the involvement of additional external stakeholder groups and consultations. This has provided us with assurance that issues of materiality are being identified and reported upon.

Through our interviews with staff at all levels we have found a commitment to transparency, demonstrating a culture of openness within the organisation.

Accuracy and Completeness - How reliable and representative is the information and data in the report?

In our opinion, the text and data presented are materially accurate and complete and where limitations exist, these are explained in the text.

In line with current reporting trends, this year's report is shorter than previous years. TWUL needs to ensure that this more concise style of report is supported by the placing of appropriate supporting information on its website and we understand that this is planned for 2006.

Although the reported data is materially accurate our confidence in some data, such as waste, is lower than we would like. In order to address this, we will be undertaking a much more thorough investigation into this area next year.

Responsiveness - How well does the report address the issues of importance to stakeholders?

TWUL has demonstrated to us that it has a robust process for responsiveness that makes use of its materiality review and its policy commitments to address key issues.

2005 brought a variety of business and sustainability challenges to TWUL including:

- The turning down of its initial application to build a desalination plant.
- Rising customer concerns about water availability.
- Continuing pressure from regulators to improve water quality and reduce leakage.

In response, the content and structure of this year's Corporate Responsibility report is, in our opinion, more closely aligned to stakeholder concerns than at any other time and sets out how TWUL is rising to meet these challenges.

TWUL is still trying to develop meaningful targets for climate change but this is proving difficult as its performance is affected by multiple factors many of which are out of its control, such as rainfall, water consumption and effluent quality. We strongly support them in continuing their investigations into how climate change issues will affect the business and feel that appropriate targets will help drive improvement in this increasingly important area of work.

On other key issues such as water resources, leakage and water quality we are satisfied that TWUL is providing the appropriate level of information to stakeholders and has realistic targets and approved programmes of work to address these issues going forward.

Looking to the Future

TWUL was making good progress in aligning its corporate responsibility (CR) agenda with that of its parent company, RWE, and will undoubtedly face fresh challenges in integrating CR issues with any new owners. However, we believe that TWUL has a good understanding of the CR issues that it needs to continue to integrate into its business activities, regardless of ownership.

In next year's report and supporting web pages we hope to see:

- More detailed information to provide in-depth views on key issues.
- Disaggregated data behind the trends featured in the main report.
- Information tailored to key stakeholder groups.
- Interactive features such as 'votes' and 'comments boxes' to encourage feedback.

In our 2004 statement, we made a comment that 'consistency of year on year data collection and reporting could be strengthened by clearer documentation of the source and subsequent manipulation of data, thereby reducing the risk of inconsistencies arising from staff changes'. In our opinion, this issue has still to be addressed.

Last year, TWUL began work on developing a vision for a sustainable water company and this will be an important area to progress and report on next year.



Rachel Pickering

Consulting Group Director, Sustainable Business Unit



The team performing the assurance review have the appropriate experience and competency to do so and are not working for Thames Water in any other capacity. Enviro has a Quality Management System which fully complies with, and is certified to, BS EN ISO9001.