Here for you.

Annual performance report 2016/17

See what's inside

Performance highlights

Regulatory accounts

Our 16/17 overview

99.96%
drinking water quality compliance

First time zero employees off work with a work-related injury

4.12 out of 5
Ofwat customer satisfaction rating

£19.75 million
fine for 2012-14 pollutions

42% reduction
in incidents since 2013

£1.1 billion
invested in infrastructure

103 km
mains repaired/ replaced

94.5%
written complaints resolved first time

267 GWh
electricity generated from sewage – our best ever performance

Missed our leakage target for the first time in
11 years

Our place in the
water and wastewater industry

With **15 million** customers we serve about **25%** of the population of England and Wales

Thames Water is one of 10 regional licensed and regulated companies

providing water and wastewater services in England and Wales.

We provide almost 1/3 of the

9 billion

litres of water used by people and businesses in the UK each day.

Our importance to the UK economy

We employ around 5,000 people

and many thousands more work in partnership with us

Our services are vital to the safe and smooth running of

London

and the Thames Valley

– huge drivers of the UK economy

We look after...

31,000 km
of water pipes

98 water treatment works

to provide...

2.6 billion litres of water every day.

109,000 km
of sewer pipes

351 sewage treatment works

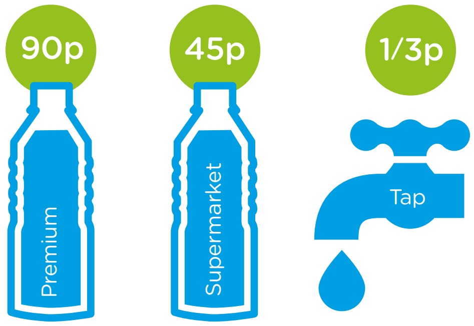
to safely remove...

4.6 billion litres of wastewater every day.

* Source: Discover Water

Value for money*

Price for 2 litres



We provide **270** litres of some of the highest quality water in the world direct to our customers' homes for the same price as two litres of supermarket bottle water.

Population growth in our region

By 2050, London is expected to grow to 11 million, the equivalent of adding both the populations of Birmingham and Edinburgh to the city.

We support thousands of vulnerable households through our social tariffs and customer assistance fund to provide them with one of life's essential ingredients

Our region stretches from...

Cirencester in the west to the edges of **Essex** in the east and includes our nation's capital city, **London**.

We are headquartered in the Thames Valley

We are regulated by

- Ofwat
- Defra
- Drinking Water Inspectorate
- Environment Agency

1 April 2017

opening of business retail market to competition

Rewards and penalties

Ofwat's outcome delivery incentive (ODI) rewards and penalties link performance to company returns

A year in review

Steve Robertson
Chief Executive Officer

I am pleased to introduce my first Annual Performance Report for Thames Water. This report gives insight into our business and provides details of our annual performance against the commitments we made to customers for this five year regulatory period.

2016/17 has been a year of significant change for us in many ways. We have welcomed new Directors to the Board, including myself, and we announced a change in our largest shareholder (effective 31 May 2017). Full details of our investors and a summary of our group structure can be found on pages 75-77 of this report. Amidst this change, and what has been a challenging year, we have remained completely focussed on our commitments to customers and stakeholders.

Every day all of us at Thames Water make decisions and take actions that affect our customers, our environment and our business. Being open and transparent with our customers and stakeholders in a two-way dialogue about how we're running their water and wastewater company is also vital.

I fully recognise that running a water company comes with important responsibilities, and I understand the significant impact on our customers and the environment when we fall short of the commitments we have made to customers. We are in a hugely privileged position with life-long investment from our customers through their bills, and everything we do impacts them, their children, their grandchildren and beyond. We're custodians of their money so we need to be smart and disciplined about how we spend it. Our customers also play an active part in operating our water and wastewater networks, every time they turn on a tap, use a washing machine or flush the toilet. So the way we engage with them and explain our business is a continuing priority.

Part of this engagement involves being honest with our customers about our progress in achieving our performance commitments.

During the last year we've seen a series of major bursts on some of our Victorian water pipes which have had devastating effects for families and businesses. Following these events, we have been engaging directly with those affected, as well as with Ofwat. At the same time, we have conducted a forensic review to better understand why these events occurred, and in quick succession. We have published the results of our forensic review on our website www.thameswater.co.uk/trunkmainsreview.

Leaks are inevitable on a network of our size and age. An important part of maintaining an effective water distribution network involves keeping leakage under control. We set ourselves challenging targets to reduce leakage between 2015 and 2020. Disappointingly, we missed our leakage target in 2016/17, partly because of challenges associated with adopting a new delivery model which led to us not fixing enough leaks to meet our plan. We have since put in place steps to catch up on work to find and fix leaks, and to bring performance back to target levels by 2019/20.

Keeping customers in supply is a huge priority for us. Thames is a 24/7 business and we are on hand to respond to events whenever they occur – a pump failure in Hampton on Christmas Day caused an interruption to some of our customers' supply and our teams worked hard to resolve the problem as quickly as possible. A report is available on our website at https://corporate.thameswater.co.uk/Media.

We're also paying a high price both financially and reputationally for major pollution incidents between 2012 and 2014. We deeply regret these incidents and have apologised unreservedly for the impact these incidents had on local communities and the environment. Since the events we've put in place new procedures and personnel, invested heavily in infrastructure, training and control systems, to limit the possibility of any such repeat and strengthen our position as a good corporate citizen.

Our understanding and successful management of potential risks, which could impact the way we run our business now and in the future, will underpin our success and we have strong governance in place to ensure we do this.

This year we have made real progress against a number of our commitments and beaten the annual Committed Performance Level ("CPL") targets agreed with Ofwat. We have resolved a commendable 94.5% written complaints first time, seen a reduction in our greenhouse gas emissions for both our water and waste businesses and earned a combined reward of £3.2 million for reducing the number of properties affected by odour and improving on our supply interruptions of less than four hours commitment. We have also had a record breaking year for self-generated electricity, which has enabled us to save £24 million from our annual electricity bill. Whilst our achievements in these areas are evidence of continued investment in these areas, we have unfortunately incurred a total of £18.4 million in Outcome Delivery Incentive ("ODI") penalties. We know we can – and must – do better. We also know we cannot deliver everything we want to immediately – it will take time – but we're committed to strengthening our position so we can provide the service our customers expect and deserve.

As we take a fresh look at the business, we have been reviewing our spending, to ensure we deliver maximum value for our customers and protect the long term financial stability of the business. Making the best decisions for our customers requires us to carefully prioritise and phase our important projects. Driving efficiencies is a key priority for us and for our customers.

In order to support the needs of our customers, we've spent additional money on our-day-to-day operations. 50% of this additional spend is borne by shareholders and 50% will be recovered through customer bills during the next regulatory period. During 2016/17, we spent £101.7 million above our allowance from Ofwat (£166.9 million above for the regulatory period to date).

We strongly believe that innovation will help drive efficiency and cost savings. We have been innovating for more than 400 years and new technology is providing greater opportunities for us. From being pioneers with cutting edge technology to produce electricity from waste to using data intelligently to predict and minimise the impact from storms, we're innovating across the business. Make no mistake - the work we all do must leave a positive legacy for future generations.

Since joining Thames, I have been overwhelmed by the passion and commitment of our employees. As a Thames Water family, we all need to be committed to driving changes that will really deliver the services our customers expect and deserve.

I look forward to sharing our story with our customers and stakeholders as we embark on a new chapter.

Steve Robertson
Chief Executive Officer

Outcome delivery incentive performance

A snapshot of how we performed against our performance commitments which can attract a penalty or reward. We incurred a total penalty of £18.4 million and achieved a reward of £3.2 million for 2016/17.

Condition of our below ground water network (includes supply interruptions of more than 12 hours)

Target: Stable

Performance in 16/17: Marginal

Penalty: £4.7 million

P

Condition of our above ground water network

Target: Stable

Performance in 16/17: Stable

On target

P

Drinking water compliance

Target: 99.94%

Performance in 16/17: 99.96%

On target

P

Condition of our below ground wastewater network

Target: Stable

Performance in 16/17: Stable

On target

P

Condition of our above ground wastewater network

Target: Stable

Performance in 16/17: Stable

On target

P

Security of supply index

Target: 100

Performance in 16/17: 99

Penalty: £2.3 million

P

Leakage

Target: 630 Ml/D

Performance in 16/17: 677 Ml/D

Penalty: £8.6 million

PR

Supply interruptions lasting more than four hours

Target: 0.13

Performance in 16/17: 0.12

Reward: £3.1 million

PR

Sewer flooding other causes

Target: 1,126

Performance in 16/17: 1,214

Penalty: £0.5 million

PR

Sewage treatment works discharge compliance

Target: 100%

Performance in 16/17: 98.28%

Penalty: £2.3 million

P

Pollution incidents

Target: 340

Performance in 16/17: 315

On target

PR

Reduction in the number of properties affected by odour

Target: 793

Performance in 16/17: 1,305

Reward: £0.1 million

PR

Compliance with environmental regulations - two performance commitments

End of AMP* target.

P

Resilience of sites to future extreme weather events - water and wastewater

End of AMP* target.

P PR

Deephams sewage treatment works upgrade and Thames Tideway Tunnel connecting works

Performance in 16/17:
Deephams sewage treatment works upgrade: Delivered

Thames Tideway Tunnel connecting works:
On target

P

Site security compliance (and with notes) - two performance commitments

End of AMP* target.

P

Sustainable urban drainage

End of AMP* target.

PR

Implement new online account management

Target: Limited online

Performance in 16/17:
Limited online

On target

P

Properties flooding from rainfall including Counters Creek

End of AMP* target.

PR

Water efficiency

End of AMP* target.

P

Customer Service - service incentive mechanism score

Ofwat metric: Calculated over the AMP*

Performance in 16/17: 77.3

PR

Reduce the amount of phosphorus entering rivers

End of AMP* target.

PR

P Can incur penalty

PR Can incur penalty or reward

* AMP - Asset Management Plan - see Glossary on page 90

The penalties we incur will be returned to customers in the form of lower bills from 2020.

Our Customer Challenge Group produce an independent report about our performance.

Our performance

Over the following pages we have set out a summary of our key performance commitments. This is a balanced summary, highlighting the commitments which customers have told us are the most important to them and those which we feel best reflect our performance in the year. Our performance for all 55 performance commitments can be found in Table 3A of this report with their reference codes. In line with the feedback we have received from our customers, we have rated our progress as red, amber or green using the following definitions:

Performance at, or favourable to, our committed performance level for 2016/17

Performance adverse to committed performance level, but either:

- within the range allowed without a penalty (the 'deadband') if defined (water and waste); or, if not,
- within 5 % of our committed performance level (water and waste);
- or marginal asset health (water and waste); or
- within 1.5 % of our committed performance level (retail)

Performance adverse to our committed performance level if:

- outside the deadband (if defined) (water and waste); or, if not:
- adverse to our committed performance level by more than 5 % or deteriorating asset health (water and waste); or
- adverse to our committed performance level by more than 1.5 % (retail)

Here for **customers**

We are committed to providing our customers with a consistently good service and we want to get it right first time, every time. When things don't go as planned we aim to put things right quickly, meaning our customers only have to contact us once. The targets we set ourselves at the beginning of this AMP reflect this and two years down the line our focus remains as strong as ever.

Our aim is to deliver a consistently good experience that our customers expect. Our plan is quite simple and reflects the feedback that our customers have given us. We will:

- **make things easy for our customers;**
- **do what we say we will; and**
- **put ourselves in our customers' shoes.**

As well as transforming the experience that our customers have, our other key objective is to collect our water and wastewater service charges and reduce bad debt.

WA1 **Resolve written complaints first time - water: 96%**
(2016/17 CPL: 95%; 2015/16: 91%)

Our investment in improving the quality of written complaint responses is paying off, as we exceeded our 95% target for resolving written complaints first time in 2016/17. We also outperformed last year's score of 91%. This upturn in performance has reduced second stage complaints, which have fallen by 48.11% compared to last year.

SA1 **Resolve written complaints first time - waste: 93%**
(2016/17 CPL: 95%; 2015/16: 87%)

We have also seen an increase in the number of written complaints resolved first time in our waste business, with 93.49% success, compared to 86.72% in 2015/16. The trend is encouraging, but has not allowed us to reach the 95% target we set for 2016/17.

RA2 **First time resolution of household written complaints about bills – retail: 94%** (2016/17 CPL: 95%; 2015/16: 92%)

2016/17 was our best ever year in resolving household written complaints about bills, first-time. This reflects our commitment to put things right quickly when things have gone wrong for our customers. While we have seen an improvement on last year, we didn't meet our target of 95%.

RA1 **Minimise the number of household complaints about bills: 19 complaints per 10,000 properties**
(2016/17 CPL: 17 2015/16: 14)

Household complaints about bills were 37% higher than in 2015/16. This was due to delays in responding to some enquiries following the transition to our new revenue service provider, some issues with our systems and a technical fault with an online form on our website, which meant enquiries weren't making their way to us. We have worked hard to address these issues for 2017/18.

WA2 **Minimise the number of customer complaints - water: 9.12 per 10,000 households**
(2016/17 CPL: 9.61 2015/16: 8.84)

The number of customer complaints per 10,000 households has increased from the 8.84 we achieved in 2015/16. While the year-on-year decline is disappointing, we have still outperformed the target we set ourselves for 2016/17.

SA2 **Minimise the number of customer complaints - waste: 6.21 per 10,000 customers**
(2016/17 CPL: 7.15 2015/16: 6.46)

We have seen a reduction in the number of customer complaints per 10,000 customers, compared to 2015/16 and have exceeded our performance target of 7.15.

RA3

Improved customer satisfaction about bills: 4.63 out of 5

(2016/17 CPL: 4.55; 2015/16: 4.61)

Despite missing our targets for minimising complaints about bills and resolving queries first time, our customer satisfaction score demonstrates our commitment to deliver a consistent and reliable service when customers contact us about their bills, as we beat our target by 0.08. Our performance was consistent throughout the year, with our monthly score ranging by 0.07 from 4.59 to 4.66.

RA4

Improved satisfaction of customers contacting our Operations Call Centre: 4.46 out of 5

(2016/17 CPL: 4.52; 2015/16: 4.27)

Although our performance over the year did not enable us to achieve our target of 4.52, we improved by 0.19 from 2015/16. Customer satisfaction improved steadily throughout the year and by March 2017, we had exceeded our target level, achieving a score of 4.59 for the month.

WA3

Improve customer satisfaction - water: 4.50 out of 5

(2016/17 CPL: 4.45; 2015/16: 4.44)

In 2015/16 there was a significant improvement in our customer satisfaction score, following investment in front-line staff and a particular focus on individual performance and how this directly impacts our customers. During 2016/17 we have further improved this score, exceeding our target by 0.05. We do however recognise that there is still more to do to ensure we continue to deliver the very best service for our customers.

SA3

Improve customer satisfaction score - waste: 4.57 out of 5

(2016/17 CPL: 4.60; 2015/16: 4.50)

Following the opening of our customer solution centre in May 2016, which provides a 'one stop shop' for customers requiring assistance with waste related issues, we have made further progress in improving our customer satisfaction scores from 2015/16. Our average score has improved from 4.50 to 4.57 out of 5, however, we still fell short of our 4.60 performance commitment.

RA6

Service Incentive Mechanism (SIM): 77.3

(2016/17 CPL: 81.9; 2015/16:76.7)

Our Service Incentive Mechanism (SIM) score, which is monitored by Ofwat, increased from 76.7 (2015/16) to 77.3 out of 100 in 2016/17. While this score has not improved as much as we would have liked, it is still the highest ever SIM score we have reported. This has built on the four point improvement we made last year and continues our journey to improve the service we provide.

SIM consists of two metrics. The first is a customer satisfaction (CSAT) score based around four quarterly surveys which can contribute up to 75% of our overall score. Over the year, Ofwat will contact us – unannounced – on four occasions and ask us for details of the household customers who had contacted us the previous week. This equates to around 85,000 records and from this sample set, Ofwat's survey company will randomly contact 200 customers (800 over the year) to ask for their opinion on the service we provided. Customers are asked to rate the overall service they received from us as a score between 1 (very dissatisfied) and 5 (very satisfied). Our performance improved from 4.10 in 2015/16 to 4.12 in 2016/17. The valuable feedback that we got from our customers during the year has helped us shape our plans for further improvements.

The second metric, which can contribute up to 25% of our SIM score, relates to the number of written complaints and unwanted telephone calls that we receive from household customers throughout the year. Written complaints were 25% higher than the previous year, but we still achieved the second lowest figure we have ever reported. We reduced the number of complaints that reached the second stage of our complaints procedure by 24%, which means that over 94% of the written complaints we received were resolved first time. Unwanted calls were 2% higher than 2015/16, due to the addition of calls into two new customer service centres that we did not have last year.

While our performance against SIM is getting better, we know that we have to do a lot more to improve our position within the industry and to deliver against the targets we set ourselves at the beginning of AMP6. We remain positive and our commitment to deliver the level of service that our customers expect from us is stronger than ever.

The SIM has the added purpose of financially rewarding and penalising water companies according to their relative performance within an industry league table, over a four year period. Those companies that score well against SIM, and are better than the industry average, are likely to see a reward for their performance while those who are below the industry average will be penalised.

RA5 **Increase number of bills based on actual meter reads: 97%**
(2016/17 CPL: 96%; 2015/16: 91%)

This measure relates to the percentage of bills that we generate for household customers which are calculated on actual meter reads taken in our planned meter reading cycle. Improvement in systems and processes have enabled us to take more meter readings, resulting in an improvement in performance from 2015/16.

RB1 **Launch new online account management: limited online**
(2016/17 CPL: limited online; 2015/16: limited online)

We have continued to encourage customers to take advantage of our online account management service and we now have over 608,000 customers signed up for this service. During the year, as well as refreshing our website to reflect our new branding, we have improved the functionality for customers who access the site via their mobile phones making registration and access much easier. Web chat has also been available for customers who need assistance at registration, when they are paying their bills or when visiting the help page, as well as at other locations on our website.

RC1 **Increase number of customers on payment plan: 55%**
(2016/17 CPL: 54%; 2015/16: 54%)

Our result of 55% outperformed our target of 54%. Following our decision to exit the non-household retail market from 1 April 2017, we cancelled around 60,000 direct debit instructions for those non-household customers who have migrated to Castle Water. Had we not cancelled these instructions our performance during 2016/17 would have been even better.

RC2 **Increase cash collection rates: 87.9%**
(2016/17 CPL: 89.4%; 2015/16: 88.2%)

We are committed to increase the collection of outstanding bills owed by our customers. Our performance at the end of 2016/17 was lower than 2015/16 due to additional household billing taking place in the final weeks of March. This reduced our ability to collect cash from the bills raised, in addition to delayed cash collection associated with the migration of non-household customer accounts to Castle Water. Due to our decision to exit the non-household market, the remaining years of this AMP will only show cash collection rates for household customers.


MaxiFlex

Safe and **reliable service**

Our Water business has faced a challenging year. Disappointingly we have missed our leakage target for the first time in 11 years and suffered eight large trunk main bursts. We are committed to delivering a safe and reliable water service for our customers and we are strengthening our position in this area.

We are fully aware of our responsibilities to our customers to provide a safe and reliable water service, not only now, but for our children, grandchildren and future generations. Our customers play a key part in preserving water resources, so it is important that we work with them to understand how they can use water more efficiently and responsibly. Not only does this help with our water resources management, but it can help save customers money. Our 'smarter home' visits have seen 200,000 water efficiency devices installed in 60,000 homes. Due to the promotion of our community speaker programme, we have also attended more school visits than we targeted.

WB3 Water quality: 99.96%
(calendar year 2016 CPL: 99.94%; 2015: 99.96%)

Customers rely on us to provide water that is both clean and safe to drink. We undertake over 1,000 water quality tests every day to ensure we are providing some of the highest quality water in the world. We have maintained the high quality levels achieved last year, exceeding the target set by the Drinking Water Inspectorate (DWI) for 2016.

WB1 Water asset health – below ground (infrastructure): Marginal
(2016/17: Stable; 2015/16: Marginal)

The 'health' of our pipes, which comprise the below ground (infrastructure) network, is at a 'marginal' level and not the 'stable' level that we are striving for. This measure is influenced by our performance across a number of areas, including water pressures, number of burst pipes and interruptions to supply. We have seen an improvement in performance from 2015/16, with a 60% reduction in the number of properties without supply for over 12 hours; Despite this improvement, we did not achieve our 4,756 target for supply interruptions greater than 12 hours and we ended the year with 6,051 properties affected (2015/16: 15,143), incurring a penalty of £4.7 million.

Whilst the number of bursts on our network did not differ significantly from the prior year, we suffered eight significant bursts between November and December 2016. We know that burst pipes can be devastating for our customers and following these events, we have undertaken a number of reviews, which we have published on our website https://corporate.thameswater.co.uk/About-us/Investing-in-our-network/Trunk-mains-review. We have committed to increase our investment in the replacement of our trunk mains by £97 million over the remainder of this regulatory period.

WB2 Water asset health - above ground (non-infrastructure): Stable
(2016/17 CPL: Stable; 2015/16: Stable)

We have maintained a 'stable' rating for our above ground (non-infrastructure) assets, which include our pumping stations and water treatment works. The 'health' of these assets is determined by our performance in water quality measures and complaints, which all achieved, or exceeded the targets set.

WB5 Average interruptions to supply per property (>4 hours): 0.12 hours
(2016/17 CPL: 0.13; 2015/16: 0.12)

Keeping our customers in supply is a key priority. We have been actively optimising the pressure of the water that runs through our pipes to reduce the likelihood of bursts and using more water tankers. We have also been implementing innovative technology to enhance our ability to monitor the network more effectively. As a result, we have received an ODI reward of £3.1 million, as we have outperformed our target for supply interruptions of over four hours.

This high level of performance, in addition to the improvements we are making in minimising supply interruptions of over 12 hours, means that we have a solid foundation from which to achieve both 'interruptions to supply' commitments in the near future.

WC2 Leakage: 677 Ml/d
(2016/17 CPL: 630 Ml/d; 2015/16: 642 Ml/d)

We are disappointed to have not met our leakage target for the first time in 11 years; our result of 677 Ml/d missed our ambitious target of 630 Ml/d. Our leakage measure is not solely about burst pipes, or visible leaks. It is influenced by a range of factors, including: water pressures, which we have sought to enhance; weather conditions, ability to find leaks we cannot see and unaccounted usage, which we are always looking to identify.

Reducing leakage is a key part of ensuring the future of water resources in our region and we have mobilised plans in place to recover our leakage reduction programme. A key element to this is getting back on track with finding and fixing leaks – both visible and those we cannot see. Unfortunately, we have fallen behind our plans following some challenges with implementing a new delivery model. With substantial investment and change, we will be able to improve performance and aim to achieve our leakage target by the end of this five year regulatory period.

WB6 Security of Supply Index: 99
(2016/17 CPL: 100; 2015/16: 100)

Security of supply is a measure of our ability to supply water in extreme conditions. In 2016/17 our performance of 99 was 1 point below our committed level of 100 arising from a shortfall in the London water resource zone. The shortfall is mainly a result of higher than planned levels of leakage which contributed to higher than forecast demand. This result has led to a penalty of £2.3 million.

SB1 Waste asset health - above ground (non-infrastructure): Stable
(2016/17 CPL: Stable; 2015/16: Stable)

SB2 Waste asset health - below ground (infrastructure): Stable
(2016/17 CPL: Stable; 2015/16: Stable)

The health of both our above ground (non-infrastructure) and below ground (non-infrastructure) assets are assessed as stable in line with our target, and the prior year. The assessment includes a number of measures, such as flooding incidents and blockages.

SB4 Internal flooding of properties: 1,214
(2016/17 CPL: 1,126; 2015/16: 1,410)

The number of internal flooding incidents has reduced by 13.9% from 2015/16 to 1,214 properties. While this reduction is a step in the right direction, we still failed to achieve our target and as a result we received a penalty of £0.45 million.

Internal flooding can be caused by a number of factors such as blockages, sewer collapses and the failure of equipment. Blockages and collapses can be the result of events that are outside of our control, which makes achieving the target even more challenging. Throughout 2016/17 we have seen an increase in the number of incidents arising from the actions of third parties.

Our 'Bin it – don't block it' campaign seeks to reduce 'sewer abuse' by encouraging users of our network to dispose of fats, oils and grease for example, by other means.

SC2 Pollution incidents: 315
(calendar year measure 2016 CPL: 340; 2015: 232)

Over recent years our performance has improved and we have outperformed our target for the 2016 calendar year. While this is encouraging, the number of incidents that occurred throughout 2016 exceeded those in 2015.

This area of our business has been subject to major focus following incidents that occurred between 2012 and 2014, for which we incurred a £19.75 million fine in March 2017. We recognise our environmental responsibility and are acutely aware of the damaging effect incidents like these can have. Considerable investment has been made in training to reduce the likelihood of similar events occurring again.

SC3 Compliance of sewage treatment works (numeric consents; calendar year): 98.28%
(calendar year measure 2016 CPL: 100%; 2015: 99.13%)

Our target level for discharge compliance for our sewage treatment works is 100% and for the 12 month period ending 31 December 2016 we missed our target as a result of six incidents. These all occurred at different sites and fell outside of the allowable range, resulting in an ODI penalty of £2.3 million.

Our discharge compliance can be influenced by untraceable discharges from third parties disposing of chemicals, or other materials in our sewers, as well as weather and operational failure. While our performance in this area has declined from 2015, we have made further investments to increase our response times and improve our systems and processes to enable enhanced monitoring and reporting capability.

Protecting the **environment**

We have a responsibility to the environment in which we operate. We are making progress in reducing the impact our operations have on the environment. We have achieved a 26% reduction in greenhouse gas emissions produced by our waste business, beat our odour reduction target for the year and 20.1% of our electricity consumption in 2016/17 was self-generated.

Emissions from electricity make up the majority of our total greenhouse gas emissions. In 2016/17, 20.1% of our electricity consumption was self-generated – reducing our reliance on the national grid. We are committed to sourcing 33% of our electricity from embedded renewables by the end of this regulatory period. During the year, we signed a new power supply contract with Haven Power, who source power from carbon neutral sources. As a result, we have seen a reduction in our greenhouse gas emissions, for both our water and waste businesses compared to 2015/16.

WC1 Greenhouse gas emissions by our water business: 160.7 kT CO2e

(2016/17 CPL: 236.0 kT CO2e; 2015/16: 284.8 kT CO2e)

We have reduced greenhouse gas emissions from our water business by 43.6 %, compared to 2015/16 and beaten the target we set ourselves for 2016/17.

WD1 Net energy imported from the grid to run our water business: 491 GW/h

(2016/17 CPL: 483 GW/h; 2015/16: 496 GW/h)

To meet demand and reduce the impact of leakage, we put more water into supply than originally planned – 14,000 Ml more than in 2015/16. This resulted in us consuming more energy than we originally anticipated. As a result, we have missed our target of 483 GW/h.

Reducing the amount of energy we import is essential and we have embraced new technology to help us achieve this. We are already benefitting from solar power at Hampton water treatment works, where we installed 23,000 photovoltaic panels on our Queen Elizabeth II reservoir in 2016 - Europe's largest floating solar panel array. Following consistently high temperatures throughout May 2017, the record for solar panel energy generation in the UK was broken.

SC1 Greenhouse gas emissions by our waste business: 346.7 kT CO2e

(2016/17 CPL: 361.0 kT CO2e; 2015/16: 468.5 kT CO2e)

We have seen a 26.0 % reduction in greenhouse gas emissions from our waste business compared to last year. This reduction has allowed us to exceed our target of 361.0 kT CO2e.

SD1 Net energy imported to power our waste operations: 477 GWh

(2016/17 CPL: 392; 2015/16: 533 GWh)

During 2016/17 we have seen a reduction in net energy imported to power our waste operations. We are investing in new thermal hydrolysis plants (THP), which will allow us to produce more energy than ever before - reducing our reliance on the national grid. The sludge produced towards the end of the waste treatment process is the key ingredient for our thermal hydrolysis plants, which are instrumental in producing energy that can be used to power some of our plants. Due to delays in commissioning THP assets, we consumed 85 GWh more energy than planned, which resulted in us missing our target of 392 GWh.

Key performance indicator dashboard (Table 3A)

Performance commitment		Units	Units description	Decimal places	RAG	2015/16 Performance Level Actual	2016/17 Committed performance level (CPL)	2016/17 Performance Level Actual	2016/17 CPL met?	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
WA1	Improve handling of written complaints by increasing 1st time resolution - water	%	% written complaints resolved 1st time	0		91	95	96	Yes				
WA2	Number of written complaints per 10,000 connected properties - water	nr	No. written complaints / 10,000 properties	2		8.84	9.61	9.12	Yes				
WA3	Customer satisfaction surveys (internal CSAT monitor) - water	score	TW internal Customer satisfaction score (mean score out of 5)	2		4.44	4.45	4.50	Yes				
WA4	Reduced water consumption from issuing water efficiency devices to customers	nr	Ml/d reduced water consumption (cumulative)	2	AMP target	Not available	-	Not available	-	-		-	
WA5	Provide a free repair service for customers with a customer side leak outside of the property	nr	Number against target above annual baseline no.	0		1,404	1,450	2,089	Yes				
WB1	Asset health water infrastructure	category	Asset health indicator	N/A		Marginal	Stable	Marginal	No	Penalty	(4.6750)	Penalty	(9.3500)
WB2	Asset health water non-infrastructure	category	Asset health indicator	N/A		Stable	Stable	Stable	Yes	-		-	
WB3	Compliance with drinking water quality standards (MZC) - Ofwat/ DWI KPI	%	Mean zonal compliance (%)	2		99.96	99.94	99.96	Yes	-		-	
WB4	Properties experiencing chronic low pressure (DG2)	nr	No. of properties with low pressure (DG2) at the end of the reporting year	0		0	34	5	Yes				
WB5	Average hours lost supply per property served, due to interruptions > 4 hours	time	Hours lost supply per property served	2		0.12	0.13	0.12	Yes	Reward	3.1250	Reward	25.0000
WB6	Security of Supply Index - Ofwat KPI	score	Security of Supply Index (SOSI)	0		100	100	99	No	Penalty	(2.2650)	Penalty	(11.3250)
WB7	Compliance with SEMD advice notes (with or without derogation)	%	% compliance with SEMD advice notes	0	AMP target	0	-	Not available	-	-		-	
WB8	Ml/d of sites made resilient to future extreme rainfall events	nr	Ml/d of WTWs made resilient	0	AMP target	Not available	-	0	-	-		-	
WC1	Greenhouse gas emissions from water operations	nr	ktCO2e	1		284.8	185.0	160.7	Yes				
WC2	Leakage	nr	Megalitres per day (Ml/d) (annual average)	0		642	630	677	No	Penalty	(8.5500)	Penalty	(38.2500)
WC3	Abstraction Incentive Mechanism (AIM)	Refer to table 3C				Not available	TBC	0 (Refer to Table 3C)	Yes				
WC4	We will educate our existing and future customers	nr	No. of children directly engaged	0		17,491	16,000	20,898	Yes				
WC5	Deliver 100% of agreed measures to meet new environmental regulations	%	% of agreed schemes completed	0	AMP target	0	-	0	-	-		-	
WD1	Energy imported less energy exported	nr	GWh (gigawatt-hours)	0		496	483	491	No				
SA1	Improve handling of written complaints by increasing first time resolution - wastewater	%	% written complaints resolved 1st time	0		87	95	93	No				
SA2	Number of written complaints per 10,000 connected properties - wastewater	nr	No. written complaints / 10,000 properties	2		6.46	7.15	6.21	Yes				
SA3	Customer satisfaction surveys (internal CSAT monitor)-wastewater	score	TW internal Customer satisfaction score (mean score out of 5)	2		4.50	4.60	4.57	No				

In the table above, where we have sufficient certainty over forecasts and these can be reliably estimated, we have included these within table 3A.

Performance commitment		Units	Units description	Decimal places	RAG	2015/16 Performance Level Actual	2016/17 Committed performance level (CPL)	2016/17 Performance Level Actual	2016/17 CPL met?	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
SB1	Asset health wastewater non-infrastructure	category	Asset health indicator	N/A		Stable	Stable	Stable	Yes	-		-	
SB2	Asset health wastewater infrastructure	category	Asset health indicator	N/A		Stable	Stable	Stable	Yes	-		-	
SB3	Properties protected from flooding due to rainfall (including Counters Creek project)	nr	No. properties protected from flooding due to rainfall	0	AMP target	Not available	Not available	Not available	-	-		Penalty	(6.8780)
SB4	Number of internal flooding incidents, excluding those due to overloaded sewers (SFOC)	nr	No. of internal sewer flooding (other causes) incidents	0		1,410	1,126	1,214	No	Penalty	(0.4500)	Penalty	(12.1500)
SB5	Contributing area disconnected from combined sewers by retrofitting sustainable drainage	nr	No. of hectares (cumulative)	0	AMP target	0	-	0	-	-		-	
SB6	Compliance with SEMD advice notes (with or without derogation)	%	% compliance with SEMD advice notes	0	AMP target	0	-	Not available	-	-		-	
SB7	Population equivalent of sites made resilient to future extreme rainfall events	nr	Population equivalent (cumulative)	0	AMP target	0	-	0	-	-		-	
SB8	Lee Tunnel including Shaft G	text	Scheme delivery	N/A	N/A	Scheme delivered	-	Scheme delivered 2015 -16	-	-		-	
SB9	Deephams Wastewater Treatment Works	text	Scheme delivery	N/A		Not available	Delivery	Perfor-mance Com-mitment delivered	Yes	-		-	
SC1	Greenhouse gas emissions from wastewater operations	nr	ktCO2e	1		468.5	322.5	346.7	Yes				
SC2	Total category 1-3 pollution incidents from sewage related premises	nr	No. of pollution incidents (cats 1, 2 and 3)	0		232	340	315	Yes	-		-	
SC3	Sewage treatment works discharge compliance	%	% WwTW discharge compliance	2		99.13	100.00	98.28	No	Penalty	(2.3070)	Penalty	(2.3070)
SC4	Water bodies improved or protected from deterioration as a result of Thames Water's activities	nr	No. of water bodies improved or protected by catchment management	0	AMP target	0	-	0	-				
SC5	Satisfactory sludge disposal compliance	%	% satisfactory sludge disposal compliance	0		100	100	100	Yes				
SC6	We will educate our existing and future customers	nr	No. of children directly engaged	0		17,491	16,000	20,898	Yes				
SC7	Modelled reduction in properties affected by odour	nr	No. of properties (modelled cumulative reduction)	0		0	793	1,305	Yes	Reward	0.1126	Reward	0.2618
SC8	Deliver 100% of agreed measures to meet new environmental regulations	%	% of agreed schemes completed	0	AMP target	0	-	0	-	-		-	
SC9	Reduce the amount of phosphorus entering rivers to help improve aquatic plant and wildlife	nr	Kilograms of phosphorus removed per day	1	AMP target	0.0	-	0.0	-	-		-	
SD1	Energy imported less energy exported	nr	GWh (gigawatt-hours)	0		533	392	477	No				
RA1	Minimise the number of written complaints received from customers (relating to charging and billing)	nr	No. written complaints / 10,000 properties	0		14	17	19	No				
RA2	Improve handling of written complaints by increasing first time resolution - charging and billing	%	% written complaints resolved 1st time	0		92	95	94	No				
RA3	Improve customer satisfaction of retail customers - charging and billing service	score	TW internal Customer satisfaction score (mean score out of 5)	2		4.61	4.55	4.63	Yes				

In the table above, where we have sufficient certainty over forecasts and these can be reliably estimated, we have included these within table 3A.

Performance commitment		Units	Units description	Decimal places	RAG	2015/16 Performance Level Actual	2016/17 Committed performance level (CPL)	2016/17 Performance Level Actual	2016/17 CPL met?	2016-17 notional reward or penalty accrued	2016-17 notional reward or penalty accrued £m (4 DPs)	Total AMP6 reward or penalty 31 March 2020 forecast	Total AMP6 reward or penalty 31 March 2020 forecast £m (4 DPs)
RA4	Improve customer satisfaction of retail customers - operations contact centre	score	TW internal Customer satisfaction score (mean score out of 5)	2		4.27	4.52	4.46	No				
RA5	Increase the number of bills based on actual meter reads (in cycle)	%	% bills based on actual meter reads	0		91	96	97	Yes				
RA6	Service incentive mechanism (SIM)	score	Service incentive mechanism (SIM) score	1		76.7	81.9	77.3	No				
RB1	Implement new online account management for customers supported by web-chat	text	Delivery status	N/A		Limited online	Limited online	Limited online	Yes				
RC1	Increase the number of customers on payment plans (excluding Thames Tideway Tunnel)	%	% of customers on DD payment plans	0		54	54	55	Yes				
RC2	Increase cash collection rates (excluding Thames Tideway Tunnel)	%	% of cash collected from billing in the year	1		88.2	89.4	87.9	No				
T1A	Successful procurement of the Infrastructure Provider (IP)	text	Infrastructure Provider (IP) procurement	N/A	N/A	Complete	-	Delivered 2015-16	-				
T1B	Thames Water will fulfil its land related commitments in line with the TTT programme requirements	text	Land related commitments	N/A		13	Fulfil	Additional 13 sites access granted in year. In line with Tideway requirements	Yes				
T1C	Completion of category 2 and 3 construction works and timely availability of sites to the IP	nr	No. of sites (cumulative)	0		9	0	19	Yes	-		-	
T2	Thames Water will engage effectively with the IP, and other stakeholders, both in terms of integration and assurance	text	Effective engagement with IP and stakeholders	N/A		Not available	Engage	Engagement effective rating 4.9 / 6.0	Yes				
T3	Thames Water will engage with its customers to build understanding of the TTT project. Thames Water will liaise with the IP on its surveys of local communities impacted by construction	text	Engagement to build TTT understanding	N/A	*	**HH customers** % aware of TTT = 43% understand project = 35 NHH customers % aware of TTT = 36% understand project = 28	Improving	**Household customers** % aware of TTT = 36; % understand project = 31. **Non-household customers** % aware of TTT = 36; % understand project = 27.	No				

In the table above, where we have sufficient certainty over forecasts and these can be reliably estimated, we have included these within table 3A.
* RAG rating as agreed with the CCG.

Regulatory Accounts

Regulatory accounts and additional information

The Regulatory accounts and additional information which form part of this Annual Performance Report (APR) are disclosed on pages 29 to 84 and are provided to comply with Condition F of the Instrument of Appointment of Thames Water Utilities Limited (the "Company") as a water and sewerage undertaker under the Water Industry Act 1991.

The regulatory accounts are prepared in accordance with the Regulatory Accounting Guidelines ("RAGs") issued by Ofwat, which are based on International Financial Reporting Standards ("IFRS"), International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations issued, as ratified by the European Union.

Where different treatments are specified by Ofwat, the Regulatory Accounting Guidelines take precedence.

A glossary of regulatory terms is shown on pages 80 to 92.

The APR, including the regulatory accounts and additional information, should be read in conjunction with the statutory Annual Report and Financial Statements ("AR&FS") for the year ended 31 March 2017, which can be found at www.thameswater.co.uk/annualreport2016/17. The AR&FS include disclosures which are relevant to the regulatory accounts including but not limited to those made in the:

- Strategic report for the year ended 31 March 2017 (pages 11 to 50) which contains information in respect of the Company's strategy, operational and financial performance and principal risks to which the business is exposed;
- Directors' report (pages 100 to 103), which contains a statement as to the disclosure of information to the auditor (page 103);
- Remuneration Committee report (pages 72 to 85) which provides a description of the link between Directors' pay and standards of performance (as required by section 35A of the Water Industry Act 1991 (inserted into that Act by section 50 of the Water Act 2003); and
- Corporate Governance report (pages 64 to 70).

Definitions of appointed and non-appointed business

The appointed business comprises the regulated activities of the Company as defined in Condition A of its licence of appointment. These are activities necessary in order for a company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

In addition to its duties as an appointed business, the Company also undertakes certain non-appointed activities. All of these activities are conducted on an arm's lengths basis from the appointed business. These activities include third-party discharges to sewage treatment works and other commercial activities including property searches and Cess treatment (treatment of waste from private receptacles not linked to the network). The results of the non-appointed business include charitable donations. These donations are considered to be made out of shareholder interests and are not funded by customers.

Statement of Directors' responsibilities for regulatory information

Further to the requirements of Company law, the Directors are required to prepare accounting statements which comply with the requirements of Condition F of the Instrument of Appointment of the Company as a water and sewerage undertaker under the Water Industry Act 1991 and Regulatory Accounting Guidelines issued by Ofwat.

This requires the Directors to:

- confirm that, in their opinion, the Company has sufficient financial resources and facilities, management resources and systems of planning and internal control for the next 12 months;
- confirm that, in their opinion, the Company has sufficient rights and assets to enable a special administrator to manage the affairs, business and property of the Company;
- confirm that, in their opinion, the Company has contracts with any associate company with the necessary provisions and requirements concerning the standard of serving to be supplied to ensure compliance with the Company's obligations as a water and sewerage undertaker;
- report to Ofwat changes in the Company's activities, which may be material in relation to the Company's ability to finance its regulated activities;
- undertake transactions entered into by the appointed business, with or for the benefit of associated companies or other businesses or activities of the appointed business, at arm's length; and
- keep proper accounting records, which comply with Condition F and RAG 5.06.

These responsibilities are additional to those already set out in the statutory accounts. For further details of the additional responsibilities refer to the Directors' Certificate under condition F6A on page 78 and the Risk and Compliance Statement on pages 79 to 83.

Condition K: Ring fencing and disposal of land

Paragraph 3.1 of Condition K of the Instrument of Appointment requires that the Company shall at all times ensure, so far as reasonably practicable, that if a special administration order were made in respect of the Company, the Company would have available to it sufficient rights and assets (other than financial resources) to enable the special administrator to manage the affairs, business and property of the Company that the purposes of such an order could be achieved.

In the opinion of the Directors, the Company was in compliance with paragraph 3.1 of Condition K of the Instrument of Appointment throughout the year and to the date of signing of this Annual Performance Report.

Additional information required by the Licence

The regulatory accounts are separate from the statutory accounts of the Company and have also been prepared on a going concern basis. The regulatory accounts have been prepared in compliance with the followings RAGs:

- RAG 2.06 - Guideline for classification of costs across the price controls;
- RAG 3.09 - Guideline for the format and disclosures for the APR;
- RAG 4.06 - Guideline for the table definitions in the APR; and
- RAG 5.06 - Guideline for transfer pricing.

Disclosure of information to the auditor

The Directors who held office at the date of approval of this report confirm that:

- so far as they are each aware, there is no relevant audit information of which the Company's auditor is unaware; and
- each Director has taken all the steps that they ought to have taken as a Director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of the information.

Viability statement

The Directors have assessed the viability of the Company over a three year period to 31 March 2020. In making this assessment, the Directors have considered the current position of the Company, its ability to effectively and efficiently manage its finances, the current regulatory regime, its continued access to the debt markets, and its ability to maintain a strong investment grade credit rating, whilst having regard to the principal risks and uncertainties as described on pages 42 to 50 of the AR&FS.

As part of the Company's recurring Price Review process, five year Company Business Plans ("CBP"s) are developed, the latest of which covers the five year period ending 31 March 2020. As part of the Company's financial resilience assessment, management has designed a number of 'stress tests' which subject the Company's existing model, that underlies the Company's planning processes, to a number of different scenarios and tests its sensitivity to these. The stress tests consider factors, both individually and in combination.

These include:

- fluctuations in interest rates, which could affect the cost of financing the business;
- fluctuations in inflation rates, which could affect the cost of investment and day-to-day operations, in addition to impacting amounts we bill our customers;
- increase in operating expenditure, which would reduce profits and cash flow;
- inability to secure new finance and/or delays in raising finance, reducing the cash available to deliver our investment programme; and
- unforeseen maintenance and capital expenditure, which would increase costs and decrease cash flow.

Management have prepared a detailed methodology statement that sets out the approach taken to assessing the long-term viability of the Company, including specifics of the variables tested and their effect on the financial covenants of the Company. Taking account of the range of scenarios, the Directors consider that the Company has sufficient mitigating actions in place to address particular circumstances and events, should they arise.

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

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

Tax strategy

The Company's aim is to be clear and transparent about its approach to tax and its tax profile. This year it has incorporated the Financial Reporting Council's recommendations on tax disclosures.

In summary, the Company's tax strategy has five key principles:

- to comply with all tax legislation requirements at all times, both within the letter and spirit of the law;
- to not use tax avoidance schemes or aggressive tax planning;
- to engage fully and transparently with HMRC and other Governmental bodies, and seek to resolve disputes in a co-operative manner;
- to adopt a conservative approach to tax risk management and apply a strong tax governance framework; and
- to accept only a low level of risk in relation to taxation.

You can find our tax strategy on our website at: www.thameswater.co.uk/ourtaxesexplained

Regulatory financial reporting

1A. Income statement

For the year ended 31 March 2017

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Revenue	2,060.1	46.2	61.3	(15.1)	**2,045.0**
Operating costs	(1,515.4)	(29.6)	(19.3)	(10.3)	**(1,525.7)**
Other operating income	93.7	(79.9)	7.7	(87.6)	**6.1**
Operating profit	**638.4**	**(63.3)**	**49.7**	**(113.0)**	**525.4**
Other income	-	65.6	0.7	64.9	**64.9**
Interest income	94.5	-	-	-	**94.5**
Interest expense	(456.3)	(70.2)	0.6	(70.8)	**(527.1)**
Other interest expense	-	(6.1)	-	(6.1)	**(6.1)**
Profit before tax and fair value movements	**276.6**	**(74.0)**	**51.0**	**(125.0)**	**151.6**
Fair value losses on financial instruments	(205.5)	-	-	-	**(205.5)**
Profit before tax	**71.1**	**(74.0)**	**51.0**	**(125.0)**	**(53.9)**
UK Corporation tax	(8.6)	-	(3.4)	3.4	**(5.2)**
Deferred tax	76.7	-	0.2	(0.2)	**76.5**
Profit/(loss) for the year	**139.2**	**(74.0)**	**47.8**	**(121.8)**	**17.4**
Dividends	(157.0)	-	(47.8)	**47.8**	**(109.2)**

Note: signage convention for non-appointed activities follows Ofwat guidance. Total adjustments comprise of the difference between statutory and RAG definitions and removal of non-appointed activities.

Explanation of reconciling items:

Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance detailed in RAG 3.09 and 4.06. The most significant include:

- reclassification of bad debt from revenue to operating costs for regulatory purposes of £46.5m;
- borrowing costs capitalised within fixed assets in the statutory accounts being recognised as interest expense for regulatory purposes of £76.3m (£6.6m depreciation of borrowing costs adjusted through operating costs); and
- reclassification of certain costs to align with regulatory presentation requirements.

Non-appointed activities include revenue in relation to BazalgetteTunnel Limited ("BTL"). BTL is an independent company unrelated to Thames Water Utilities Limited, and was appointed in 2015 to construct the Thames Tideway Tunnel. This is the first year that we have recognised revenue on this arrangement.

The arrangement with BTL means that the Company has included construction costs of the Thames Tideway Tunnel within its bills to wastewater customers during the year ended 31 March 2017. As cash is collected, these amounts are subsequently paid to BTL. Accounting standards and Ofwat guidance require the Company to present the amounts billed as non-appointed revenue, with no associated costs; this also gives rise to a profit which is taxable.

Regulatory financial reporting

1B. Statement of comprehensive income

For the year ended 31 March 2017

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Profit/(loss) for the year	139.2	(74.0)	47.8	(121.8)	**17.4**
Actuarial loss on post-employment plans	(151.2)	-	-	-	**(151.2)**
Other comprehensive expense	(20.9)	-	-	-	**(20.9)**
Total comprehensive loss for the year	**(32.9)**	**(74.0)**	**47.8**	**(121.8)**	**(154.7)**

Regulatory financial reporting

1C. Statement of financial position

As at 31 March 2017

	Statutory £m	Differences between statutory and RAG definitions £m	Non-appointed £m	Total adjustments £m	Total appointed activities £m
Non-current assets					
Fixed assets	14,094.5	(268.3)	2.8	(271.1)	**13,823.4**
Intangible assets	140.5	(2.1)	-	(2.1)	**138.4**
Investments - loans to group companies	2,274.7	-	-	-	**2,274.7**
Investments - other	2.9	-	-	-	**2.9**
Financial instruments	83.6	-	-	-	**83.6**
Retirement benefit assets	-	-	-	-	**-**
Trade and other receivables	30.4	-	30.4	(30.4)	**-**
	16,626.6	**(270.4)**	**33.2**	**(303.6)**	**16,323.0**
Current assets					
Inventories	21.7	-	-	-	**21.7**
Trade & other receivables	656.0	-	6.1	(6.1)	**649.9**
Financial instruments	-	-	-	-	**-**
Cash & cash equivalents	56.5	-	10.1	(10.1)	**46.4**
	734.2	**-**	**16.2**	**(16.2)**	**718.0**
Current liabilities					
Trade & other payables	(931.0)	188.6	(46.0)	234.6	**(696.4)**
Capex creditor	-	(175.8)	-	(175.8)	**(175.8)**
Borrowings	(383.4)	160.8	-	160.8	**(222.6)**
Financial instruments	(23.8)	22.7	-	22.7	**(1.1)**
Current tax liabilities	-	(19.9)	(3.2)	(16.7)	**(16.7)**
Provisions	-	(172.1)	(0.2)	(171.9)	**(171.9)**
	(1,338.2)	**4.3**	**(49.4)**	**53.7**	**(1,284.5)**
Net current (liabilities)/assets	**(604.0)**	**4.3**	**(33.2)**	**37.5**	**(566.5)**
Non-current liabilities					
Trade & other payables	(404.9)	421.9	-	421.9	**17.0**
Borrowings	(10,423.5)	(185.7)	-	(185.7)	**(10,609.2)**
Financial instruments	(900.7)	168.7	-	168.7	**(732.0)**
Retirement benefit obligations	(379.8)	-	-	-	**(379.8)**
Provisions	(112.5)	(24.9)	-	(24.9)	**(137.4)**
Deferred income - grants & contributions	-	(380.0)	-	(380.0)	**(380.0)**
Preference share capital	-	-	-	-	**-**
Deferred tax	(877.4)	-	-	-	**(877.4)**
	(13,098.8)	**-**	**-**	**-**	**(13,098.8)**
Net assets/(liabilities)	**2,923.8**	**(266.1)**	**-**	**(266.1)**	**2,657.7**
Equity					
Called up share capital	29.0	-	-	-	**29.0**
Retained earnings & other reserves	2,894.8	(266.1)	-	(266.1)	**2,628.7**
Total equity	**2,923.8**	**(266.1)**	**-**	**(266.1)**	**2,657.7**

Explanation of reconciling items:

Adjustments are made to the statutory numbers to ensure compliance with the Ofwat guidance detailed in RAG 3.09 and 4.06. The most significant include:

- reversal of an adjustment made in the statutory accounts, which includes cumulative capitalised interest of £277.1m less related depreciation of £6.6m;
- separate disclosure of capex creditor included within current trade and other payables balance in the statutory accounts;
- a reclassification of £183.5m from current borrowings to trade and other payables in respect of accrued interest (see below);
- reclassification of £175.4m (the book value) and £10.3m (FX gains) from financial instruments to non-current borrowings due to deriviative financial liabilties (see below);
- reclassification of £17.1m balance in trade and other payables relates to accrued interest on derivative financial instruments which is currently in a receivable position (see below);
- a reclassification of trade and other payables relating to deferred revenue to the provisions category for regulatory accounts; and
- the non-appointed business does not have any retained earnings.

Borrowings reconciliation

	Appointed activities £m
Current liabilities	
Current borrowings included in statutory accounts	**383.4**
Difference between statutory and regulatory definitions:	
Accrued interest taken to trade and other payables	**(183.5)**
Accretion moved to borrowings from financial instruments	**22.7**
Current borrowings included in regulatory accounts (per Table 1C)	**222.6**
Non-current liabilities	
Non-current borrowings included in statutory accounts:	**10,423.5**
Difference between statutory and regulatory definitions	
Accretion moved to borrowings from financial instruments	**175.4**
FX gains moved to borrowings from financial instruments	**10.3**
Non-current borrowings included in regulatory accounts (per Table 1C)	**10,609.2**
Total borrowings included in statutory accounts	**10,806.9**
Total borrowings included in regulatory accounts (per Table 1C)	**10,831.8**
Total borrowings included in regulatory accounts (per Table 1E)	**10,831.8**

Financial derivatives reconciliation

	£m
Per Table 1C:	
Non-current assets – financial instruments	**83.6**
Current liabilities – financial instruments	**(1.1)**
Non-current liabilities – financial instruments	**(732.0)**
	(649.5)
Per Table 4I:	
Total financial derivatives – Mark to market	**632.4**
Accrued interest	**17.1**
	649.5

Regulatory financial reporting

1D. Statement of cashflows

For the year ended 31 March 2017

	Statutory	Differences between statutory and RAG definitions	Non-appointed	Total adjustments	Total appointed activities
	£m	£m	£m	£m	£m
Operating profit	638.4	(63.3)	49.7	(113.0)	**525.4**
Other income	-	65.6	0.7	64.9	**64.9**
Depreciation	520.1	(7.3)	0.3	(7.6)	**512.5**
Amortisation – Grants & Contributions	-	(15.4)	-	(15.4)	**(15.4)**
Changes in working capital	15.4	(19.8)	2.5	(22.3)	**(6.9)**
Pension contributions	(37.5)	6.1	-	6.1	**(31.4)**
Movement in provisions	14.9	-	-	-	**14.9**
Profit on sale of fixed assets	(4.1)	-	1.7	(1.7)	**(5.8)**
Cash generated from operations	**1,147.2**	**(34.1)**	**54.9**	**(89.0)**	**1,058.2**
Net interest paid	(270.4)	(82.4)	0.6	(83.0)	**(353.4)**
Tax paid	-	-	-	-	**-**
Net cash generated from operating activities	**876.8**	**(116.5)**	**55.5**	**(172.0)**	**704.8**
Investing activities					
Capital expenditure	(1,247.2)	79.8	1.0	78.8	**(1,168.4)**
Grants & Contributions	-	36.7	-	36.7	**36.7**
Disposal of fixed assets	5.9	-	-	-	**5.9**
Other	-	-	-	-	**-**
Net cash used in investing activities	**(1,241.3)**	**116.5**	**1.0**	**115.5**	**(1,125.8)**
Net cash used before financing activities	**(364.5)**	**-**	**56.5**	**(56.5)**	**(421.0)**
Cash flows from financing activities					
Equity dividends paid	(157.0)	-	(47.8)	47.8	**(109.2)**
Net loans received	55.5	-	-	-	**55.5**
Cash inflow from equity financing	-	-	-	-	**-**
Net cash generated from financing activities	**(101.5)**	**-**	**(47.8)**	**47.8**	**(53.7)**
(Decrease)/increase in net cash	**(466.0)**	**-**	**8.7**	**(8.7)**	**(474.7)**

Explanation of reconciling items:

- the cash flow has been prepared to align with the regulatory reporting format. As a result the net cash position by activity (operating, investing and financing) does not agree to what has been presented in the AR&FS;
- the difference is due to the classification of all interest related balances including amounts capitalised in the AR&FS to the 'Net interest paid' category; and
- remaining reconciling differences relate to the separate classification of grants and contributions, which are included within changes in working capital in the AR&FS.

Regulatory financial reporting

1E. Net debt analysis

As at 31 March 2017

	Interest rate risk profile			
	Fixed rate	**Floating rate**	**Index-linked**	**Total**
	£m	**£m**	**£m**	**£m**
Borrowings (excluding preference share capital)	(5,238.0)	(76.4)	(5,517.4)	**(10,831.8)**
Preference share capital				**-**
Total borrowings				**(10,831.8)**
Cash				**46.4**
Short term deposits				**1.0**
Net debt				**(10,784.4)**
Gearing				**83.31%**
Adjusted gearing				**81.50%**
Full year equivalent nominal interest cost	(267.1)	(1.1)	(215.3)	**(483.5)**
Full year equivalent cash interest payment	(267.1)	(1.1)	(82.8)	**(351.0)**
Indicative interest rates				
Indicative weighted average nominal interest rate	5.10%	1.50%	3.90%	**4.46%**
Indicative weighted average cash interest rate	5.10%	1.50%	1.50%	**3.24%**
Weighted average years to maturity	13.9	1.9	23.7	**18.4**

Note: Adjusted gearing represents gearing on a covenant basis – this excludes certain balances owed to Kemble Group companies from net debt.

Accounting policies

Accounting policies for historical cost and current cost accounts

Basis of preparation

In accordance with Condition F of the Instrument of Appointment, these regulatory accounts have been prepared in order to show separately, in respect of the appointed business, non-appointed business and total business, an income statement, a statement of financial position, a statement of comprehensive income and a statement of cash flows on the going concern basis, under the historical cost convention, as modified by the revaluation of certain financial assets and liabilities at fair value.

The policies applied in these regulatory accounts are based on IFRS, IAS and IFRIC interpretations issued and effective and ratified by the European Union as of 29 June 2017, the date that the Board of Directors approved the statements, except for:

- revenue recognition (IAS 18);
- grants and contributions (IFRIC 18); and
- capitalisation of borrowing costs (IAS 23).

These exceptions result from compliance with RAGs 3.09 and 4.06 and any subsequent information notices published by Ofwat and relating to the year ended 31 March 2017.

Price control segments

The regulatory accounts have been prepared in accordance with RAG 2.06 for classification of costs across the price controls.

On 1 April 2015 the Company completed the internal reorganisation of its business to the current structure, representing individual operating companies ("OpCo") supported by a shared central corporate services unit, aligned with the regulatory environment in which the Company operates and Ofwat's price controls, which are as follows:

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

Basis of attribution and allocation

Financial information within the Company's finance system ("SAP") is recorded by expenditure type within specific cost centres. Where possible, costs are attributed at the lowest level within the cost centre hierarchy i.e. the relevant process level appropriate to the type of cost and accounting separation unit. However, certain costs are recorded at a higher level in the cost centre hierarchy where they do not specifically relate to a process or if the cost is a support related cost.

The cost centre hierarchy represents the management reporting and responsibility framework of the business, based on the OpCo structure.

In 2015 Thames Water implemented Anaplan, a cloud based business modelling and planning application as a tool with which to produce the operating expenditure component of our APR. SAP remains the primary financial accounting and management tool used by the business and is the source of the data used in Anaplan.

Methodology

The Company has produced an Accounting Methodology statement in respect of total expenditure. This separate statement has been published and is available on the Thames Water website at www.thameswater.co.uk/methodologystatement

This methodology statement details the assumptions used in the allocation of costs into the relevant price control and upstream service units in accordance with RAG 4.06, and also includes a summary of the Company's capitalisation policy. Where possible, capital expenditure and associated depreciation are directly attributed to one of the price controls. Where this is not possible, as an asset is used by more than one of the price controls, the capital expenditure and depreciation are reported in the price control where the service of principal use occurs with a recharge being made to the other price controls reflecting the proportion of the asset used by them.

Revenue recognition

Revenue represents the fair value of the consideration received or receivable in the ordinary course of business, excluding value added tax and trade discounts, for goods and services provided which are recognised in accordance with IAS18 *Revenue*. Revenue is recognised at the time of delivery of the service. Should the Company consider that the criteria for full revenue recognition are not met at the time of a transaction, recognition of the associated revenue would be deferred until such time as the criteria have subsequently been met. Under IAS18, bad debt on bills raised in the year, which are considered uncollectable based on historic experience, is recognised as a deduction to revenue to ensure revenue is recorded at fair value. For regulatory reporting purposes, Ofwat require a deviation from IAS18 whereby revenue for amounts billed and deemed uncollectable is recognised within revenue in the APR. The difference between the amount recorded as revenue in the statutory accounts and the amount recorded as revenue in the regulatory accounts was £46.5m for the year ended 31 March 2017.

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

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

Revenue includes amounts billed to wastewater customers in respect of construction costs for the Thames Tideway Tunnel. Under specific arrangements with BTL, the Company (in its capacity as principal) is responsible for the billing and collection of cash. The Company passes the associated cash on to BTL within 50 working days after the month end in which the cash is collected. The cost of any bad debt is borne by BTL. Accounting standards require the Company to present the amounts billed as revenue in our financial statements, and with no associated costs this also gives rise to reporting profit which is taxable. The cash collected is not retained by the Company and accordingly the revenue and resulting profit on this arrangement has been disclosed separately in the Company's financial statements, and is excluded from our key performance indicators in line with covenant requirements. As a result of this arrangement with no cash retained, a prepayment is created and recorded by the company as BTL will transfer the tunnel to us once construction is complete under a finance lease arrangement.

Interest income is accrued on a time basis by reference to the principal outstanding and the Effective Interest Rate ("EIR") applicable. The EIR is the rate that exactly discounts the estimated future cash payments or receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is presented within finance income in the income statement.

Charging policy

Water and sewerage charges fall into the following three categories:

1) charges which are payable in full;
2) charges which are payable in part; and
3) not chargeable (void properties).

The circumstances in which each of the above applies are set out below. All of the charges covered in parts 1 and 2 are included in turnover.

1) Charges payable in full

Charges are payable in full in the following circumstances:

a) Occupied and furnished

Water (and sewerage) charges are payable in full from the date of connection or change of customer on all properties which are recorded as occupied and furnished.

b) Unoccupied and furnished

Water (and sewerage) charges are payable in full on unoccupied, furnished premises. These include properties:

- left with bedding, a desk or other furniture;
- used for multiple occupation with shared facilities;
- used as holiday, student, hostel or other accommodation; and
- used for short-term occupation or letting where the occupation or term of tenancy is less than 6 months.

Exceptions to this, where water (and sewerage) charges are not payable, include where the customer is:

- in a care home;
- in long-term hospitalisation;
- in prison;
- overseas long-term; or
- in the event of the death of the customer.

c) Unoccupied and unfurnished

Water (and sewerage) charges are payable in full on unoccupied, unfurnished premises where water is being consumed. This includes:

- premises where renovation, redecoration or building work is being undertaken;
- premises being used as storage;
- premises not normally regarded as being occupied such as cattle troughs and car parks; and
- non-household agricultural properties.

2) Charges payable in part

The following charges are payable only in certain circumstances:

a) Metered standing charges
Charges are payable on unoccupied, metered properties which are still connected

b) Surface water charges
Charges are payable on unmeasured properties which are temporarily disconnected

c) Sewerage unmeasured tariff
Charges are payable on unmeasured, occupied properties where the water supply is disconnected but sewerage is still provided

d) Surface water and highway drainage
Charges are payable on furnished properties where the water supply is disconnected.

3) Not chargeable

Properties which are unoccupied, unfurnished and disconnected are not chargeable for water and sewerage, therefore no billing is raised and no turnover recognised in respect of these properties.

Occupied properties policy

An occupier is any person who owns a premises or who has agreed with the Company to pay water and sewerage services in respect of the premises. No bills are raised in the name of “the occupier”, other than in the circumstances outlined in the ‘Unoccupied properties policy’ section below. The property management process is followed to identify whether the property is occupied or not.

The property management process consists of the following:

- physical inspections;
- mailings;
- customer contacts;
- meter reading for metered properties; and
- land registry checks.

When a new customer is identified they are required to provide documentary evidence to establish the date that they became responsible for water and sewerage charges at the property. This is normally the date on which they moved into the property. The new customer is charged retrospectively from the date at which they became responsible for water and sewerage charges of the premises.

Unoccupied properties policy

A property is deemed to be unoccupied when the company has completed the property management process and not identified the property as occupied. To be classified as unoccupied a property must meet at least one of the following criteria:

- a new property has been connected but is empty and unfurnished;
- the Company has been informed that the customer has left the property; it is unfurnished and not expected to be reoccupied immediately;
- it has been disconnected following a customer request;
- the identity of the customer is unknown; or
- the Company has been informed that the customer is in a care home, in long term hospitalisation, in prison or overseas long term.

The Company only raises bills in the name of the "occupier" when it has evidence that an unmeasured property is occupied but cannot confirm the name of the occupier. When the Company identifies the occupants the bill is cancelled and re-billed in the customer's name. If the Company has not identified an occupant within 6 months the bill is cancelled and the property is classified as empty.

The Company has a process for dealing with empty properties. When a property is classified as empty, a defined process is followed to verify when the property becomes occupied and/or obtain the name of the customer in order to initiate billing. The empty property process comprises a number of steps which include using external and internal information for desk-top research to confirm the property status (occupied/empty) and, where possible, to identify the occupier name.

Where this is unavailable the Company also undertakes physical visits to a property to confirm whether the property is empty or occupied, and if possible confirm the name of the occupier. If the occupier name is not obtained at point of physical visit the property will remain classified as empty and a subsequent review is re-started after one to six months. If these steps confirm that a property appears to be empty then the supply may be turned off.

The property will only cease to be classified as empty when a named customer is identified and billed. The Company does not recognise income in respect of empty properties. If the Company has turned off the supply of water at the mains to a property at a customer's request then water supply charges are not payable.

A customer may request the supply to be turned off in instances such as the property is to be demolished or where a house previously converted into flats (and additional supplies made) is to be converted back into a house.

New properties

All new properties are metered. Charges accrue from the date at which the meter is installed. The developer is billed between the date of connection and first occupancy and this is recognised as turnover. If the developer is no longer responsible for the property and no new occupier has been identified, the property management process referred to above is followed to identify the new occupier. Until the new occupier has been identified the property is treated as unoccupied and is not billed.

Disconnections policy

Premises listed in Schedule 4A of the Water Industry Act 1991 (e.g. any dwelling occupied by a person as his or her only or principal home) cannot be disconnected for non-payment of charges. However, the following provisions do apply in respect of any disconnections:

- if the water supply to any premises is disconnected for any reason, but we continue to provide sewerage services to those premises, the customer will be charged the appropriate Sewerage Unmeasured Tariff unless it can be demonstrated that the premises will be unoccupied for the period that the premises are disconnected, in which case there is no charge. Revenue is recognised for sewerage services up to the point we are aware the property becomes unoccupied.
- if it is found subsequently that the premises were occupied for any period when we were advised that the premises would be unoccupied, the appropriate Sewerage Unmeasured Tariff will then apply to that period, appropriate retrospective bills are raised and revenue recognised at that point.
- in the event that we suspect that a property is occupied but we have no record of the occupier, we take steps to establish the identity of the occupier in order that billing can commence and revenue be recognised. Occupier is defined to include any person who owns premises as set out in the 'Occupied properties policy' above and also any person who has agreed with us to pay water supply and/or sewerage charges in respect of any premises (e.g. a Bulk Meter Agreement).

Retrospective review of measured income accrual

Appointed turnover for the year ended 31 March 2016 included a measured income accrual of £169.3, split £57.4m and £111.8m non-household and household respectively. The value of billing subsequently recognised in the year ended 31 March 2017, for consumption in the prior year was £161.8m. This has resulted in a decrease in the current year's turnover due to the over-estimation of the prior year's measured income accrual as detailed below:

Metered accrual at 31 March 2016	**£m**
Base accrual	168.3
Less billing estimate	(4.9)
	163.4
Additional accruals	
- Sales max accrual	3.9
- New accounts accrual	1.0
- Additional new accounts accrual re. internal metering	0.6
- Accrual for PWQ150 cancellations currently under investigation	0.4
Total metered accrual at 31 March 2016	**169.3**

Subsequent "unwind" of accrual	**£m**
Subsequent billing: matched & unwound	154.1
Still in base accrual and not unwound	2.9
Additional subsequent billing, including property movements	4.8
Comparative subsequent billing and accrual still carried forward	**161.8**
Net Overwind	**(7.5)**

Capitalisation policy

Property, plant and equipment

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

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

In the statutory accounts, borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the associated asset. All other borrowing costs are included as finance expenses within the income statement. For regulatory reporting purposes borrowing costs may not be capitalised. The regulatory approach, which differs from IAS23 results in £76.3m being recognised in interest expense in the regulatory accounts for 2016/17. This amount has been capitalised in the statutory accounts.

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

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

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

The estimated useful economic lives are as follows and refer to non-current assets disclosed in note 11 in the AR&FS:

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

Grants and contributions

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

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

Under IFRIC 18 Transfers of Assets from Customers, all customer and developer contributions previously deducted from the cost of associated network assets under UK GAAP have been reclassified to deferred income. These will be released as other operating income in the income statement as the associated performance obligations are fulfilled. Service connection charges made in accordance with sections 45 and 107 of the Water Industry Act 1991 are immediately recognised in the income statement as no continuing obligation exists once a connection to the network has been made. For the purposes of the regulatory accounts the grants and contributions Table 2E is prepared on a cash basis. A reconciliation between the cash basis and accounting disclosure can be seen in the Statement of Financial Position disclosures directly below Table 2E.

Non-current intangible assets

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

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

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

	Years
Development expenditure	3-25
Software	5-10

Investment in subsidiaries

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

Assets held for sale

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

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

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

Inventories and current intangible assets

Inventories are stated at the lower of cost and net realisable value ("NRV"). Costs comprise direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Inventory is assessed for obsolescence on an item-by-item basis and when determined to be obsolete is written off immediately to the income statement.

Purchased carbon emission allowances (relating to the emission of carbon dioxide in the UK) are recorded as current intangible assets, stated at cost, less accumulated depreciation and any provision for impairment. A provision is simultaneously recorded in respect of the obligation to deliver emission allowances in the period in which the emissions are made and the associated charge is recognised as an operating expense within the income statement.

Leased assets

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

All other leases are classified as operating leases. Payments made under operating leases are recognised in the income statement on a straight line basis over the term of the lease. Lease incentives and premiums received are recognised in the income statement as an integral part of the total lease expense and are released to the income statement on a straight line basis over the term of the lease. Leases of land are ordinarily treated as operating leases, unless ownership is transferred to the Company at the end of the lease.

On completion of construction of the Thames Tideway Tunnel, substantially all the risks and rewards of ownership will lie with the Company. The Company will therefore account for the transaction arrangement with BTL post construction as a finance lease. The tunnel will be recognised as an asset within PP&E and depreciated over the life of the lease. On inception of the lease, the tunnel will be recognised at fair value, being the prepayment plus the present value of the minimum lease payments, with a corresponding liability being recognised as a finance lease payable. Interest will be recognised in the income statement over the period of the lease.

Provisions for liabilities and charges

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

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

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

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

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

Risks, opportunities and innovation ("ROI") funds

The Company has entered into certain alliance arrangements with a number of third parties. The alliance agreements include incentive mechanisms which result in the alliance partners sharing in any over or underspend on contracted works. Remuneration for services provided under the contract is also linked to the Company's performance commitments. During the year ended 31 March 2017 there were three alliances responsible for delivering works over AMP6.

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

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

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

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

ROI amounts linked to an ODI/SIM penalty or reward are recognised in the income statement at the point the penalty has been incurred or reward has been achieved.

Discontinued operations

Components of the Company will be classified as a discontinued operation if that component has either been disposed of, or is classified as held for sale. A component comprises operations that can be clearly distinguished, operationally and for financial reporting purposes, from the rest of the Company. A component will only be classified as discontinued if: it represents a separate major line of business, or geographical area; or is part of a single co-ordinated plan to dispose of a separate major line of business.

Transfer of non-household retail customers to Castle Water

Following our decision in July 2016 to exit from the competitive non-household retail market from the date of market opening (1 April 2017), the Company entered an agreement to transfer its non-household customers to Castle Water from the date of market opening. The Company continues to recognise wholesale revenue from these customers. The non-household retail component does not represent a material portion of the activities of the Company and accordingly it is not presented as a discontinued operation.

Retirement and other employment benefits

Defined benefit schemes

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

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

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

Changes in the retirement benefit obligation may arise from:

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

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

Defined contribution schemes

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

Long-term incentive plans ("LTIP") and bonus

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

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

During the year, the Company opened 'Share in Your Success 2016'. This follows the successful launch of 'Share in Your Success 2015' which enrolled employees in the financial year ended 31 March 2016. Both schemes are open to all employees. Employees are able to contribute between £20 and £250 per month from their salary into a savings account over a three year period. At the end of the three years, the employee is then entitled to all of the cash they have sacrificed during that period, plus interest that has accrued on that balance, and a 'bonus' element paid by the Company of up to 35% of the amount invested. If an employee is to leave the Company within the three year period, then they are entitled to the amount they have invested up until the point of departure, including the interest due in that period.

Non-derivative financial instruments

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

Trade and other receivables

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

Included within trade receivables is an assessment of the recoverability of debts which will ultimately be cancelled, and may or may not be rebilled, and of debts which have not yet been billed but are part of the metered sales accrual. This assessment is made by reference to the Company's historical collection experience, including comparisons of the relative age of the individual balance and consideration of the actual write-off history. The provisioning rates applied in the calculation are reviewed on an annual basis to reflect the latest historical collection performance data and management's expectation of future performance and industry trends. A provision is also made against debts due from Water Only Companies ("WOCs") who bill their customers for sewerage services provided by the Company. As detailed information about the debt, including the ageing, is unavailable, the level of provision is calculated with reference to the level of historical, current and forecast write-offs.

Included within prepayments are amounts paid and payable to BTL which represent a prepayment for the use of the Thames Tideway Tunnel once the project is complete.

Trade and other payables

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

Trade and other payables include amounts owed to BTL. Amounts owed to BTL represent revenue collected for the construction of the Thames Tideway Tunnel but which have not yet been paid at the reporting date.

Cash and cash equivalents

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

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

Included within cash are amounts collected in relation to BTL revenue which have not yet been paid across to BTL at the reporting date.

Interest bearing borrowings

Interest bearing borrowings are financial liabilities recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition these are stated at amortised cost using the effective interest method. The amortisation is included within finance costs in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing borrowing with substantially different terms is accounted for as an extinguishment of the original financial liability and the recognition of new financial liability. If an exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. If the exchange or modification is not accounted for as an extinguishment, any costs or fees incurred adjust the carrying amount of the financial liability and are amortised over the remaining term of the modified financial liability.

Interest bearing loans issued to other group companies

Interest bearing loans issued to other group companies are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition of the financial asset. They are subsequently measured at amortised cost using the effective interest rate method, less any provision for impairment. The amortisation is included within finance income in the income statement and is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate. An exchange or modification of interest bearing loans issued to other group companies with substantially different terms is accounted for as de-recognition of the original financial asset and the recognition of new financial asset. If an exchange of loan or modification of terms is accounted for as de-recognition, any costs or fees incurred are recognised as part of the gain or loss on the de-recognition. If the exchange or modification is not accounted for as de-recognition, any costs or fees incurred adjust the carrying amount of the financial asset and are amortised over the remaining term of the modified financial asset.

Derivative financial instruments and hedging

Derivatives are used to manage exposure to movements in interest rates, foreign exchange rates and inflation. A financial instrument is classified as derivative if:

- its value changes in response to the change in a specified interest rate, foreign exchange rate or index of prices or rates;
- it requires no initial net investment or an initial net investment that is smaller than the underlying principal; and
- it is settled at a future date.

Derivative financial instruments not designated as hedging instruments

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

Derivative financial instruments designated as hedging instruments

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

- the relationship between the hedging instrument and the hedged item;
- its risk management objectives and strategy for undertaking the hedge transaction; and

- the results of tests to determine whether the hedging instrument is expected to be highly effective in offsetting changes in cash flows or fair values (as applicable) of the hedged item.

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

Cash flow hedges

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

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

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

Embedded derivatives

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

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

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

Regulatory fair value measurement

The Company measures financial instruments, such as derivatives, at fair value at each financial reporting date. Fair value is the price that would be received in selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value reflects the non-performance risk. There are certain reclassifications for financial instruments, between the statutory accounts and the regulatory accounts per Ofwat guidance; these are shown in the borrowings and financial instruments reconciliations shown on page 32.

De-recognition of financial instruments

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

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

Offsetting financial instruments

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

Financial guarantees

The Company is part of a whole business securitisation group. Companies in the whole business securitisation group raise debt in external debt markets through the issuance of secured bonds and the issue of loans. Thames Water Utilities Holdings Limited, Thames Water Utilities Limited, Thames Water Utilities Finance Limited, Thames Water Utilities Cayman Finance Holdings Limited and Thames Water Utilities Cayman Finance Limited have guaranteed the principal and interest payments due under the terms of the bonds. Where the Company enters into financial guarantee contracts to guarantee the indebtedness of other companies within this group, the

Company considers these to be insurance arrangements and accounts for them as such. In this respect, the Company treats the guarantee contract as a contingent liability until such a time as it becomes probable that the Company will be required to make a payment under the guarantee.

Foreign currency

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

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

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

Dividends

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

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

Impairment excluding inventories and deferred tax assets

Financial assets (including receivables)

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

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

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

Non-financial assets

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

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

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

An impairment loss is recognised if the carrying amount of an asset or its cash generating unit exceeds its estimated recoverable amount. Impairment losses are recognised in the income statement. Impairment losses recognised in prior periods are assessed at each financial reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Taxation

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

Current tax

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

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

Deferred tax

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

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

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

Current tax reconciliation

Tax charged in the income statement

	Statutory £m	Non-appointed £m	**Appointed activities £m**
UK Corporation tax charge	(8.6)	(3.4)	**(5.2)**
Deferred tax credit/(charge)	76.7	0.2	**76.5**
Tax credit/(charge) on profit on ordinary activities	**68.1**	**(3.2)**	**71.3**

The Company is not currently in a tax paying position with HMRC (although it does pay for group relief), primarily due to capital allowances on capital expenditure, tax deductions for borrowing costs and group relief which has arisen on interest expenses in holding companies. The tax charge for the year ended 31 March 2017 is lower (2016: lower) than the standard rate of corporation tax in the UK. The differences between profit on ordinary activities before taxation at the standard tax rate and the current tax charge for the year are set out overleaf.

Tax charged in the income statement (continued)

	Total £m	Non-appointed £m	Appointed activities £m
Profit/(loss) on ordinary activities before taxation as per statutory accounts	71.1	51.0	**20.1**
Differences between statutory and regulatory definitions - mainly capitalised interest	(74.0)	-	**(74.0)**
(Loss)/profit on ordinary activities before taxation for regulatory purposes	(2.9)	51.0	**(53.9)**
Tax (credit)/charge at 20%	(0.6)	10.2	**(10.8)**
	-	-	**-**
Effects of:	-	-	**-**
Depreciation on assets that do not qualify for relief	4.0	-	**4.0**
Disallowable expenditure[1]	2.0	-	**2.0**
Non-taxable income[2]	(5.2)	-	**(5.2)**
Property disposals[3]	(0.1)	-	**(0.1)**
Capital allowances for the year in excess of depreciation	(8.9)	0.1	**(9.0)**
Capitalised borrowing costs allowable for tax	(15.3)	-	**(15.3)**
Timing differences - financial derivatives[4]	35.2	-	**35.2**
Pension cost charge in excess of pension contributions	(6.3)	-	**(6.3)**
Other short term timing differences	6.3	-	**6.3**
Group relief not paid at standard rate[5]	(17.3)	(6.9)	**(10.4)**
Differences between statutory and regulatory definitions - mainly capitalised interest	14.8	-	**14.8**
	8.6	3.4	**5.2**
Adjustments to tax charge in respect of prior periods - group relief	-	-	**-**
Total current tax charge	**8.6**	**3.4**	**5.2**

[1] Disallowable expenditure primarily relates to fines included in operating expenses.

[2] Non-taxable income relates to income from new service connections. This income is reflected in the accounts as non-taxable income under IFRS principles; however, such income is ultimately taxed through capital allowances.

[3] Tax chargeable on gains arising on property disposals is lower than the accounting profits recognised for these disposals because of additional deductions available for tax purposes.

[4] Accounting fair value profits and losses arising on our derivatives are non-taxable and non-deductible respectively, as instead they are taxed as the cash flows arise. Deferred tax is provided on these temporary differences.

[5] The Company has decided to utilise tax losses available in its parent Company for the year ended 31 March 2017. As a result, the Company has reduced its claims for tax relief on its capital expenditure in the year. This tax relief is deferred to later periods and as a result, a deferred tax credit of £23.4m is included in the current year deferred tax charge. The Company will pay £8.6m to its parent Company for the tax losses, which is shown in the income statement as a current year current tax charge. The Company is paying for the tax losses at a rate which is lower than the standard rate of corporation tax, which reflects the value of the tax losses to the Company. This results in a reduction of the current tax charge of £17.3m. Utilising tax losses in this way should ultimately benefit customers through lower tax funding in future regulatory settlements.

Reconciliation to total current tax charge allowed in price limits

	Appointed activities £m
Current tax charge allowed in price limits	**-**
Charge in respect of group relief for the year	**5.2**
Charge in respect of group relief for prior years	**-**
Tax charge on profit on ordinary activities	**5.2**

The tax charge arises in respect of group relief payable on profits of the appointed business, which arise because the Company has reduced its claims for tax relief on its capital expenditure in the year, as explained in footnote 5 above. Amounts are payable to the Company's parent company.

Additional information on the Company's tax position, including deferred tax, is included in the Company's AR&FS, which can be found at www.thameswater.co.uk/annualreport2016/17

Price review and other segmental reporting

2A. Segmental income statement

For the year ended 31 March 2017

	Retail		Water			Waste				
	HH*	NHH*	Water Resources	Water network+	Water total	Waste-water network+	Sludge	Waste-water total	TTT	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Revenue - price control	167.4	30.3		819.7	**819.7**	954.9		**954.9**	50.8	**2,023.1**
Revenue - non price control	-	-		16.3	**16.3**	5.6		**5.6**	-	**21.9**
Operating expenditure	(161.6)	(34.8)	(60.2)	(332.7)	**(392.9)**	(348.9)	(75.0)	**(423.9)**	-	**(1,013.2)**
Depreciation – tangible fixed assets	(0.7)	-	(131.2)	(95.3)	**(226.5)**	(212.9)	(43.6)	**(256.5)**	(0.7)	**(484.4)**
Amortisation – intangible fixed assets	(1.1)	(3.1)	(0.8)	(10.5)	**(11.3)**	(11.8)	(0.8)	**(12.6)**	-	**(28.1)**
Other operating income	-	-	-	5.6	**5.6**	0.5	-	**0.5**	-	**6.1**
Operating profit before recharges	**4.0**	**(7.6)**			**210.9**			**268.0**	**50.1**	**525.4**
Recharges from other segments	-	-	(0.4)	(1.6)	**(2.0)**	-	-	**-**	-	**(2.0)**
Recharges to other segments	-	-	-	-	**-**	1.5	0.5	**2.0**	-	**2.0**
Operating profit	**4.0**	**(7.6)**			**208.9**			**270.0**	**50.1**	**525.4**
Surface water drainage rebates										**1.5**

*HH = Household, NHH = Non-household

The £0.7m operating cost relating to TTT is depreciation charge for the year ended 31 March 2017.

Note: the loss making postion of the non-household segment reflects a write off of costs incurred to date for the non-household element of the new billing system and other costs incurred in relation to the exit from the non-household market.

Price review and other segmental reporting

2B. Totex analysis – wholesale water & wastewater

For the year ended 31 March 2017

	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	TTT £m	Total £m
Operating expenditure						
Power	11.4	40.0	60.6	(6.6)	-	**105.4**
Income treated as negative expenditure	-	(0.3)	-	(10.4)	-	**(10.7)**
Service charges / discharge consents	13.1	-	4.7	-	-	**17.8**
Bulk supply / Bulk discharge	2.2	0.3	2.2	0.1	-	**4.8**
Other operating expenditure	28.6	239.6	249.6	84.7	-	**602.5**
Local authority and cumulo rates	2.8	52.4	31.5	7.1	-	**93.8**
Total operating expenditure excluding third party services	**58.1**	**332.0**	**348.6**	**74.9**	**-**	**813.6**
Third party services	2.1	0.7	0.3	0.1	-	**3.2**
Total operating expenditure	**60.2**	**332.7**	**348.9**	**75.0**	**-**	**816.8**
Capital expenditure						
Maintaining the long term capability of the assets - infra	8.3	130.3	55.5	-	-	**194.1**
Maintaining the long term capability of the assets - non-infra	8.1	152.2	163.9	117.6	-	**441.8**
Other capital expenditure - infra	-	70.2	47.1	-	66.0	**183.3**
Other capital expenditure - non-infra	13.3	84.1	117.3	(3.9)	15.6	**226.4**
Total gross capital expenditure (excluding third party)	**29.7**	**436.8**	**383.8**	**113.7**	**81.6**	**1045.6**
Third party services	-	-	0.7	-	-	**0.7**
Total gross capital expenditure	**29.7**	**436.8**	**384.5**	**113.7**	**81.6**	**1,046.3**
Grants and contributions (price control)	-	51.6	30.3	-	-	81.9
Totex	**89.9**	**717.9**	**703.1**	**188.7**	**81.6**	**1,781.2**
Cash expenditure						
Pension deficit recovery payments	2.4	17.0	13.8	4.0	-	**37.2**
Other cash items	-	-	-	-	-	**-**
Totex including cash items	**92.3**	**734.9**	**716.9**	**192.7**	**81.6**	**1,818.4**

Note: pension deficit recovery payments show cash expenditure made during the year in respect of 2015/16 and 2016/17.

Price review and other segmental reporting

2C. Operating cost analysis – retail

For the year ended 31 March 2017

	Household £m	Non-household £m	Total £m
Operating expenditure			
Customer services	52.8	6.2	**59.0**
Debt management	19.1	2.5	**21.6**
Doubtful debts	47.8	4.0	**51.8**
Meter reading	9.7	3.9	**13.6**
Services to developers	-	0.9	**0.9**
Other operating expenditure	32.2	17.3	**49.5**
Total operating expenditure excluding third party services	161.6	34.8	**196.4**
Third party services operating expenditure	-	-	**-**
Total operating expenditure	161.6	34.8	**196.4**
Depreciation – tangible fixed assets	0.7	-	**0.7**
Amortisation – intangible fixed assets	1.1	3.1	**4.2**
Total operating costs	**163.4**	**37.9**	**201.3**
Debt written off	57.7	9.8	**67.5**

Price review and other segmental reporting

2D. Historic cost analysis of tangible fixed assets – wholesale water, wholesale waste & retail

As at 31 March 2017

	Wholesale					Retail		
	Water Resources £m	Water Network+ £m	Wastewater Network+ £m	Sludge £m	TTT £m	HH* £m	NHH* £m	Total £m
Cost								
At 1 April 2016	2,207.7	6,329.1	7,204.4	946.2	992.6	81.3	4.8	**17,766.1**
Disposals	-	(5.2)	(2.3)	-	-	-	-	**(7.5)**
Additions	27.0	420.7	350.0	102.8	81.8	4.4	-	**986.7**
Assets adopted at nil cost	-	6.8	48.7	-	-	-	-	**55.5**
At 31 March 2017	**2,234.7**	**6,751.4**	**7,600.8**	**1,049.0**	**1,074.4**	**85.7**	**4.8**	**18,800.8**
Depreciation								
At 1 April 2016	(1,633.0)	(753.3)	(1,515.6)	(544.8)	(0.9)	(50.4)	(0.1)	**(4,498.1)**
Disposals	-	3.0	2.1	-	-	-	-	**5.1**
Charge for year	(131.2)	(95.3)	(212.9)	(43.6)	(0.7)	(0.7)	-	**(484.4)**
At 31 March 2017	**(1,764.2)**	**(845.6)**	**(1,726.4)**	**(588.4)**	**(1.6)**	**(51.1)**	**(0.1)**	**(4,977.4)**
Net book value at 31 March 2017	**470.5**	**5,905.8**	**5,874.4**	**460.6**	**1,072.8**	**34.6**	**4.7**	**13,823.4**
Net book value at 1 April 2016	**574.7**	**5,575.8**	**5,688.8**	**401.4**	**991.7**	**30.9**	**4.7**	**13,268.0**
Depreciation charge for the year								
Principal services	(131.2)	(95.3)	(212.9)	(43.6)	(0.7)	(0.7)	-	**(484.4)**
Third party services	-	-	-	-	-	-	-	**-**
Total	**(131.2)**	**(95.3)**	**(212.9)**	**(43.6)**	**(0.7)**	**(0.7)**	**-**	**(484.4)**

*HH = Household, NHH = Non-household

The net book value includes £2,088.1m in respect of assets in the course of construction. Intangible assets have not been included in this fixed asset disclosure. The opening gross book value of intangibles under IFRS at the beginning of the year was £168.9m, with additions of £97.6m. Amortisation of £103.1m brought forward and a charge in the year of £25.0m. The result is a closing net book value for the year ended 31 March 2017 of £138.4m. This balance is reflected in table 1C 'Intangible Assets'.

Price review and other segmental reporting

2E. Analysis of capital contributions and land sales - wholesale

For the year ended 31 March 2017

	Fully recognised in income statement £m	Capitalised and amortised (in income statement) £m	Fully netted off capex £m	Total £m
Grants and contributions - water				
Connection charges (s45)	25.5	-	-	**25.5**
Infrastructure charge receipts (s146)	-	14.7	-	**14.7**
Requisitioned mains (s43, s55 & s56)	1.8	-	-	**1.8**
Diversions (s185)	8.6	-	-	**8.6**
Other Contributions	0.6	0.5	-	**1.1**
Total	**36.5**	**15.2**	**-**	**51.7**
Value of adopted assets		6.8		**6.8**
Grants and contributions - wastewater				
Infrastructure charge receipts (s146)	-	21.2	-	**21.2**
Requisitioned sewers (s100)	2.6	-	-	**2.6**
Diversions (s185)	3.4	-	-	**3.4**
Other Contributions	2.9	0.3	-	**3.2**
Total	**8.9**	**21.5**	**-**	**30.4**
Value of adopted assets		45.2		**45.2**
Grants and contributions - TTT				
Infrastructure charge receipts (s146)	-	-	-	**-**
Requisitioned sewers (s100)	-	-	-	**-**
Diversions (s185)	-	-	-	**-**
Other Contributions	-	-	-	**-**
Total	**-**	**-**	**-**	**-**
Value of adopted assets		-		**-**

	Water £m	Wastewater £m	TTT £m	Total £m
Movements in capitalised grants & contributions				
At 1 April 2016	131.4	193.0	-	**324.4**
Capitalised in year	19.5	66.6	-	**86.1**
Amortisation (in income statement)	(6.5)	(8.9)	-	**(15.4)**
At 31 March 2017	**144.4**	**250.7**	**-**	**395.1**
Land sales				
Proceeds from disposals of protected land	6.0	0.7	-	**6.7**

Note: Water value of adopted assets includes £2.6m that has been fully recognised in the income statement.

Price review and other segmental reporting

2F. Household – revenue by customer type

For the year ended 31 March 2017

	Wholesale charges revenue	Retail revenue	Total revenue	Number of customers	Average household retail revenue per customer
	£m	£m	£m	000s	£
Unmeasured water only customer*	6.4	0.4	**6.8**	26.0	**15.8**
Unmeasured wastewater customer only	159.3	17.5	**176.8**	916.4	**19.1**
Unmeasured water & wastewater customer	763.7	70.4	**834.1**	2,150.4	**32.7**
Measured water only customer**	4.9	0.4	**5.3**	21.5	**20.3**
Measured wastewater only customer	140.5	24.5	**165.0**	1,004.7	**24.4**
Measured water & wastewater customer	354.6	54.2	**408.8**	1,269.8	**42.6**
Total	**1,429.4**	**167.4**	**1,596.8**	**5,388.8**	**31.1**

Note: Number of customers relates specifically to the number of properties that are charged at a specific tariff band rate. Average household retail revenue per customer is calculated by dividing retail revenue from the second column by the number of customers.
*There are 25,984 customers in this tariff band with retail revenue of £410,897, resulting in an average retail revenue per customer of £15.8.
**There are 21,485 customers in this tariff band with retail revenue of £436,151, resulting in an average retail revenue per customer of £20.3.

Price review and other segmental reporting

2G. Non-household water – revenue by tariff type

For the year ended 31 March 2017

	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average NHH retail revenue per connection
	£m	£m	£m	000s	£
Default tariffs					
TB 1: Water - metered - 0-500m3	24.3	4.0	**28.3**	120.2	**33.4**
TB 2: Water - metered - 500-1000m3	12.5	1.1	**13.6**	14.2	**79.6**
TB 3: Water - metered - 1000-5000m3	50.5	2.9	**53.4**	19.5	**149.5**
TB 4: Water - metered - 5000-20000m3	46.6	1.8	**48.4**	4.1	**435.6**
TB 5: Water - metered - 20000-50000m3	23.7	0.8	**24.5**	0.7	**1,174.5**
TB 6: Water - metered - 50000-250000m3	26.4	0.9	**27.3**	0.4	**2,092.9**
TB 7: Water - metered - over 250000m3	8.6	0.3	**8.9**	0.1	**5,020.0**
TB 22: Water - business assessed - 0-500m3	5.1	1.0	**6.1**	24.7	**39.0**
TB 23: Water - business assessed - 500-1000m3	1.1	0.1	**1.2**	0.8	**98.4**
TB 24: Water - business assessed - 1000-5000m3	2.5	0.1	**2.6**	0.9	**160.7**
TB 25: Water - business assessed - 5000-20000m3*	0.5	-	**0.5**	-	**542.9**
TB 30: Water Unmetered**	2.2	-	**2.2**	10.4	**1.5**
Total default tariffs	204.0	13.0	**217.0**	196.0	**66.2**
Non-Default tariffs					
Total non-default tariffs	-	-	**-**	-	**-**
Total	**204.0**	**13.0**	**216.9**	**196.0**	**66.2**

	Number of customers	Average NHH retail revenue per customer
Revenue per customer	000s	£
Total	**196.0**	**66.2**

Note: Number of connections relates specifically to the number of properties that are charged at a specific tariff band rate. Average NHH (non-household) retail revenue per connection is calculated by dividing retail revenue by the number of connections (both before rounding).
*There are 35 connections in this tariff band with retail revenue of £19,000 resulting in an average retail revenue per connection of £542.9.
**There are 10,424 connections in this tariff bank with retail revenue of £16,000 resulting in an average retail revenue per connection of £1.5.

Price review and other segmental reporting

2H. Non-household wastewater – revenue by tariff type

For the year ended 31 March 2017

	Wholesale charges revenue	Retail revenue	Total revenue	Number of connections	Average NHH retail revenue per connection
	£m	£m	£m	000s	£
Default tariffs					
TB 8: Meter volume band 0-500m3	36.2	7.1	**43.3**	166.8	**42.5**
TB 9 : Meter volume band 500-1000m3	12.3	1.5	**13.8**	19.1	**76.6**
TB 10: Meter volume band 1000-5000m3	43.7	3.3	**47.0**	25.5	**130.6**
TB 11: Meter volume band 5000-20,000m3	33.9	1.7	**35.6**	4.9	**345.0**
TB 12: Meter volume band 20,000-50,000m3	15.8	0.6	**16.4**	0.7	**912.2**
TB 13: Meter volume band 50,000-250,000m2	9.8	0.4	**10.2**	0.2	**1,887.9**
TB 14: Meter volume band above 250,000m3	8.9	0.3	**9.2**	0.2	**1,663.3**
TB 15: Trade effluent - metered - 0-500m3*	0.1	-	**0.1**	0.9	**25.5**
TB 16: Trade effluent - metered - 500m3 -1000m3	0.4	0.1	**0.5**	0.5	**197.8**
TB 17: Trade effluent - metered - 1000m3 -5000m3	1.4	0.1	**1.5**	1.1	**103.6**
TB 18: Trade effluent - metered - 5000m3 -20000m3	3.2	0.2	**3.4**	0.5	**534.5**
TB 19: Trade effluent - metered - 20000m3 - 50000m3	3.1	0.1	**3.2**	0.1	**460.9**
TB 20: Trade effluent - metered - 50000m3 - 250000m3	6.5	0.1	**6.6**	0.1	**1,319.4**
TB 21: Trade effluent - metered - over 250000m3**	3.2	0.1	**3.3**	-	**4,142.9**
TB 26 : Wastewater - business assessed - 0-500m3	5.2	1.2	**6.4**	26.4	**44.8**
TB 27: Wastewater - business assessed - 500-1000m3	0.7	0.1	**0.8**	0.8	**107.1**
TB28: Wastewater - business assessed - 1000-5000m3	1.6	0.2	**1.8**	1.3	**109.4**
TB 29: Wastewater - business assessed - 5000-20000m3***	0.4	-	**0.4**	-	**400.0**
TB 31: Wastewater Unmetered	5.6	0.2	**5.8**	19.4	**12.5**
Total default tariffs	**192.0**	**17.3**	**209.3**	**268.5**	**64.5**
Non-Default tariffs					
Total non-default tariffs	-	-	-	-	-
Total	**192.0**	**17.3**	**209.3**	**268.5**	**64.5**
				Number of customers	**Average NHH retail revenue per customer**
Revenue per customer				**000s**	**£**
Total				**268.5**	**64.5**

Note: Number of connections relates specifically to the number of properties that are charged at a specific tariff band rate. Average NHH (non-household) retail revenue per connection is calculated by dividing retail revenue by the number of connections (both before rounding).
*There are 862 connections in this tariff band with retail revenue of £22,000 resulting in an average retail revenue per connection of £25.5.
**There are 14 connections in this tariff band with retail revenue of £58,000 resulting in an average retail revenue per connection of £4,142.9.
***There are 45 connections in this tariff band with retail revenue of £18,000 resulting in an average retail revenue per connection of £400.0 as disclosed above.

Price review and other segmental reporting

2I. Revenue analysis and wholesale control reconciliation

For the year ended 31 March 2017

	Household £m	Non-household £m	Total £m
Wholesale charge – water			
Unmeasured	427.5	11.4	**438.9**
Measured	188.3	192.5	**380.8**
Third party revenue	-	-	**-**
Wholesale charge – wastewater			
Unmeasured	476.5	12.9	**489.4**
Measured	296.0	169.5	**465.5**
Third party revenue	-	-	**-**
Wholesale Total (exc. TTT)	**1,388.3**	**386.3**	**1,774.6**
Wholesale charge – TTT			
Unmeasured	25.3	0.7	**26.0**
Measured	15.8	9.0	**24.8**
Third party revenue	-	-	**-**
Wholesale Total (inc. TTT)	**1,429.4**	**396.0**	**1,825.4**
Retail revenue			
Unmeasured	88.3	2.9	**91.2**
Measured	79.1	27.4	**106.5**
Other third party revenue	-	-	**-**
Retail Total	**167.4**	**30.3**	**197.7**
Third party revenue - non-price control			
Bulk supplies – water			**3.5**
Bulk supplies – waste			**1.5**
Other third party revenue			**16.8**
Principal services - non-price control			
Other appointed revenue			**0.1**
Total appointee revenue			**2,045.0**

	Water £m	Wastewater £m	TTT £m	Total £m
Wholesale revenue governed by price control	819.7	954.9	50.8	**1,825.4**
Grants and contributions	41.9	23.8	-	**65.7**
Total revenue governed by wholesale price control	861.6	978.7	50.8	**1,891.1**
Amount assumed in wholesale determination	864.0	978.2	50.8	**1,893.0**
Adjustment for in-period ODI revenue	-	-	-	**-**
Adjustment for WRFIM	-	-	-	**-**
Total assumed revenue	864.0	978.2	50.8	**1,893.0**
Difference	(2.4)	0.5	-	**(1.9)**

Explanation of revenue variance to the Final Determination:

Actual revenue governed by the wholesale price controls in total was £1.9m (0.1%) lower than allowed in the final determination.

At the service level wholesale water revenue was £2.4m (0.3%) lower than allowed in the price control; a combination of higher capital contributions from connection and infrastructure charge revenue and lower than forecast revenue from customers. The lower revenue from customers related to a mix of factors including lower property numbers and data cleanse activities undertaken to improve the accuracy and robustness of the household billing database.

Wholesale wastewater revenue (including the Company's delivered element of the Thames Tideway Tunnel) was £0.5m (0.0%) higher than allowed in the price control; a combination of higher than forecast capital contributions from connection and infrastructure charges revenue and lower than forecast revenue from customers. The lower revenue from customers related to a mix of factors including lower property numbers and data cleanse activities undertaken to improve the accuracy and robustness of the household billing database.

The variance between actual revenue and allowed revenue in the wholesale water and wastewater price controls will be adjusted through the Wholesale Revenue Forecasting Incentive Mechanism (WRFIM) when 2018/19 wholesale prices are set.

Performance summary

3A. Outcome performance table

For the year ended 31 March 2017

For Table 3A please refer to pages 22-24.

Performance summary

3B. Sub-measure performance table

For the year ended 31 March 2017

PC/sub-measure ID	PC / sub-measure	Unit	2015-16 performance level - actual	2016-17 performance level - actual	2016-17 CPL* met?
00	**WB1: Asset health water infrastructure**	category	Marginal	**Marginal**	**No**
01	Total bursts	nr	6926	**8326**	**Yes**
02	Unplanned interruptions to customer >12 hours (DG3)	nr	15151	**6051**	**No**
03	Iron mean zonal non-compliance	%	0.18	**0.09**	**Yes**
04	Inadequate pressure (DG2)	nr	0	**5**	**Yes**
05	Planned network rehabilitation (kilometres)	nr	66.455	**103.28**	**-**
06	Customer complaints discolouration white water (nr per 1,000 population)	nr	0.205	**0.17**	**Yes**
00	**WB2: Asset health water non-infrastructure**	category	Stable	**Stable**	**Yes**
01	Disinfection index (DWI)	%	99.9768	**99.99**	**Yes**
02	Reservoir integrity index	%	0	**0**	**Yes**
03	DWQ compliance measures - turbidity (number of sites)	nr	0	**0**	**Yes**
04	Process control index	%	99.9957	**100**	**Yes**
05	DWQ compliance measures - enforcement actions	nr	0	**0**	**Yes**
06	Water quality complaints for chlorine (nr per 1,000 population)	nr	0.082	**0.06**	**Yes**
07	Water quality complaints for hardness (nr per 1,000 population)	nr	0.004	**0.01**	**-**
00	**SB1: Asset health wastewater non-infrastructure**	category	Stable	**Stable**	**Yes**
01	Unconsented pollution incidents (cat 1, 2 and 3) STWs, storm tanks, pumping stations and other	nr	25	**34**	**Yes**
02	Sewage treatment works discharges failing numeric consents %	%	0.867	**1.72**	**No**
03	Total population equivalent served by sewage treatment works failing look-up table consents	%	0	**0**	**Yes**
00	**SB2: Asset health wastewater infrastructure**	category	Stable	**Stable**	**Yes**
01	Number of sewer collapses	nr	471	**632**	**Yes**
02	Number of sewer blockages	nr	84677	**80747**	**Yes**
03	Pollution incidents (cat 1-3)	nr	178	**243**	**No**
04	Properties internally flooded	nr	1227	**1106**	**No**

*CPL = Committed performance level.

Performance summary

3C. AIM table

For the year ended 31 March 2017

Abstraction sites	2016/17 AIM performance [Ml]	2016/17 normalised AIM performance	Cumulative AIM performance 2016/17 [Ml]	Cumulative normalised AIM performance 2016/17	Contextual information relating to AIM performance
RIVER LEE AT NEW GAUGE PUMPING STATION (London WRZ)	-	-	-	-	AIM trigger was not reached during 2016/17
PANGBOURNE (Kennet Valley WRZ)	-	-	-	-	AIM trigger was not reached during 2016/17
AXFORD PUMPING STATION (SWOX WRZ)	-	-	-	-	Axford has been subject to a sustainability reduction that came into force in April 2017. The scheme required a new pipeline to be built between Farmoor and Swindon to provide an alternative source for Axford. The pipeline was not completed until March 2017 and therefore AIM was not active at Axford until the pipeline had been completed.
PANN MILL PUMPING STATION (Slough/Wycombe/ Aylesbury WRZ)	-	-	-	-	AIM trigger was not reached during 2016/17
NORTH ORPINGTON PS (London WRZ)	-	-	-	-	AIM trigger was not reached during 2016/17
Total	**-**	**-**	**-**	**-**	

Performance summary

3D. SIM table

For the year ended 31 March 2017

Line description	Units	Score
Qualitative performance		
1st survey score	score	4.01
2nd survey score	score	4.15
3rd survey score	score	4.16
4th survey score	score	4.18
Qualitative SIM score (out of 75)	score	58.56
Quantitative performance		
Quantitative composite score	score	125.89
Quantitative SIM score (out of 25)	calc	18.71
SIM score		
Total annual SIM score (out of 100)	calc	77.27

Additional regulatory information

4A. Non-financial information

For the year ended 31 March 2017

	Unmeasured	Measured
Retail – household		
Number of void households ('000s)	92.5	70.9
Per capita consumption (excluding supply pipe leakage) l/h/d	159.0	123.7

	Water	Wastewater
Wholesale		
Volume (Ml/d)		
Bulk supply export	93.4	10.5
Bulk supply import	0.2	5.1
Distribution input	2,641.4	

Additional regulatory information

4B. Wholesale totex analysis

For the year ended 31 March 2017

	Current year			Cumulative		
	Water	Wastewater	TTT	Water	Wastewater	TTT
	£m	£m	£m	£m	£m	£m
Actual totex	**827.2**	**909.5**	**81.7**	**1,545.7**	**1,826.6**	**205.3**
Less: Items excluded from the menu						
Third party costs	2.8	6.6	-	6.0	7.2	-
Pension deficit recovery costs	19.4	17.7	-	19.5	17.7	-
Other 'rule book' adjustments	-	10.5	5.9	-	22.3	29.5
Total costs excluded from the menu	**22.2**	**34.8**	**5.9**	**25.5**	**47.2**	**29.5**
Add: Transition expenditure						
Transition expenditure	-	-	-	26.2	54.6	-
Adjusted actual totex	**805.0**	**874.7**	**75.8**	**1,546.4**	**1,834.0**	**175.8**
Adjusted actual totex - base year prices	**743.3**	**807.7**	**70.0**	**1,442.5**	**1,712.4**	**164.3**
Allowed totex based on final menu choice - base year prices	668.4	788.3	62.6	1,296.2	1,636.3	219.8
Cumulative over/(under)spend	74.9	19.4	7.4	146.3	76.1	(55.5)

Note: We have amended the cumulative total of items excluded from the menu to reflect more accurate interpretation of RAG guidance in relation to third party costs and other rule book adjustments; other rule book adjustments primarily relate to amounts payable in respect of fines and penalties which are not passed on to customers. The impact of these revisions is an increase to items excluded from the menu of £2.4m for Water and £7.1m for Wastewater.
The cumulative actual totex for Water and Wastewater also includes revisions to the 2015/16 actual totex for the fair value of adopted assets; The impact of these revisions is a decrease to cumulative actual totex of £1.5m for Water and £7.2m for Wastewater.

Water: Our water business has finished the second year of AMP6 with a higher spend profile than what has been allowed in the Final Determination (FD). The cumulative £146.3m spend over the FD is primarily attributable to:

- Higher spend on network related activities. These activities include spend on resources to find and fix leaks, reduce the level of interruptions to supply and enhance customer service. They also include the cost of repairing leaks in customers' properties, enhance our network assets and installing smart meters;
- We recognise that despite the significant increased spend we missed our leakage target in 2016/17 and are working hard to improve the effective planning and delivery of this work; and

Waste: Our waste business has finished the second year of AMP6 with a higher spend profile than what has been allowed in the final determination (FD). The additional cumulative spend of £76.1m is primarily attributable to:

- Increased spend in Capital maintenance, including:
  - Increased maintenance spend across our sites and network;
  - Higher spend on Thermal Hydrolysis Plants maintenance;
  - Additional customer service related expenses, including Sewer Flooding Other Cause (SFOC); and
- Additional spend related to programme scope changes.

TTT: Cumulative totex is £55.5m lower than what has been allowed in the final determination (FD) primarily due to savings to date in the Development and Delivery phases of the project, combined with timing of land related transactions.

Additional regulatory information

4C. Impact of AMP performance to date on RCV

For the year ended 31 March 2017

	Water	Wastewater	TTT	Total
RCV determined at FD	5,378.9	6,315.2	1,250.4	12,944.5
RCV element of cumulative totex over/(underspend) so far in the price control period	68.4	52.3	(80.9)	39.8
Adjustment for ODI rewards or penalties	-	-	-	-
Projected 'shadow' RCV	**5,447.3**	**6,367.5**	**1,169.5**	**12,984.3**

Note: the ODI rewards and penalties incurred until 31 March 2017 will have an impact on revenue in the next price review, rather than an RCV adjustment, so are not included in the table above. Further information over our performance can be seen in Table 3A as well as in the first section of this APR.

The RCV element of the totex over/(underspend) is a calculated value which reflects the difference between the allowed and actual totex, multiplied by the average AMP6 slow money %. In line with the definition for this row, the allowed totex reflects all totex (including costs excluded from the menu) except the pension deficit repair. The actual totex is calculated on the same basis, includes transition expenditure, and is net of all grants and contributions (apart from assets adopted at nil cost).

Our understanding of the PR14 rulebook is that costs outside the totex menu (other than TTT land costs) will not lead to an RCV adjustment. Calculating the RCV element of the totex over/(underspend), excluding such costs outside the menu, generates an RCV adjustment of £28.6m, rather than the £39.8m shown in the table above.

Additional regulatory information

4D. Totex analysis – wholesale water

For the year ended 31 March 2017

	Water resources		Network+				
	Abstraction licences	Raw water abstraction	Raw water transport	Raw water storage	Water treatment	Treated water distribution	Total
	£m	£m	£m	£m	£m	£m	£m
Operating expenditure							
Power	-	11.4	0.4	-	9.6	30.0	**51.4**
Income treated as negative expenditure	-	-	-	-	(0.2)	(0.1)	**(0.3)**
Abstraction charges	13.1	-	-	-	-	-	**13.1**
Bulk supply	-	2.2	-	-	-	0.3	**2.5**
Other operating expenditure	0.7	27.9	2.7	-	48.9	188.0	**268.2**
Local authority and cumulo rates	-	2.8	4.0	-	8.9	39.5	**55.2**
Total operating expenditure excluding third party services	**13.8**	**44.3**	**7.1**	**-**	**67.2**	**257.7**	**390.1**
Third party services	-	2.1	-	-	-	0.7	**2.8**
Total operating expenditure	**13.8**	**46.4**	**7.1**	**-**	**67.2**	**258.4**	**392.9**
Capital expenditure							
Maintaining the long term capability of the assets - infra	-	8.3	5.8	-	-	124.5	**138.6**
Maintaining the long term capability of the assets - non-infra	-	8.1	0.2	-	61.1	90.9	**160.3**
Other capital expenditure - infra	-	-	2.8	-	-	67.4	**70.2**
Other capital expenditure - non-infra	-	13.3	0.5	-	6.4	77.2	**97.4**
Total gross capital expenditure (excluding third party)	**-**	**29.7**	**9.3**	**-**	**67.5**	**360.0**	**466.5**
Third party services	-	-	-	-	-	-	**-**
Total gross capital expenditure	**-**	**29.7**	**9.3**	**-**	**67.5**	**360.0**	**466.5**
Grants and contributions	-	-	-	-	-	51.6	**51.6**
Totex	**13.8**	**76.1**	**16.4**	**-**	**134.7**	**566.8**	**807.8**
Cash expenditure							
Pension deficit recovery payment	-	2.4	0.2	0.1	4.3	12.4	**19.4**
Other cash items	-	-	-	-	-	-	**-**
Totex including cash items	**13.8**	**78.5**	**16.6**	**0.1**	**139.0**	**579.2**	**827.2**

Unit cost information	Licenced volume available	Volume abstracted	Volume transported	Average volume stored	Distribution input volume	Distribution input volume
	Ml	Ml	Ml	Ml	Ml	Ml
Volume	1,553,664.0	1,038,999.8	85,348.6	-	977,125.4	964,093.4
Unit cost (£/Ml)	8.9	44.7	83.2	-	68.8	268.0
Population	9,883.0	9,883.0	9,883.0	9,883.0	9,883.0	9,883.0
Unit cost (£/pop)	1.4	4.7	0.7	-	6.8	26.1

Additional regulatory information

4E. Totex analysis – wholesale wastewater

For the year ended 31 March 2017

	Network + Sewage collection			Network + Sewage treatment		Sludge			
	Foul	Surface water drainage	Highway drainage	Sewage treatment and disposal	Imported sludge liquor treatment	Sludge transport	Sludge treatment	Sludge disposal	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating expenditure									
Power	6.4	2.0	1.2	51.0	-	-	(6.6)	-	**54.0**
Income treated as negative expenditure	-	-	-	-	-	-	(9.6)	(0.8)	**(10.4)**
Discharge consents	-	-	-	4.7	-	-	-	-	**4.7**
Bulk discharge	-	-	-	2.2	-	-	0.1	-	**2.3**
Other operating expenditure	99.5	28.1	15.4	105.9	0.7	12.1	47.6	25.0	**334.3**
Local authority and cumulo rates	0.1	-	-	31.4	-	-	6.5	0.6	**38.6**
Total operating expenditure excluding third party services	**106.0**	**30.1**	**16.6**	**195.2**	**0.7**	**12.1**	**38.0**	**24.8**	**423.5**
Third party services	0.1	-	-	0.2	-	-	0.1	-	**0.4**
Total operating expenditure	**106.1**	**30.1**	**16.6**	**195.4**	**0.7**	**12.1**	**38.1**	**24.8**	**423.9**
Capital expenditure									
Maintaining the long term capability of the assets - infra	55.2	0.3	-	-	-	-	-	-	**55.5**
Maintaining the long term capability of the assets - non-infra	36.4	4.1	1.6	121.6	0.2	0.6	116.7	0.3	**281.5**
Other capital expenditure - infra	46.7	0.4	-	-	-	-	-	-	**47.1**
Other capital expenditure - non-infra	16.1	-	-	101.2	-	-	(3.8)	(0.1)	**113.4**
Total gross capital expenditure (excluding third party)	**154.4**	**4.8**	**1.6**	**222.8**	**0.2**	**0.6**	**112.9**	**0.2**	**497.4**
Third party services	0.7	-	-	-	-	-	-	-	**0.7**
Total gross capital expenditure	**155.1**	**4.8**	**1.6**	**222.8**	**0.2**	**0.6**	**112.9**	**0.2**	**498.2**
Grants and contributions	29.9	-	-	0.4	-	-	-	-	**30.3**
Totex	**231.3**	**34.9**	**18.2**	**418.6**	**0.9**	**12.7**	**151.0**	**25.0**	**891.8**
Cash expenditure									
Pension deficit recovery payments	4.7	1.2	0.6	7.2	0.1	0.3	3.5	0.1	**17.7**
Other cash items	-	-	-	-	-	-	-	-	**-**
Totex including cash items	**236.0**	**36.1**	**18.8**	**425.8**	**1.0**	**13.0**	**154.5**	**25.1**	**909.5**

Unit cost information	**Volume collected**	**Volume collected**	**Volume collected**	**BOD**	**BOD**	**Volume transported**	**Dried solid mass treated**	**Dried solid mass disposed**
	Ml	**Ml**	**Ml**	**Tonnes**	**Tonnes**	**m³**	**ttds**	**ttds**
Units	736,961.6	309,888.0	170,958.0	350,608.6	8,384.7	936,103.3	382.6	387.7
Unit cost (£)	143.9	97.3	97.2	557.2	86.9	13.0	99,256.6	64,120.4
Population	14,827.4	14,827.4	14,827.4	14,827.4	14,827.4	14,827.4	14,827.4	14,827.4
Unit cost (£/pop)	7.2	2.0	1.1	13.2	-	0.8	2.6	1.7

Additional regulatory information

4F. Operating cost analysis – household retail

For the year ended 31 March 2017

	Household unmeasured				Household measured				
	Water only	Waste-water only	Water and sewerage	Total	Water only	Waste-water only	Water and sewerage	Total	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Operating expenditure									
Customer services	0.3	6.0	22.4	**28.7**	0.3	6.7	17.0	**24.0**	**52.7**
Debt management	0.1	0.7	10.9	**11.7**	0.1	0.8	6.5	**7.4**	**19.1**
Doubtful debts	0.3	2.9	25.9	**29.1**	0.3	3.3	15.2	**18.8**	**47.9**
Meter reading	-	-	-	**-**	0.1	3.8	5.8	**9.7**	**9.7**
Other operating expenditure	0.2	4.6	13.9	**18.7**	0.1	5.0	8.4	**13.5**	**32.2**
Total operating expenditure excluding third party services	**0.9**	**14.2**	**73.1**	**88.2**	**0.9**	**19.6**	**52.9**	**73.4**	**161.6**
Third party services operating expenditure	-	-	-	**-**	-	-	-	**-**	**-**
Total operating expenditure	**0.9**	**14.2**	**73.1**	**88.2**	**0.9**	**19.6**	**52.9**	**73.4**	**161.6**
Depreciation – tangible fixed assets	-	-	0.4	**0.4**	-	-	0.3	**0.3**	**0.7**
Amortisation – intangible fixed assets	-	-	0.7	**0.7**	-	-	0.4	**0.4**	**1.1**
Total operating costs excluding third party services	**0.9**	**14.2**	**74.2**	**89.3**	**0.9**	**19.6**	**53.6**	**74.1**	**163.4**

Other operating expenditure includes the net retail expenditure for the following retail activities which are part funded by wholesale

Household	£m
Demand-side water efficiency - gross expenditure	**5.7**
Demand-side water efficiency - expenditure funded by wholesale	**(4.3)**
Demand-side water efficiency - net retail expenditure	**1.4**
Customer-side leak repairs - gross expenditure	**7.7**
Customer-side leak repairs - expenditure funded by wholesale	**(3.9)**
Customer-side leak repairs - net retail expenditure	**3.8**

Additional regulatory information

4G. Wholesale current cost financial performance

For the year ended 31 March 2017

	Water £m	Wastewater £m	TTT £m	Total £m
Revenue	836.0	960.5	50.8	**1,847.3**
Operating expenditure	(392.9)	(423.9)	-	**(816.8)**
Capital maintenance charges	(317.3)	(355.4)	(0.7)	**(673.4)**
Other operating income	5.6	0.5	-	**6.1**
Current cost operating profit	**131.4**	**181.7**	**50.1**	**363.2**
Other income	27.3	31.8	5.8	**64.9**
Interest income	39.7	46.3	8.5	**94.5**
Interest expense	(221.4)	(258.3)	(47.4)	**(527.1)**
Other interest expense	(2.6)	(3.0)	(0.5)	**(6.1)**
Current (loss)/profit before tax and fair value movements	**(25.6)**	**(1.5)**	**16.5**	**(10.6)**
Fair value loss on financial instruments	(86.3)	(100.7)	(18.5)	**(205.5)**
Current (loss)/profit before tax	**(111.9)**	**(102.2)**	**(2.0)**	**(216.1)**

Note: Other income, interest costs and fair value (losses) have been apportioned between Water, Waste and TTT using the RCV split as defined by the Final Determination shown in table 4C.

Additional regulatory information

4H. Financial metrics

For the year ended 31 March 2017

	Units	Metric
Financial indicators		
Net debt	£m	**10,784.418**
Regulated equity	£m	**2,159.971**
Regulated gearing	%	**83.31%**
Post tax return on regulated equity	%	**6.86%**
RORE (return on regulated equity)	%	**3.86%**
Dividend yield	%	**5.05%**
Retail profit margin – Household	%	**0.25%**
Retail profit margin – Non-household	%	**(1.79%)**
Credit rating	n/a	**Baa1**
Return on RCV	%	**4.73%**
Dividend cover	dec	**0.16**
Funds from operations (FFO)	£m	**711.551**
Interest cover (cash)	dec	**3.01**
Adjusted interest cover (cash)	dec	**1.44**
FFO/Debt	dec	**0.07**
Effective tax rate	%	**3.43%**
Free cash flow (RCF)	£m	**602.390**
RCF/capex	dec	**0.52**
Revenue and earnings		**2,022.984**
Revenue (actual)*	£m	**1,009.806**
EBITDA (actual)	£m	
Borrowings		
Proportion of borrowings which are fixed rate	%	**48.36%**
Proportion of borrowings which are floating rate	%	**0.71%**
Proportion of borrowings which are index linked	%	**50.94%**
Proportion of borrowings due within 1 year or less	%	**2.10%**
Proportion of borrowings due in more than 1 year but no more than 2 years	%	**1.90%**
Proportion of borrowings due in more than 2 years but no more than 5 years	%	**13.70%**
Proportion of borrowings due in more than 5 years but no more than 20 years	%	**39.90%**
Proportion of borrowings due in more than 20 years	%	**42.40%**

Note: Revenue (actual) and EBITDA (actual) relates to price control only and is calculated in line with Ofwat guidance. As the numbers are presented to 3 decimal places, there may be small rounding differences between the numbers stated above and the regulatory accounting tables.

RORE key drivers	**2015/16**	**2016/17**	**Cumulative RORE (simple arithmetic average)**
Base allowed return	5.60%	5.60%	5.60%
Totex	-0.73%	-1.65%	-1.19%
ODIs	-0.25%	-0.28%	-0.26%
Financing	-0.81%	0.22%	-0.29%
Actual RORE	3.81%	3.90%	3.86%

Note: Our 2015/16 APR calculated RORE at 4.10%. We have revised our 2015/16 RORE to 3.81% to reflect revised 2015/16 wholesale totex (see note to Table 4B), and also to reflect the latest Ofwat guidance for calculating RORE (using the headline tax rate rather than the Thames Water incremental tax rate, and more detailed guidance for calculating the financing outperformance).

Additional regulatory information

4I. Financial derivatives

As at 31 March 2017

	Nominal value by maturity (net)			Total value			Interest rate (weighted average for the year to 31 March 2017)	
	1 to 2 years	2 to 5 years	Over 5 years	Nominal value (net)	Mark to Market	Total accretion	Payable	Receivable
	£m	£m	£m	£m	£m	£m	%	%
Interest rate swap (sterling)								
Floating to floating rate	15.0	550.0	1,700.0	2,265.0	263.7	-	3.2	0.9
Floating from floating rate	-	500.0	-	500.0	(0.6)	-	0.3	0.8
Floating to index linked	-	-	20.0	20.0	2.5	0.5	3.6	3.0
Floating from index linked	-	-	-	-	-	-	-	-
Fixed to index-linked	-	-	1,123.7	1,123.7	305.5	197.6	3.9	5.2
Fixed from index-linked	-	-	-	-	-	-	-	-
Total	**15.0**	**1,050.0**	**2,843.7**	**3,908.7**	**571.1**	**198.1**	**11.0**	**9.9**
Foreign Exchange								
Cross currency swap USD	-	-	-	-	-	-	-	-
Cross currency swap EUR	-	-	-	-	-	-	-	-
Cross currency swap YEN	-	-	153.6	153.6	61.3	-	6.6	3.3
Cross currency swap Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**153.6**	**153.6**	**61.3**	**-**	**6.6**	**3.3**
Currency interest rate								
Currency interest rate swaps USD	-	-	-	-	-	-	-	-
Currency interest rate swaps EUR	-	-	-	-	-	-	-	-
Currency interest rate swaps YEN	-	-	-	-	-	-	-	-
Currency interest rate swaps Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Forward currency contracts								
Forward currency contracts USD	-	-	-	-	-	-	-	-
Forward currency contracts EUR	-	-	-	-	-	-	-	-
Forward currency contracts YEN	-	-	-	-	-	-	-	-
Cross Forward currency contracts Other	-	-	-	-	-	-	-	-
Total	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Other financial derivatives	-	-	-	-	-	-	-	-
Total financial derivatives	**15.0**	**1,050.0**	**2,997.3**	**4,062.3**	**632.4**	**198.1**	**17.6**	**13.2**

Supply of trade

Introduction

RAG 3.09 requires the Company to disclose transactions with associated companies in accordance with the guidance provided in RAG 5.06. The following disclosures comply with RAG 3.09.

During the year there were no contracts in excess of 0.5% (£10.1m) of the Company's appointed turnover with any subsidiary of the Kemble group[1] of companies.

The Company has chosen to disclose, voluntarily, all transactions with associated companies of Kemble Water Holdings Limited and any transactions with companies where Directors of the Company have interests in the companies listed in the Directors' interests table on page 74.

Services provided by the Company and recharged to the following associated companies

Service	Company	Turnover of associate in the period (£'000)	Terms of supply	Value (£'000)
Support services	Thames Water Limited	-	Actual cost	**1,606**
Support services	Thames Water Property Services Limited	327	Actual cost	**29**
Site sales and support services	Kennet Properties Limited	446	Other market testing	**33**
Support services	Thames Water Commercial Services Limited	4,369	Actual cost	**1,401**
				3,069

Services provided to the Company by the following associated companies

Service	Company	Turnover of associate in the period (£'000)	Terms of supply	Value (£'000)
Management support	Thames Water Limited	-	Actual cost	**82**
Group relief tax payable	Thames Water Utilities Holdings Limited	-	Actual cost	**8,600**
Property management	Thames Water Property Services Limited	327	Other market testing	**334**
Rechargeable work	Kennet Properties Limited	446	Other market testing	**8**
				9,024

Payments to companies in which Directors have interests

Service	Company	Terms of supply	Value (£'000)
Smart metering	Arqiva Limited	Negotiated	**22,531**
Subscription fees	Water UK*	Negotiated	**595**
Maps	Cranfield University	Negotiated	**125**
Conference & Membership Fees	The Institute of Water	Negotiated	**17**
Preparers' Levy	The Financial Reporting Council Ltd**	Mandatory fee	**8**
			23,276

In addition to the above, the Company paid Macquarie Infrastructure and Assets (Europe) Limited a sum of £3.6m for advisory fees in line with prior year. There are no longer any Thames Water Utilities Limited Directors, as at 31 March 2017, who are also Directors of Macquarie Infrastructure and Assets (Europe) Limited, however in the interest of transparency, we are disclosing this payment.

*Payments to Water UK are disclosed as M Baggs (CEO), who resigned 31/08/2016, was a director of Water UK during 2016/17.

**Payments to The FRC are disclosed as N Land (Director), who was appointed on 06/02/2017, sits on the FRC Board.

[1] The Kemble Group of companies refers to all those companies included within the Kemble Holdings Limited Group consolidation, of which Thames Water Utilities Limited is a member (see Group Structure on pages 75-76).

Directorships held in associated companies

The Company discloses the following information as part of its compliance with RAG 5.06, listing those Directors of the Company who are also directors of the following Group companies during the year ended 31 March 2017 and up to the date of signing the APR:

Director	Thames Water Utilities Limited	Thames Water Utilities Holdings Limited	Thames Water Limited	Kemble Water Finance Limited	Kemble Water Eurobond PLC	Kemble Water Holdings Limited	Thames Water Commercial Ventures Holdings Limited	Thames Water Commercial Ventures Finance Limited	Thames Water Procurement Limited
Executive Directors									
S J Robertson	A - 01/09/2016								
M Baggs	R - 31/08/2016						R - 31/08/2016	R - 31/08/2016	
S Siddall	R - 31/12/2016						R - 31/12/2016	R - 31/12/2016	R - 31/12/2016
N Fincham	A - 01/04/2016								
B Rennet	A - 16/03/2017						A - 01/04/2017	A - 01/04/2017	
Non-Executive Directors									
Sir P Mason KBE - Chairman	✓	✓	✓	✓	✓	✓			
N W Horler	✓								
C R Deacon	✓								
G Lambert	✓	✓	✓	✓	✓	✓			
D J Shah OBE	✓								
M Braithwaite	R - 31/05/2017	A - 30/08/2016, R - 31/05/2017							
K E Bradbury	A - 31/05/2017								
Independent Non-Executive Directors									
L I Baldry	✓								
Dame D Hutton	✓								
M J Pavia	R - 06/02/2017								
I P Pearson	✓								
N C E Land	A - 06/02/2017								
E C Richards	✓								

Key: R – resigned A – appointed

Thames Water Utilities Limited conducts its appointed business so as to ensure arm's length trading and avoidance of cross-subsidy in the spirit of Condition F of the Instrument of Appointment.

Borrowings

All borrowings from the Company's wholly owned subsidiaries are disclosed in Note 18 to the statutory financial statements on page 139 of the AR&FS.

Transfer of assets by or to the appointee

There were no transfers of assets or liabilities by or to the Company in excess of the materiality limit (2016: £nil).

Guarantees or other forms of security by the appointee

The Company, as part of the Whole Business Securitisation ('WBS') capital structure, guarantees unconditionally and irrevocably all the borrowings and derivatives of Thames Water Utilities Finance Limited and Thames Water Utilities Cayman Finance Limited as listed on page 121 of the AR&FS for the year ended 31 March 2017.

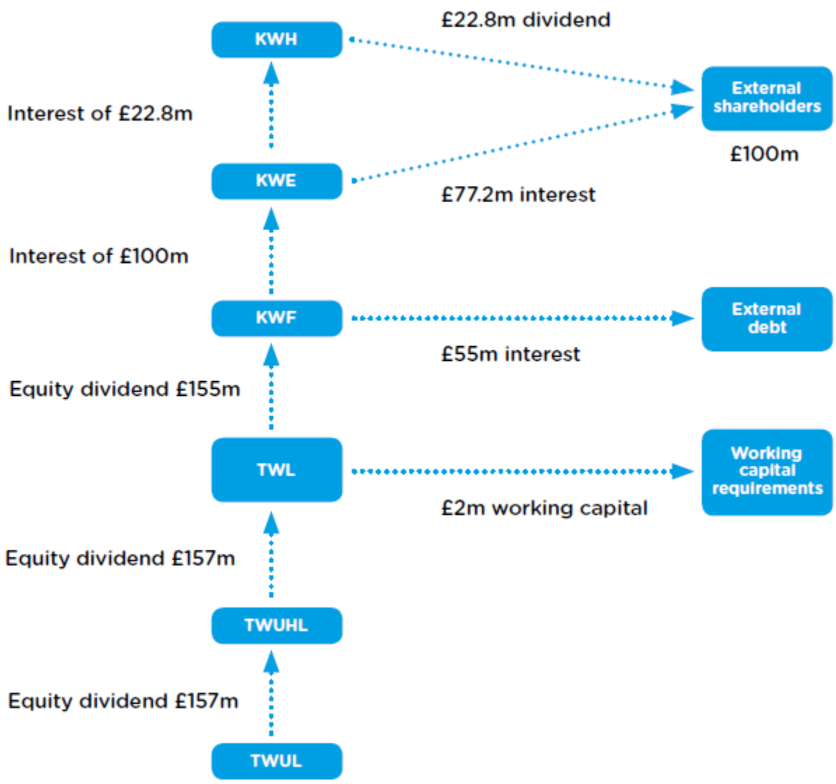
Omissions of rights

There were no omissions of rights during the year (2016: none).

Dividends paid to associated undertakings

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

During the year, the Company paid interim dividends of £157.0m (2016: £82.4m) to its immediate parent company, Thames Water Utilities Holding Limited. The dividends were utilized within the group as follows:



Our Group structure

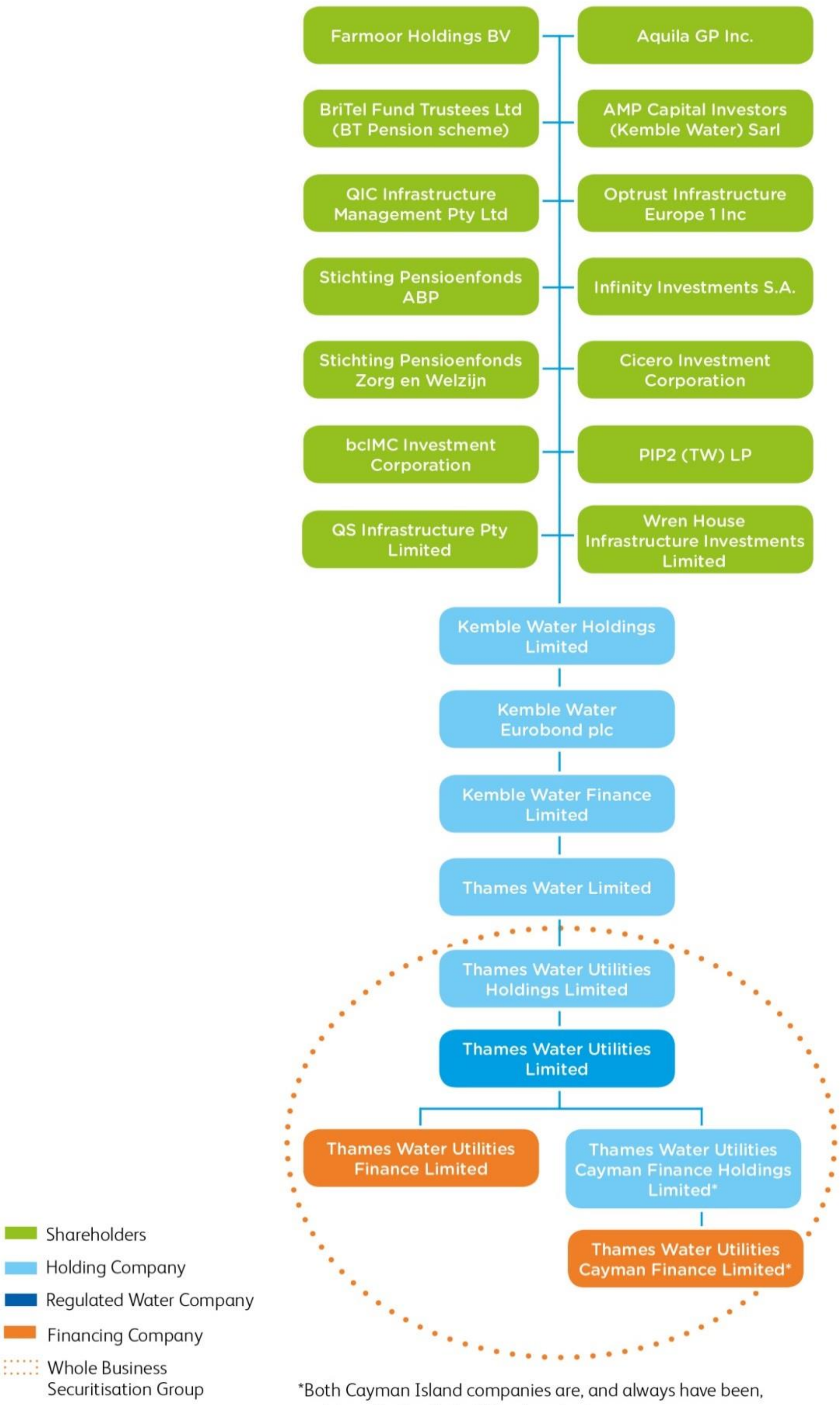
Strategic and operational oversight of the Company is led by the Company's Board. The Board's primary responsibility is to promote the long-term success of the Company for the benefit of its customers, employees, shareholders and other stakeholders.

Kemble Water Holdings ("KWH") Limited is considered to be the ultimate parent company. The primary activity of KWH is to act as a holding company in the Group. Approval of certain matters are specifically reserved for the Board of KWH, including approval of the annual budget, significant investment, material transactions such as major acquisitions and divestment and certain strategic decisions.

The Group structure chart overleaf sets out the ownership of Thames Water Utilities Limited and its subsidiaries.

Group Structure chart

The structure chart below sets out the ownership of Thames Water and those subsidiaries that connect Kemble Water Holdings Limited to the regulated company, Thames Water Utilities Limited:



*Both Cayman Island companies are, and always have been, registered in the United Kingdom for tax purposes.

Our shareholders

Shareholders	% holding
Borealis (Farmoor Holdings BV) Borealis Infrastructure provides investment advice and investment management services to the OMERS Adminstration Corporation (OAC) with respect to global infrastructure investment opportunities, in sectors including energy, transportation and government regulated services. OAC is the trustee and administrator of the OMERS primary pension plan (and trustee of the pension funds). OMERS primary pension plan is a large Canadian public employee pension plan regulated by the Financial Services Commission of Ontario in Canada.	17.543
Hermes (BT Pension Scheme) Hermes GPE is one of Europe's leading independent specialists in global private markets. It manages the asset on behalf of the BT Pension Scheme. Hermes GPE invests in and advises on infrastructure, private equity and credit products on behalf of its clients and is specialised in co-investments, primary fund and secondary investments.	13.060
Infinity Infinity Investments S.A is a subsidiary of the Abu Dhabi Investment Authority (ADIA). ADIA manages a global investment portfolio that is diversified across more than two dozen asset classes and sub-categories.	9.900
Wren House Wren House Infrastructure Management Limited, an English limited liability company, was set up in late 2013 as the global direct infrastructure investment vehicle of the Kuwait Investment Authority ("KIA"). The KIA is the sole shareholder of Wren House. Wren House has been assigned responsibility for building partnerships, sourcing and execution of transactions, as well as asset management. Wren House's strategy is targeting the creation of a long-term focused, sustainable infrastructure platform and Wren House seeks to do so through partnership investment models for sizeable transactions where large sums of capital can be deployed.	8.772
bcIMC bcIMC is one of Canada's largest institutional investors within the capital markets. It invests on behalf of public sector clients in British Columbia and its activities help finance the retirement benefits of more than 538,000 plan members, as well as the insurance and benefit funds that cover over 2.3 million workers in British Columbia.	8.706
Cicero Investment Corporation As a sovereign wealth fund, Cicero Investment Corporation is a vehicle to diversify China's foreign exchange holdings and seek maximum returns for its shareholder within acceptable risk tolerance.	8.688
AMP Capital AMP Capital is a large global investment manager headquartered in Sydney, Australia. It is part of the AMP Group, one of Australia's largest retail and corporate pension providers and its largest life insurance provider, with most assets originating from the aligned entity.	5.530
QIC QIC is a global diversified alternative investment firm offering infrastructure, real estate, private equity, liquid strategies and multi-asset investments. It is one of the largest institutional investment managers in Australia.	5.352
Aquila Aquila GP Inc.is a leading infrastructure management firm and a wholly owned subsidiary of Fiera Infrastructure Inc, a leading investor across all subsectors of the infrastructure asset class.	4.995
Stichting Pensioenfonds ABP Stichting Pensioenfonds ABP is a pension plan sponsor. The firm provides its services to employers and employees in the government and education sectors. It invests in the public equity markets.	4.344
Optrust OPTrust invests and manages one of Canada's largest pension funds and administers the OPSEU Pension Plan, a defined benefit plan with almost 90,000 members and retirees.	4.344
QSuper QSuper is a superannuation benefits fund. The firm provides its services to employees of Queensland Government departments, authorities, and enterprises. It invests in the public equity and fixed income markets of Australia and across the globe. QSuper is managed by QIC.	3.336
AIM (PIP2 (TW) LP) Alberta Investment Management Corporation ("AIM") is one of Canada's largest and most diversified institutional investment fund managers, with an investment portfolio of approximately $90 billion.	3.258
PGGM (Stichting Pensioenfonds Zorg en Welzijn) PGGM are a pension fund service provider and manage the pensions for different pension funds, the affiliated employers and their employees.	2.172

Directors' certificate under Condition F6A of the Company's Instrument of Appointment

This is to certify that at their meeting on 29 June 2017, the Directors of Thames Water Utilities Limited ("the Appointee") resolved that, in their opinion:

- the Appointee will have available to it sufficient financial resources and facilities to enable it to carry out, for at least the next 12 months, the Regulated Activities (including the investment programme necessary to fulfil the Appointee's obligations under the Licence of Appointment);
- the Appointee will, for at least the next 12 months, have available to it:
    a) management resources; and
    b) systems of planning and internal control;
- which are sufficient to enable it to carry out those functions as required by sub-paragraph 6A.1; and
- all contracts entered into with any associated company include all necessary provisions and requirements concerning the standard of service to be supplied to the Appointee, to ensure that it is able to meet all its obligations as a water and a sewerage undertaker.

The main factors the Directors have taken into account to ensure compliance with the Directors' Certificate under Condition F6A of the Company's Instrument of Appointment are:

- the availability of financial resources and facilities to enable the Appointee to meet its regulatory obligations, in particular:
    - the Company's available cash resources and borrowing facilities, which include significant, undrawn bank facilities and take into account the additional £97m investment that the appointee has committed to following the trunk mains burst incidents in 2016;
    - the preparation of the Company's statutory accounts on a going concern basis as disclosed in the AR&FS;
    - the Company's compliance with its financial covenants; and
    - the Company's investment grade ratings, as shown on page 38 of the Annual Report and Financial Statements ("AR&FS").
- the Company's People Strategy and People Plans which ensure that the appointee has access to personnel which will enable it to deliver its regulatory obligations;
- the Company's formal risk management process, which reviews, monitors and reports on the risks and mitigating controls, is operating effectively;
- the Company's performance in respect of its Performance Commitments;
- the Company's procurement arrangements, whereby all trading arrangements, including those with associates, must be appropriate for the appointee to meet its regulatory requirements; and
- additional consideration has been given to the impact of the missed leakage target and the trunk mains bursts and the remedial action that has been taken or is planned and how this is monitored on an ongoing basis.

B Rennet

Chief Financial Officer

29 June 2017

Risk and Compliance Statement 2016/17

Background and explanation

The purpose of the Risk and Compliance Statement ("Statement") is to demonstrate our compliance with relevant statutory, licence and regulatory obligations. This Statement also confirms we are taking appropriate steps to manage and/or mitigate our risks.

The statutory and regulatory obligations, ("Obligations") for which Ofwat is the relevant enforcement authority and against which we assess our compliance include:

- our Instrument of Appointment ("Licence");
- the Water Industry Act 1991;
- key pieces of legislation for which Ofwat is the relevant enforcement authority[2]; and
- environmental and corporate legislation which impacts on our activities.

This Statement applies to the period 1 April 2016 to 31 March 2017, unless otherwise stated.

Requirements of the Statement

In its guidance, Ofwat requires each company to confirm it has complied with all its relevant statutory, licence and regulatory obligations and is taking appropriate steps to manage and/or mitigate the risks it faces.

The Statements

The Thames Water Utilities Limited Board ("Board") considers that the Company has:

1. sufficient understanding of its regulatory, licence and statutory obligations;
2. taken steps to understand and meet customers' expectations;
3. sufficient processes and systems of internal control to enable it to deliver its services to customers and meet its regulatory, licence and statutory obligations;
4. maintains appropriate systems and processes to enable it to identify, manage and review its material risks; and
5. met all of its material obligations, subject to any departures from this statement as set out in section 5 below.

1. Our Regulatory and Statutory Obligations

Our approach to achieving compliance with our obligations is based on having a clear understanding of the regulatory, licence and statutory obligations that are relevant to a Water and Sewerage Undertaker.

These obligations are primarily set out in the Water Industry Act 1991 and our Licence. Our Licence also requires us to comply with other regulatory and statutory obligations to fully discharge our duties as a water and sewerage undertaker.

In order to meet and exceed these obligations we have established robust systems of internal control and governance as set out in section 3 below. Additionally, we have engaged external assurance providers to independently review the information contained in our Annual Performance Report ("APR") and confirm compliance with our reporting obligations to Ofwat.

A summary of our key reporting obligations is set out in the table below, further details of which can be found in this report:

Obligation source	Obligation description	APR page ref
Licence condition F6A	Confirmation that we have sufficient financial and management resources and systems of planning and internal controls for the next 12 months	F6A Certificate – page 78
Licence condition F6A	Confirmation that the Company has contracts with any associate company with necessary provisions and requirements concerning the standard of service to be supplied to ensure compliance with Company's obligations as a water and sewerage undertaker	F6A Certificate – page 78
Licence condition F6	Confirmation that trade with associates is at arm's length	Supply of trade disclosure - Page 73-75

[2] Ofwat states on its website (at http://www.ofwat.gov.uk/regulated-companies/company-obligations/ligislation/) that it considers these to be the key pieces of legislation with which water and sewerage companies must comply.

Licence condition F6A.6	Maintaining investment grade credit rating	F6A Certificate – page 78
Licence condition K (para 3.1)	Confirmation that there are sufficient rights and assets available to enable a special administrator to run the business	Page 27
Water Industry Act 1991 (section 35A)	Publication of a statement explaining links between Directors' pay and standards of performance (Remuneration Committee Report)	AR&FS page 72-85

2. Meeting customer expectations

We are continuing to reach out to our customers to ensure we understand what they require when they interact with us.

This enables us to create a better customer experience. During the year, we have introduced new initiatives to deliver improvements to our customer service.

Our website has recently been rebranded, making it more intuitive for our customers and easier to navigate. The changes include a new, friendlier layout and easy to follow links. Customers are able to leave feedback by completing web forms, as well as tell us how well we have dealt with their social media interactions, thereby increasing the number of channels available to customers to provide feedback. We are using Decibel, an analytical tool, which allows us to see how customers interact on our website and understand our sticking points. This gives us the opportunity to make future interactions easier and more relevant. Furthermore, we have extended our services on social media as customers utilise newer and quicker ways to communicate with us. We have introduced a tool called 'Brandwatch' which allows us to see the conversations our customers are having about us on social media, enabling us to understand what's important to our customers, thereby enabling us to positively intervene and improve customer experience accordingly. This is only the first phase of our improvement plan, which will continue during 2017/18.

We are always striving for maximum customer satisfaction. We have therefore extended the use of 'Rant & Rave' customer satisfaction surveys to cover new journeys and additional channels of contact, such as webchat and social media. We also plan to include more 'real-time' surveying. Many customers will now receive an SMS text from us within an hour of them contacting us to ask whether we are providing an effortless service and what we can do better. Requesting feedback right after interacting with customers ensures that they give an honest, 'in the moment' opinion, which in turn allows us to improve our service.

In addition to this, we have carried out more traditional customer research. Research was carried out with over 2,000 customers to understand what they expect from Thames Water when they interact with us through one of the six core customer journeys (no water, leaks, sewer flooding, blocked sewers, move home and bill queries).

While the insight we have gained has provided specific areas for us to focus on, the message is consistent from our customers on the things that matter to them and what we need to improve:

- make the contact easy so I only need to ask once;
- faster resolution that is done right, first time;
- keep me informed of progress and when it's resolved so I don't need to chase; and
- let me know in advance if something is going to affect me.

All of this valuable information and feedback is helping us to shape the way we serve our customers.

These are all just a small part of our wider 'Customer Experience Programme' which will deliver common capabilities across our Wholesale and Retail businesses. The programme itself has four core work streams:

1. operating model – the right structure, systems and people with clear vision to drive 'right first time' resolution and manage the end-to-end journeys for our customers;
2. channel strategy – to help customers to self-select the way they wish to interact with us and make it easier for them;
3. incident management – transforming our proactive capability with the flexibility to cope with peaks in demand and putting the customer at the heart of our response; and
4. insight – understanding and measuring our performance in the way that the customer experiences it to help us continually evolve.

The programme, which will be delivered over 24 months, will deliver key tools and capabilities that will enable us to provide a consistent and effortless experience for our customers.

3. Systems of Internal Control

We have key regulatory and statutory obligations in place and the systems of internal control that enable us to meet our obligations.

The key features of our processes and systems of internal control are:

- a defined operational and organisational structure;
- comprehensive business planning, and financial reporting procedures, including the preparation of detailed annual operational budgets for the year ahead and projections for subsequent years;
- a framework of corporate policies, supported by procedural documents, authorisations and approval guidelines that provide the necessary guidance to our employees and business partners as to how they should operate and conduct themselves when acting on behalf of the Company;
- a risk management framework that reports on the Company's risk profile, identifies risks to the delivery of our strategic business objectives, assesses the impact and likelihood of these risks should they materialise, and reports on mitigation actions to maintain these risks within acceptable levels;
- an annual audit programme that independently reviews the design and effectiveness of key controls that help mitigate risks to the delivery of our strategic business objectives, and reviews the effectiveness of the risk management process;
- an annual self-certification process that requires senior management to report on the effectiveness of internal controls in operation within their business area, identify opportunities for improvement and to propose and implement remedial action where required. A holistic view of the outcomes of this process provides a targeted and effective programme for improvement for the business overall;
- a governance model whereby our Board delegates responsibility for certain matters to a number of committees in line with best practice;
- reporting to the Audit Risk & Regulatory Committee ("ARRC") on the assurance arrangements for the reporting of regulatory information as required by Ofwat under its Company Monitoring Framework; and
- Board and Committee review of reports produced by internal and external auditors.

There are two issues that the Company has been in correspondence with Ofwat that require reporting:

Following eight trunk mains bursts in London between October and December 2016, we have engaged with Ofwat and conducted a forensic review to further understand why these events occurred, and in quick succession. We have already begun to implement recommendations raised in the review. In particular, we're committing an additional £97 million investment into our trunk main network over and above what was in our business plan for 2015 to 2020, to make sure that we deliver the service our customers expect from us. In addition, we are carrying out a separate, broader, deeper review of our entire network of trunk mains. This process will be completed in the summer of 2017 and will include specific recommendations that we will make available to customers and stakeholders. Further details of these incidents and the action we are taking are noted on page 18 and on our website at: www.thameswater.co.uk/trunkmainsreview

The reviews that have been undertaken have resulted in actions that have been notified to Ofwat and published on our website. The delivery and progress of these actions will be monitored by the Business Unit Leadership Team, the Executive Committee and the Board.

As a result of missing our leakage target for the first time in eleven years, we have mobilised a leakage recovery plan to get us back on track. We are engaging with Ofwat who have requested a deeper understanding of our internal systems, controls and processes, specifically around leakage.

4. Managing our risks

We have appropriate systems and processes in place which allow us to identify, manage and review our material risks.

The aim of our approach to risk management is not to eliminate risk completely from our business activities, but to ensure that every effort is made to manage risk appropriately to maximise potential opportunities and minimise the adverse effects of risk.

We have aligned our risk management approach to ISO 31000 and maintain regular engagement with our stakeholders, external support partners and peer companies to challenge our processes against best practice.

Our risk process is reinforced through regular performance management assessment which is subject to internal and external review to identify areas where we can further enhance our risk management activities, as well as provide us with an independent and impartial assessment on the effectiveness of the risk management framework.

Our Board has ultimate responsibility for effective risk management. This includes the determination of the nature and extent of the risks it is willing to take to achieve its strategic objectives, and to ensure that an appropriate culture is embedded throughout the organisation.

Key aspects of our risk management process are illustrated in the diagram below:

Our principal risks are aligned to our corporate strategy and business objectives. Based on our principal risk framework, our business areas identify risks that have the potential to adversely impact delivery and achievement of their objectives. We consider risks around our operational activities, compliance obligations, financial performance and our strategy. These risks are assessed against our defined impact and likelihood criteria; allowing us to determine how we will respond to any specific risk, and prioritise and target mitigation actions towards the things that really matter to us.

Management considers the adequacy of existing controls to manage risk as well as defining and monitoring action plans to further mitigate risks to acceptable levels.

We report on our risks at business and corporate levels, escalating where necessary, based on consideration of risk information as reported, reviewed and challenged by relevant oversight committees including our Risk, Opportunities and Controls Committee, our Executive Management team and our Audit, Risk & Regulatory Committee ("ARRC").

We monitor and challenge both our risks and our risk management processes through:

- monthly risk reporting to the Board that includes coverage of regulatory measures;
- oversight by our Regulatory Policy Group, with delegated authority from the Executive team, to look at both performance and risk;
- quarterly oversight by our Risk, Opportunity and Controls Committee, with delegated authority from the executive team, on risk and the risk management process; and
- quarterly oversight by the ARRC, with delegated authority from the Board, on risk including a schedule of deep dive risk reviews.

Furthermore, we provide assurance through the Audit and Assurance team, functional compliance teams and external review on the design and operating effectiveness of key controls.

We continue to maintain a risk management and assurance approach specifically targeted towards reporting on our regulatory performance. This approach incorporates The Statement of Risks, Strengths and Weaknesses and Assurance Plans that are driven by our customers' expectations. These are published annually on our website.

We report to our stakeholders on a regular basis setting out our risk management policies, the effectiveness in achieving our objectives, and evidence of effective management of the Company's principal risks. This is done primarily through the AR&FS (pages 42 to 50) where we publish our principal risks and uncertainties, and viability statement to set out the material risks we face, together with the mitigation steps we are taking.

5. Delivery of outcomes

For 2016/17, the Company has partly delivered against the outcomes established with customers and approved by Ofwat in the Final Determination of 2014. Where we have failed to deliver our outcomes in the year, a commentary has been provided on pages 12 to 21 of this Annual Performance Report.

Ofwat's expectation is that companies should report by exception if delivery of outcomes is materially different to its Final Determination. As part of this Annual Performance Report, the Company has provided a completed Performance Commitment dashboard as required by Ofwat (Table 3A on pages 22-24) in which performance against all 55 key performance measures is presented. This report has been reviewed by our independent assurance providers.

Board Statement

The Board confirms that, insofar as it is aware, having made reasonable enquiries, the information contained in the Risk and Compliance Statement is materially accurate at the date below.

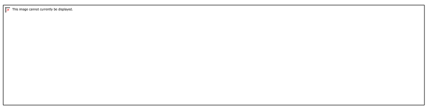
Sir Peter Mason KBE

Chairman

Steve Robertson

Chief Executive Officer

Nick Land



Independent Non-Executive Director

For, and on behalf of, the Board of Thames Water Utilities Limited.

29 June 2017

Data Assurance Summary

At the start of AMP 6, Ofwat introduced the Company Monitoring Framework (http://www.ofwat.gov.uk/wp-content/uploads/2015/11/pap_pos201506comon1.pdf) for the 2015/20 period to ensure that stakeholders can rely on the information provided by water companies. The Framework is a tool which aims to enhance trust and confidence in the water industry, with the further objective to make sure that information is comparative across the sector.

We are required by the Framework to publish a number of statements throughout the year:

- In November 2016, we published our annual Statement of Risks Strengths and Weaknesses 2016/17 (www.thameswater.co.uk/statementofrisks). The purpose of this statement was to support us in providing customers and other stakeholders with information that is easy to understand, provides transparency and helps to build trust and confidence in our performance reporting.
- In March 2017, we published our Final Assurance Plans (www.thameswater.co.uk/final-assurance-plans) which explains how we are addressing the risks identified in the Statement of Risks, Strengths and Weaknesses 2016/17.

The results of the assurance carried out against the risks are summarised below:

RISK	OUTCOME 31 MARCH 2017
1. Reporting our leakage performance Risk that information on our leakage performance is inaccurate, unreliable and not communicated openly. This information is driven by complex calculations, the use of judgement and complex systems.	KPMG have performed a review of our year end leakage performance number disclosed in table 3A of the APR. We also carry out internal reviews to understand the process for reporting the measure. We continue to promote and share our leakage information and continuing activities with customers through our website: https://www.thameswater.co.uk/help-and-advice/bursts-and-leaks
2. Reporting our sewer flooding performance Risk that information about our performance on sewer flooding is incomplete, inaccurate or unreliable due to reliability of data recorded at sites and complex system interfaces.	During a routine audit of our sewer flooding records in 2015/16, an issue was identified with the completeness of the database used to record instances of sewer flooding throughout the AMP6 (2015-20) period. In response to this, we have strengthened our controls including, carrying out a monthly review of all new additions to our sewer flooding database and adding in two additional layers of verification checks to our assurance. We have also embarked on a re-training exercise for over 550 employees to date and have completed the first iteration of the compliance manual which captures existing controls and drives a programme of continuous improvement in flooding data. We are continuing to work towards developing long-term solutions to further strengthen our controls, including a system replacement which is due in the Summer of 2017. KPMG have also performed tests and review activities over our year end sewer flooding performance number disclosed in table 3A of the APR.
3. Reporting on other complex performance commitments. 'Complexity' can relate to the number of steps or system interfaces that source data has to go through before it is reported as a performance commitment, or the level of judgement used during that process.	We have used KPMG to perform a detailed review of the methodology statements which are prepared in order to document the process for measuring our performance against our 55 performance commitments.
4. Allocation of costs Risk of misallocation of costs between price controls – wholesale water, wholesale waste, retail household and retail non-household.	Our methodology for allocating costs between price controls has been documented in the Accounting Methodology Statement (www.thameswater.co.uk/methodologystatement). This is applicable to detailed upstream service allocations for the year ended 31 March 2017.

RISK	OUTCOME 31 MARCH 2017
	As part of their audit of sections 1 and 2 of this APR, KPMG have audited the cost allocations, and have confirmed that the cost allocations are in line with our Accounting Methodology Statement and are compliant with Ofwat guidance.
5. Forecasting accuracy risk Risk of inaccurate, unreliable and incomplete forecast performance information which could mislead customers and stakeholders during the AMP due to complex performance commitments, judgements involved, new disclosure requirements and future events out of our control.	There is continuing assurance work being performed internally over our approach to forecasting performance against our performance commitments at the end of the AMP6 (2015-20). In line with Ofwat requirements, where we have sufficient certainty over forecasts and these can be reliably estimated, we have included these within table 3A.
6. Risk that reporting is not accessible, transparent or timely Risk of failure to report information at the right time and in the right way to customers and stakeholders. Also that the format and presentation of our performance information is unclear, inaccessible or difficult to understand.	We have worked extensively to ensure our APR is accessible, clear, transparent and timely. During 2016/7, we have worked on improving our customer-facing website to make our reports more accessible, which includes improving the paths to our reports. We engaged with external experts 'Britain Thinks' in May 2016 to seek guidance on how to improve our reporting style. The results showed that customers were satisfied with the transparency of our reporting, the inclusion of visual data showing how we are performing and the focus on customers. We are also in regular communication with our Customer Challenge Group (CCG), who represent the needs and interests of current and future customers.
7. Reporting risk in relation to Water resources and Bio Resources Risk of misallocation of costs between future price controls. Since costs are not allocated automatically, some level of judgement has to be applied.	We are continuing work surrounding allocation of costs between price controls. Water and Waste finance teams have created methodologies explaining how they have determined their figures, any assumptions made and any manual adjustments made. These have been incorporated into the Accounting Methodology Statements mentioned above: www.thameswater.co.uk/methodologystatement

If you have any questions or queries regarding any aspect of our assurance plans, please contact us at:
RegulatoryReporting@thameswater.co.uk

Independent Auditor's report to the Water Services Regulation Authority (the "WSRA") and the Directors of Thames Water Utilities Limited

Opinion on Annual Performance Report

In our opinion, Thames Water Utilities Limited's Regulatory Accounting Statements within the Annual Performance Report have been properly prepared in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA (RAG 1.07, RAG 2.06, RAG 3.09, RAG 4.06 and RAG 5.06) and the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3), set out on pages 35 to 49.

Emphasis of matter - basis of preparation

Without modifying our opinion on the Regulatory Accounting Statements within the Annual Performance Report, we draw attention to the fact that the Annual Performance Report has been prepared in accordance with Condition F, the Regulatory Accounting Guidelines, the accounting policies (including the company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in the statement of accounting policies and under the historical cost convention. The nature, form and content of the Regulatory Accounts statements are determined by the WSRA. It is not appropriate for us to assess whether the nature of the information being reported upon is suitable or appropriate for the WSRA's purposes. Accordingly we make no such assessment.

The Annual Performance Report is separate from the statutory financial statements of the Company and has not been prepared under the basis of International Financial Reporting Standards as adopted by the European Union ("IFRS"). Financial information other than that prepared on the basis of IFRS does not necessarily represent a true and fair view of the financial performance or financial position of a company as shown in statutory financial statements prepared in accordance with the Companies Act 2006.

The Regulatory Accounting Statements on pages 26 to 59 have been drawn up in accordance with Regulatory Accounting Guidelines with a number of departures from IFRS. A summary of the effect of these departures from Generally Accepted Accounting Practice in the Company's statutory financial statements is included in the tables within section 1.

What we have audited

The sections of/tables within Thames Water Utilities Limited's Annual Performance Report that we have audited ("the Regulatory Accounting Statements") comprise:

- the regulatory financial reporting tables comprising the income statement (table 1A), the statement of comprehensive income (table 1B), the statement of financial position (table 1C), the statement of cash flows (table 1D) and the net debt analysis (table 1E) and the related notes; and
- the regulatory price review and other segmental reporting tables comprising the segmental income statement (table 2A), the totex analysis for wholesale water and wastewater (table 2B), the operating cost analysis for retail (table 2C), the historical cost analysis of fixed assets for wholesale and retail (table 2D), the analysis of capital contributions and land sales for wholesale (table 2E), the household water revenues by customer type (table 2F), the non-household water revenues by customer type (table 2G), the non-household wastewater revenues by customer type (table 2H) and the revenue analysis by customer type (table 2I) and the related notes.

The financial reporting framework that has been applied in their preparation comprises Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3) set out in the notes to the Annual Performance Report.

In applying the financial reporting framework, the directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

We have not audited the Outcome performance table (tables 3A to 3D) and the additional regulatory information in tables 4A to 4I.

This report is made, on terms that have been agreed, solely to the Company and the WSRA in order to meet the requirements of Condition F of the Instrument of Appointment granted by the Secretary of State for the Environment to the Company as a water and sewage undertaker under the Water Industry Act 1991 ("Condition F"). Our audit work has been undertaken so that we might state to the Company and the WSRA those matters that we have agreed to state to them in our report, in order (a) to assist the Company to meet its obligation under Condition F to procure such a report and (b) to facilitate the carrying out by the WSRA of its regulatory functions, and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the WSRA, for our audit work, for this report or for the opinions we have formed.

Our assessment of risks of material misstatement

1. Provision for trade receivables

Subjective estimate

A significant level of judgement is needed to calculate the doubtful debt provision based on the expected level of future cash collection and anticipated level of cancelled and reissued bills.

Key assumptions are made based on past history of non-collection of bills across the wide ranging portfolio of properties to which water and waste services are supplied.

Data capture

In addition, there is a risk that the data captured by the billing system and input into the calculation of the doubtful debt provision is incomplete and/or inaccurate

Our procedures included:

- **Control design:** With assistance from our own IT specialists, testing the completeness and accuracy of the data extracted from the Company's billing system used to calculate the provision, including data in respect of the debt ageing profile, historical cash collections, write-offs, cancellation and loss on rebill rates;
- **Benchmarking assumptions:** Assessing the key inputs used, including the forecast cash collection rates, cancellations and rebill recoverability against historical trends; and
- **Assessing transparency:** Assessing the adequacy of the disclosures made in relation to the Company's provisioning policy applied and the level of provisions recorded.

2. Classification of costs between operating and capital expenditure

The Company's substantial investment programme, totalling over £1bn per annum, involves the enhancement and maintenance of both infrastructure and non-infrastructure assets.

Accounting treatment

Certain projects may contain a mixture of asset enhancement and maintenance, particularly where assets are being replaced or upgraded. Judgement is therefore required to ensure an appropriate allocation of costs between capital and operating expenditure. This allocation between operating and capital expenditure is inherently judgmental and there is a risk that the allocation is incorrect with expenditure misstated between the income statement and balance sheet.

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

There is a risk that costs capitalised do not meet these criteria.

Our procedures included:

- **Accounting analysis:** In light of any new types of expenditure in the current year, challenging whether the Company's capitalisation policy remains compliant with applicable accounting standards, and in particular the criteria for capitalisation;
- **Control design:** Inspecting Investment Committee meeting minutes for evidence of the authorisation and assessment of capital projects;
- **Expectation vs. outcome:** Assessing the proportion of overhead costs which are capitalised by business area using historical comparisons and expected changes based upon corroborated enquiry;
- **Tests of detail:** Assessing the appropriateness of the cost classification for a sample of projects, including inspecting supporting documentation such as vendor statements of work completed for an understanding of the nature and type of costs incurred and assessing this against the criteria for capitalisation or expensing; and
- **Assessing transparency:** Assessing the adequacy of the disclosures made in relation to the Company's policy of capitalisation or expensing of costs and the judgements involved.

3. Completeness and valuation of other provisions

Subjective estimate

The Company is required to comply with regulations set by Ofwat and other external and government agencies in the UK. For example, the Company is required to comply with all relevant Environmental Laws. Non-compliance may lead to potential fines and/or rectifying actions for the Company to address. Final agreement can often last for extended periods due to ongoing negotiations or, where relevant, the legal proceedings involved.

The assessment required is inherently judgmental, and there is a risk that the final settlement is materially different to the amount provided.

Omitted exposures

There is also a risk that the assessment of provisions does not include all claims and therefore the provisions recorded are understated.

Our procedures included:

- **Enquiry of lawyers**: Reviewing any correspondence with external regulators or agencies in connection with material disputes, and enquiring of the Company and the Company's external legal advisers regarding the nature of any claims, and the assumptions made with regard to the best estimate of the likely outcome;
- **Benchmarking assumptions**: Assessing the key assumptions with regard to publicly available information concerning other settled disputes within the Water industry for similar claims;
- **Historical comparisons**: Evaluating the historical accuracy of the Company's estimated provisions where claims are settled in the current year; and
- **Assessing transparency**: Assessing the adequacy of the disclosures made concerning provisions recorded.

Our application of materiality

Materiality for the financial statements as a whole was set at £22.0m (2016: £22.0m), determined with reference to a benchmark of Company's total assets, of which it represents 0.13% (2016: 0.13%).

We reported to the Audit, Risk and Regulatory Committee any corrected or uncorrected identified misstatements exceeding £1.1m (2016: £1.0m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Respective responsibilities of the WSRA, the Directors and Auditors

As explained more fully in the Statement of Directors' Responsibilities, set out on page 26, the directors are responsible for the preparation of the Annual Performance Report in accordance with Condition F, the Regulatory Accounting Guidelines issued by the WSRA and the Company's accounting policies (including the Company's published accounting methodology statement(s), as defined in RAG 3.09, appendix 3).

Our responsibility is to audit and express an opinion on the Regulatory Accounting Statements within the Annual Performance Report in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"), except as stated in the section on 'What an audit of the Annual Performance report involves' below, and having regard to the guidance contained in ICAEW Technical Release Tech 02/16 AAF 'Reporting to Regulators on Regulatory Accounts' issued by the Institute of Chartered Accountants in England and Wales. Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

What an audit of the Annual Performance Report involves

An audit involves obtaining evidence about the amounts and disclosures in the Regulatory Accounting Statements sufficient to give reasonable assurance that the Regulatory Accounting Statements within the Annual Performance Report are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the Annual Performance Report. In addition, we read all the financial and non-financial information in the Annual Performance Report to identify material inconsistencies with the audited sections of the Annual Performance Report and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We have not assessed whether the accounting policies are appropriate to the circumstances of the Company where these are laid down by Condition F. Where Condition F does not give specific guidance on the accounting policies to be followed, our audit includes an assessment of whether the accounting policies adopted in respect of the transactions and balances required to be included in the Annual Performance Report are consistent with those used in the preparation of the statutory financial statements of the company. Furthermore, as the nature, form and content of Annual Performance Report is determined by the WSRA, we did not evaluate the overall adequacy of the presentation of the information, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

The Company has presented the allocation of operating costs and assets in accordance with the accounting policy for price control segments set out on page 35 and its accounting methodology statement(s) published on the Company's website on 30 June 2017. We are not required to assess whether the methods of cost allocation set out in the Methodology Statement are appropriate to the circumstances of the Company or whether they meet the requirements of the WSRA, which would have been required if we were to express an audit opinion under International Standards on Auditing (UK & Ireland).

Opinion on other matters prescribed by Condition F

Under the terms of our contract we have assumed responsibility to provide those additional opinions required by Condition F in relation to the accounting records. In our opinion:

- proper accounting records have been kept by the appointee as required by paragraph 3 of Condition F; and
- the Regulatory Accounting Statements are in agreement with the accounting records and returns retained for the purpose of preparing the Annual Performance Report.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Performance Report is:

- materially inconsistent with the information in the audited Regulatory Accounting Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the directors' statement that they consider the Annual Performance Report is fair, balanced and understandable and whether the Annual Performance Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should be disclosed.

Other matters

Our opinion on the Regulatory Accounting Statements within the Annual Performance Report is separate from our opinion on the statutory financial statements of the Company for the year ended 31 March 2017 on which we reported on 13 June 2017, which are prepared for a different purpose. Our audit report in relation to the statutory financial statements of the Company (our "Statutory audit") was made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our Statutory audit work was undertaken so that we might state to the Company's members those matters we are required to state to them in a statutory audit report and for no other purpose. In these circumstances, to the fullest extent permitted by law, we do not accept or assume responsibility for any other purpose or to any other person to whom our Statutory audit report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Robert Brent

For and on behalf of KPMG LLP

Chartered Accountants

15 Canada Square

London

E14 5GL

30 June 2017

Glossary of regulatory terms

AMP 6 slow money % - the proportion of allowed total expenditure (totex) that is added to the RCV for each year of the AMP period.

Appointed Business – The appointed business comprises the regulated activities of the Company which are activities necessary in order for the Company to fulfil the function and duties of a water and sewerage undertaker under the Water Industry Act 1991.

Arm's-length trading – Trading in which the Company treats the other party, usually an associate company, on the same basis as an external party.

Asset Management Plan ("AMP") – An 'Asset Management Period' is the five-year period covered by a water company's business plan. These are numbered; with AMP1 referring to the first such planning period after the water industry was privatized – i.e. the period from 1990 to 1995. The current period (2015 – 2020) is known as AMP6, and the period for which we are now starting to plan (2020 – 2025) will be AMP7.

Associate company – Condition A of the Licence defines an associate company to be any group or related company. Condition F of the Licence requires all transactions between the Company and its associated companies to be disclosed subject to specified materiality considerations.

Capital Expenditure ("Capex") – Expenditure to acquire or upgrade physical assets such as property, pipes and treatment works.

C17 - The Water Act 2014 allowed 1.2 million businesses and other non-household customers of providers based mainly or wholly in England to choose their supplier of water and wastewater retail services from April 2017. Retail services include functions like billing and customer services. The new market is open to all non-household customers. Thames Water has chosen to exit this market and has sold its non-household retail business to Castle Water. Thames Water will remain the wholesaler to these customers, who were transferred to Castle water before the market opening on 1 April 2017.

Committed Performance Level ("CPL") - in order to measure our progress against our performance commitments, we agreed committed performance levels with Ofwat for each year of AMP 6. Our committed performance levels are published in our Final Determination.

Cost - The actual cost to the supplier, of the goods, works or services, including a reasonable rate of return on capital employed. Unless the circumstances of the transaction provide a convincing case for the use of an alternative measure, the return on capital should be consistent with the cost of capital/net retail margin as set out in Ofwat's final determination of 12 December 2014 (or any other determination applicable in the 2015-20 period).

Cost allocation - Cost allocation is the means by which all costs are allocated to appointed and non-appointed businesses, price control units, or specific supplies, works and services, ensuring a fair share of overheads, even where costs cannot be directly attributed to specific activities and associated services.

Cost driver - A cost driver is the factor or factors which cause cost to occur. This can be further divided between the driver that causes an activity to occur, and a driver that determines how often it occurs. Costs may vary in relation to the cost driver over the short or longer term, depending on the nature of cost concerned.

Consumer Price Index ("CPI") - The Consumer Prices Index is a measure of economic inflation based on a set series of goods and services set by the Office for National Statistics. This is the headline measure of inflation used in the Government's target for inflation.

Cross-subsidy - Cross-subsidy in this context is monetary aid or contributions from the appointee to the associate, or between price control units, which does not reflect the value of the services received. It also relates to services provided by the appointee to associate companies where there has been an under-recovery of costs incurred by the appointee.

CSAT - Short for 'customer satisfaction', this refers to the qualitative component of the SIM measure.

Customer side leakage ("CSL") – leakage from customer side pipes.

Customer numbers - To ensure consistency with the way in which price controls have been set for 2015-20, customer numbers when used as a cost allocation metric is equal to 1.0 for single-service (water or wastewater only) customers and 1.3 for dual-service (water and wastewater) customers.

Final Determination ("FD") – The conclusion of discussions on the scale and content of the asset management plan for the forthcoming five-year AMP period. It is accompanied by a determination of the allowable adjustment to wholesale price limits for the forthcoming AMP.

Full-time equivalents ("FTEs") - For the purposes of cost allocation, FTEs should include all full-time staff, and contractors/temporary staff directly employed. Where there is an existing contractual arrangement in place with an associate or third party for example a third party billing arrangement, FTEs will include all full-time staff, and contractors/temporary staff directly employed by the associate or third party involved in providing that service to the appointee.

Household - These are properties used as single domestic dwellings (normally occupied), receiving water for domestic purposes which are not factories, offices or commercial premises. These include cases where a single aggregate bill is issued to cover separate dwellings having individual standing charges. (In some instances, the standing charge may be zero.) The number of dwellings attracting an individual standing charge and not the number of bills should be counted. Mixed/commercial properties and multiple household properties – for example, blocks of flats having only one standing charge – should be excluded.

Infrastructure and non-infrastructure assets - Infrastructure assets are mainly our below-ground assets, such as pipes, water mains, sewers, dams and reservoirs. Non-infrastructure assets are those mainly found above ground, such as water and sewage treatment works, pumping stations, laboratories and workshops.

Instrument of Appointment - Water companies operating the public water networks hold appointments as water undertakers, and those operating the public wastewater networks hold appointments as sewerage undertakers, for the purposes of the Water Industry Act 1991. They also supply water and wastewater services direct to household and non-household customers who are connected to their networks.

Licence – The Instrument of Appointment dated August 1989 under Section 11 and 14 of the Water Act 1989 (as in effect on 1 August 1989) under which the Secretary of State for the Environment appointed Thames Water Utilities Limited as a water and sewerage undertaker under the Act for the areas described in the Instrument of Appointment, as modified or amended from time to time.

Measured - These are properties where some or all of the charges for supplies are based on measured quantities of volumes.

Modern Equivalent Asset Value ("MEAV") – The cost of an asset of equivalent productive capability to satisfy the remaining service potential of the asset being valued if the asset would be worth replacing or the recoverable amount if it would not. The gross MEA value is what it would cost to replace an old asset with a technically up to date new asset with the same service capability allowing for any difference both in the quality of output and in operating costs. The net MEA value is the depreciated value taking into account the remaining service potential of an old asset compared with a new asset, and is stated gross of third-party contributions.

Non-appointed business – The non-appointed business activities of the Company are activities for which the Company as a water and sewerage undertaker is not a monopoly supplier (for example, the sale of laboratory services to an external organisation) or involves the optional use of an asset owned by the Company (for example, the use of underground assets for cable television).

Non-household - These are properties receiving water for domestic purposes but which are not occupied as domestic premises, or where domestic dwellings are combined with other properties, or where properties are in multiple occupation but only have one standing charge. In this case, it is the number of bills that should be counted.

Outcome Delivery Incentive ("ODI") – ODIs is a collective term for the financial incentives – positive and negative – that Ofwat has applied to the delivery of our five-year plan. 'Rewards' allow us to charge more over the next five years (in this case, 2020-2025), while 'penalties' require us to charge less. Some of these ODIs measure performance in each of the five years of our current plan, while others apply only to the whole five years.

Ofwat – The name used to refer to the Water Services Regulation Authority (WSRA). The WSRA acts as the economic regulator of the water industry.

Operating Expenditure ("Opex") - Payments for the day-to-day operations of our business, such as operating and maintaining our network and treatment works, paying our staff and our energy bills. This is known as operational expenditure or OPEX.

Performance Commitment ("PC") - Outcome performance commitments agreed with Ofwat that reflect customers' views and priorities of service.

Periodic Review ("PR") – The price determination process undertaken by Ofwat every five years. Each water and sewerage undertaker submits a Business Plan covering the five-year period for which Ofwat will determine cost and revenue allowances.

Price control units - At the 2014 price review Ofwat introduced separate binding price controls. These include wholesale water, wholesale wastewater, retail household, retail non-household and Thames Tideway Tunnel ("TTT").

Regulatory Accounting Guidelines ("RAG") – The accounting guidelines for regulatory accounts issued, and amended from time to time, by Ofwat.

Regulatory Capital Value ("RCV") – The capital base used in setting price limits. The value of the appointed business that earns a return on investment. It represents the initial market value (200-day average), including debt at privatisation, plus subsequent net new capital expenditure including new obligations imposed since 1989. The capital value is calculated using the Ofwat methodology (i.e. after current cost depreciation and infrastructure renewals accrual).

Retail - This term refers to any water company activities that take place once water has passed to the customer's side of a property boundary. These include billing, payment handling, debt management, meter reading and handling billing related calls.

Retail Price Index ("RPI") – The RPI is compiled and published monthly by the Office for National Statistics. RPI is an average measure of change in the prices of goods and services bought for the purpose of consumption by the vast majority of households in the United Kingdom.

Service Incentive Mechanism ("SIM") – The Service Incentive Mechanism was introduced by Ofwat to replace the OPA as a measure of the service customers experience from their water company. It is now in its second year. There are two elements to the SIM:

- A quantitative measure awards penalty points for issues ranging from callers to our customer centre receiving an engaged tone, through to complaints.
- A qualitative measure is calculated via telephone interviews to assess the satisfaction of customers who have contacted us to resolve queries.

Thames Tideway Tunnel - The Thames Tideway Tunnel is a landmark construction project which will protect the River Thames from pollution. London's sewer system is regularly overwhelmed and spills millions of tonnes of sewage into the tidal section of the river every year. The tunnel will tackle the problem of overflows from the capital's Victorian sewers for at least the next 100 years, and enable the UK to meet European environmental standards. The Company is responsible for planning, enabling and interface works for the project; The revenue and costs associated with this part of the project are shown in the **"TTT"** price control unit in the regulatory accounting tables. **Bazelgette Tunnel Limited ('BTL')** is an independent company un-related to Thames Water Utilities Limited that was appointed in 2015 to construct the Thames Tideway Tunnel. For the year ending 31 March 2017, The Company has included construction costs of the Thames Tideway Tunnel in its bills to wastewater customers. These amounts are subsequently paid to BTL. The revenue and profit on this arrangement, which is excluded from our key performance indicators, has been disclosed as non-appointed in the regulatory tables. The cash balance included (also shown as non-appointed) reflects amounts collected and not paid over at the balance sheet date.

Third-party contributions– Grants and third-party contributions received in respect of infrastructure assets and any deferred income relating to grants and third-party contributions for non-infrastructure assets.

Total expenditure ("Totex") - The mechanism, introduced in PR14 (price review 2014) for planning and reporting capital (for example, buying a new car) and operational (repairing your old car) spend. The object is to achieve the optimum combination to deliver the required business plan outcomes. It applies to both water and waste (i.e. our wholesale business) but not to retail.

Unmeasured - These are properties where none of the charges for supplies are based on measured quantities of volumes. These include properties which receive an assessed charge because metering is not possible or economic.

Wholesale - This term covers all water company activities that take place before water passes the customer's property boundary – resources management, abstraction, treatment, distribution (water and sewer networks), sewage collection, transportation, sewage treatment, sludge disposal and energy from waste.

Working capital – The aggregate of stocks, trade debtors and trade creditors, if material.

Working capital adjustment – The impact of RPI on the real value of working capital to the business.

Regulatory environment

Regulatory environment

The water and sewerage industry in England and Wales is comprised of over 50 million household and non-household consumers who are served by 32 privately owned companies, of which Thames Water is the largest provider of water and sewerage services.

The industry was privatised in 1989 with companies awarded licences to serve specified geographical areas. This created regional monopolies and in order to inject competition, government regulatory authorities were established. The water industry has evolved making significant improvements in areas including customer service, promoting value for customers, drinking water quality, and environmental conservation.

Whilst considerable progress has been made, there are still a number of key challenges facing the industry including:

- service affordability;
- rising environmental standards;
- increasing customer expectations;
- population growth and lifestyle changes; and
- climate change.

We recognise these challenges and have incorporated them into forming the Company's strategy which is designed to balance the needs of the overall industry against customers' and stakeholders' requirements to generate value from the business.

The water industry has in place a robust regulatory framework created to safeguard consumers' interests and ensure compliance with national and European legislation. Our key regulators are outlined below:

OFWAT

Ofwat (The Water Services Regulatory Authority) is the economic regulator of water and sewerage sector in England and Wales, responsible for protecting customers' interest whilst ensuring water companies finance and conduct their functions effectively.

Consumer Council for Water (CCW)

The CCW is an independent body that represents customers' interests relating to price, service and value for money as well as conducting independent research and investigating customers' complaints relating to water quality.

Department for Environment Food & Rural Affairs (DEFRA)

DEFRA is a UK government department supported by 35 agencies and public bodies responsible for setting policies and regulations on environmental, food and rural issues. DEFRA sets the overall water and sewerage policy framework in England including setting standards and drafting legislation.

Drinking Water Inspectorate (DWI)

The DWI regulates the quality of drinking water quality that we supply and ensures its safety and compliance with Water Quality Regulations. They do this via reviewing the tests that we conduct on our drinking water as well as carrying out inspections on water companies as and when required.

Environmental Agency (EA)

The EA is the principal adviser to the government and main body set up to protect and improve the environment in England and Wales. They work in collaboration with other organisations to reduce flood risk, promote sustainable development and secure environmental and social benefits.

Customer Challenge Group

Customer Challenge Group (CCG)

Our independent CCG, made up of customer representatives and stakeholders, has continued to challenge and advise us on the development of our business plan and how it can better reflect the needs of our customers. They have published an independent report about how we report our performance alongside our APR.

Thames Water